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BY THE U.S. GENERAL ACCOUNTING OFFICE
Report To The Secretaries Of Defense And
Energy And To The Administrator Of NASA

Agency Implementation Of Cost Accounting Standards: Generally Good But More Training Needed

Before it closed operations in 1985, the Cost Accounting Standards Board issued 18 standards for cost accounting on negotiated defense contracts.

GAO, in reviewing DOD, DOE, and NASA, finds that, in general, Cost Accounting Standards being effectively implemented. Agency personnel, however, need additional training.

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

PROCUREMENT, LOGISTICS,
AND READINESS DIVISION

B-198620

The Honorable Caspar W. Weinberger
The Secretary of Defense

The Honorable James B. Edwards
The Secretary of Energy

The Honorable James M. Beggs
Administrator, National Aeronautics
and Space Administration

This report examines how agencies are implementing the standards, rules, and regulations promulgated by the Cost Accounting Standards Board.

The report contains recommendations to you on pages 11, 15, and 19. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Chairmen, House and Senate Committees on Armed Services and on Appropriations; House Committee on Banking, Finance and Urban Affairs; and Senate Committee on Banking, Housing and Urban Affairs; the Director, Office of Management and Budget; and the Director, Office of Federal Procurement Policy.

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Director



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GENERAL ACCOUNTING OFFICE
REPORT TO THE SECRETARIES
OF DEFENSE AND ENERGY AND
TO THE ADMINISTRATOR, NASA

AGENCY IMPLEMENTATION OF COST
ACCOUNTING STANDARDS: GENERALLY
GOOD BUT MORE TRAINING NEEDED

D I G E S T

The Cost Accounting Standards Board ceased operations on September 30, 1980, having substantially completed its basic task of promulgating the Cost Accounting Standards (CAS). Although the Board no longer exists, the standards, rules, and regulations it promulgated still have the full force and effect of law and must be observed in both existing and future negotiated national defense contracts. GAO made this review to determine whether agencies were carrying out these rules and regulations. The extent to which contractors are complying with CAS is the subject of a separate GAO review. (See p. 2.)

ORGANIZATION FOR CAS IMPLEMENTATION

The Departments of Defense and Energy and the National Aeronautics and Space Administration (NASA) have developed generally adequate internal organizations to implement the standards. In addition, interagency organizations, such as the CAS Steering Committee and its subordinate CAS Working Group, have been established to ensure the necessary cooperation among the agencies in implementing CAS.

While new standards are no longer being promulgated, continuing implementation problems require that some organizational structure be retained to resolve these problems and to provide guidance in the area of cost measurement, as well as to ensure a uniform approach toward the standards and toward cost measurement in general. (See p. 5.)

AVAILABILITY OF CAS MATERIAL

Agencies generally made the standards, rules, and regulations available to their field offices in a timely manner. However, since the basic source for the regulations, appendix O of the Defense Acquisition Regulation, has been updated only after considerable delay, the agencies responsible for implementing CAS

have devised alternative methods for disseminating CAS material to field personnel. GAO found much duplication in the distribution and reproduction of this material. Some of the duplication can be eliminated if the Defense Acquisition Regulation and comparable regulations of other agencies use a single page reference to the Code of Federal Regulations to publish CAS requirements. (See p. 9.)

ADEQUACY OF CAS TRAINING

In the agencies reviewed, CAS training varied. Training was most intensive and systematic in the Defense Contract Audit Agency.

GAO believes that other agencies involved in the procurement process should improve their training programs. In particular, basic CAS training should be required of all procurement personnel who will be involved with national defense contracts. Advanced training should be made available to all personnel designated as CAS experts. Contracting officers' need for CAS knowledge is required at two different levels. First, all contracting and procurement personnel should be familiar with basic CAS material, taking into account the different needs of the administrative and procuring contracting officers. Second, expert knowledge of CAS is required at many contract management and procurement field offices. Formal recognition of CAS experts and prescription of appropriate training programs are matters that need further attention. (See p. 13.)

INCLUSION OF CAS CLAUSES IN CONTRACTS AND SUBCONTRACTS

GAO found that CAS clauses generally are included in negotiated defense contracts and subcontracts where required by law. However, GAO noted that the Federal Procurement Data Center's data bank contains erroneous information regarding the CAS clauses. The quality of information in the data bank needs to be improved. (See p. 16.)

RECOMMENDATIONS

GAO recommends that the Secretaries of Defense and Energy and the Administrator of NASA:

- Require CAS training as part of the entry-level training for all series General Schedule 1102 contract and procurement personnel who will be involved with national defense contracts. (See p. 15.)
- Make advanced CAS training available to administrative contracting officers charged with the responsibility of dealing with CAS issues. (See p. 15.)
- Strengthen internal controls to increase the accuracy and reliability of contract data recorded on forms currently sent to the Federal Procurement Data Center. (See p. 19.)
- Eliminate the appendix O of the Defense Acquisition Regulation and comparable regulations of other agencies and use a single page reference to the Code of Federal Regulations to publish CAS requirements. (See p. 11.)

AGENCY COMMENTS

GAO received oral comments on its draft report from the Departments of Defense and Energy and from NASA. Written comments were also received from Defense (see app. III). The agencies generally agreed with the findings and recommendations in GAO's draft report. However, the agencies objected to

- the recommendations for mandatory CAS training for entire classes of procurement personnel and
- the requirement that an independent price analyst advisor be assigned to each administrative contracting officer.

GAO agreed with these agency comments and has modified the report accordingly. Additionally, NASA questioned GAO's recommendation to use a single page reference to the Code of Federal Regulations to publish CAS requirements. GAO continues to believe that this recommendation is cost effective.

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ABBREVIATIONS

ACO	administrative contracting officer
AFCMD	Air Force Contract Management Division
CAS	Cost Accounting Standards
DAR	Defense Acquisition Regulation
DCAA	Defense Contract Audit Agency
DCAS	Defense Contract Administration Service
GAO	General Accounting Office
GS	General Schedule
NASA	National Aeronautics and Space Administration
OFPP	Office of Federal Procurement Policy
PCO	procuring contracting officer

CHAPTER 1

INTRODUCTION

The Cost Accounting Standards Board ceased operations on September 30, 1980, having substantially completed its basic task of promulgating the Cost Accounting Standards (CAS). Although the Board no longer exists, the standards, rules, and regulations it promulgated still have the full force and effect of law and must be observed in both existing and future negotiated national defense contracts. In keeping with our general oversight responsibilities, we are monitoring the promulgations made under Public Law 91-379 which created the CAS Board and endowed it with the mandate to issue cost accounting standards.

HISTORY OF THE CAS BOARD

During 1968 hearings on the extension of the Defense Procurement Act, the House Committee on Banking and Currency considered the feasibility of developing uniform cost accounting standards. At that time, the Congress asked the Comptroller General, in cooperation with the Secretary of Defense and the Director of the Bureau of the Budget (now Office of Management and Budget) to study the feasibility of developing cost accounting standards. The study, entitled "Report on the Feasibility of Applying Uniform Cost Accounting Standards to Negotiated Defense Contracts," was issued by the Comptroller General in January 1970 and concluded that it was feasible to establish and apply cost accounting standards to provide a greater degree of uniformity and consistency in cost accounting as a basis for negotiating and administering procurement contracts. The study recommended that a board be established to develop these cost accounting standards.

After the study was submitted to the House Committee on Banking and Currency, further congressional hearings were held. Eventually, Public Law 91-379 was enacted by the Congress and approved by the President on August 15, 1970, thereby establishing the Cost Accounting Standards Board.

During its 10-year life, the Board promulgated 19 standards and grouped them in three categories: overall cost accounting matters; classes, categories, and elements of cost; and pools of indirect cost. (See app. I for a list of these standards.)

The first category of standards addressed overall consistency in accounting for an individual contractor. Its purpose was to ensure that costs were consistent from year to year.

The second category addressed particular elements of cost and were directed toward selected trouble spots in cost accounting, such as depreciation of tangible capital assets, composition and measurement of pension costs, accounting for

insurance costs, capitalization of tangible assets, and cost of money.

The third category addressed the problem of assigning indirect costs. These costs, not specifically associated with a particular contract, are "pooled" and allocated as a cost to all the contracts. Standards in this group included allocation of home office expenses and allocation of business unit and general administrative expenses to final cost objectives.

In addition to the standards, the Board promulgated three interpretations of its standards, a disclosure statement to be used by contractors for disclosing their cost accounting practices, a Statement of Operating Policies, Procedures, and Objectives, and subsequently a Restatement of Objectives, Policies, and Concepts addressing some of the issues faced by the Board.

Since the suspension of the Board's operations, it has been generally recognized that at least some of the Board's activities should be continued. Consequently, several efforts have been made to transfer the Board's functions to an agency of the executive branch. However, to date, efforts to pass the necessary legislation have not been successful.

In this environment, where a body of procurement law remains in force with no authoritative body to issue, amend, or interpret standards, proper exercise of GAO's oversight function becomes particularly important. Recognizing this need, the Comptroller General, in an October 3, 1980, letter to the Secretaries of Defense and Energy and to the Administrator of National Aeronautics and Space Administration (NASA), stated that:

* * * in keeping with its general responsibilities, the General Accounting Office will be required to take an active role to determine whether the standards, rules and regulations which the Board has promulgated are applied properly by the procurement agencies. Also, in keeping with the general responsibilities of the GAO, the results of its reviews to determine compliance with CASB [Cost Accounting Standards Board] requirements will be reported to the Congress together with such recommendations as may be appropriate."

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to determine whether Federal agencies are properly implementing CAS rules and regulations. A separate GAO review to determine how contractors are complying with CAS is currently underway.

In conducting the review, we contacted the Department of Energy, NASA, and the Departments of the Army, Navy, and Air Force because they have defense contracts which are covered by CAS under Public Law 91-379. We also contacted the Defense Logistics Agency, the Defense Contract Administration Service (DCAS), and the Defense Contract Audit Agency (DCAA) because they are involved with defense contract administration and compliance with CAS.

We did not review other non-defense Government agencies, even though the General Services Administration, under the Federal Procurement Regulations, requires civil agencies to comply with CAS rules and regulations.

We interviewed over 150 agency and military service officials, at the headquarter, region, and branch levels. We also interviewed procuring contracting officers and administrative contracting officers. We used a standard interview guide which addressed the following areas:

- The adequacy of organizational alignment to facilitate the implementation of CAS, rules, and regulations.
- The adequacy of the agency's regulations and procedures to communicate the full scope and depth of CAS, rules, and regulations to those who carry out or administer the contracts or subcontracts.
- The adequacy of the CAS training program.
- The degree to which the contract administration or procurement offices implement and ensure compliance with all CAS, rules, and regulations.
- The degree to which all contracts that are required to include the CAS clause, in fact, do include such a clause.
- The degree to which an agency's internal audit program reviews and monitors its implementation of CAS.

We conducted these interviews at 44 locations from April through July 1981 in the District of Columbia, Maryland, Virginia, Texas, New Mexico, California, and Washington. (See app. II.)

In addition to the interviews, we obtained for fiscal year 1980 a listing of those national defense contracts that appeared to require inclusion of the CAS clause, but which were reported to the Federal Procurement Data Center as not including the clause. We then verified whether the clause was in fact included in the contract or obtained the reason for its exclusion. We also obtained a listing of a sample of fiscal year 1980

contracts reported to the Federal Procurement Data Center as including the CAS clause, and verified whether the clause was actually included. We conducted this phase of the survey in all the GAO regions throughout the United States and applied similar tests to subcontracts using local data. (See ch. 5 for further details.)

CHAPTER 2

HOW HAVE AGENCIES ORGANIZED FOR CAS IMPLEMENTATION?

The Departments of Defense and Energy and NASA have developed generally adequate internal organizations to implement CAS. Each organizational unit reviewed, whether it was responsible for procurement, contract administration, or contract audit has CAS experts assigned to its field offices or expert assistance is readily available to these offices. Each agency has developed these networks of experts independently to fit its own particular circumstances. To ensure cooperation among the agencies in implementing CAS, an interagency CAS Steering Committee and its subordinate CAS Working Group were established. The Working Group in particular has played a vital role in the CAS implementation process. With the demise of the CAS Board, there is a diminished need to deal with the problems that resulted from the implementation of new standards. Nevertheless, the broader concern with interagency cooperation in the area of cost measurement remains. Therefore, an appropriate organizational structure should be retained to address these areas of concern.

THE CAS IMPLEMENTATION PROCESS

The substance of CAS material is grouped into three headings: (1) Procurement Regulations (2) Disclosure Statement and (3) Cost Accounting Standards. The Disclosure Statement and Cost Accounting Standards directly affect contractors' cost accounting practices and are of primary concern to those individuals responsible for contract administration and auditing. The procurement regulations address such matters as determining which contracts and contractors are subject to CAS requirements and how changes in contractor cost accounting practices are to be handled. These regulations are of primary concern to individuals who perform procurement functions as contrasted with contract management or contract audits. In general, the knowledge required of the accounting details of CAS is less in the procuring offices than in the administrative contracting offices since the primary concern of the procuring contracting officer (PCO) is with proper contracting procedures.

There was procurement activity involving CAS at the three agencies we reviewed. On the other hand, CAS contract administration and audit, with a few exceptions, was concentrated almost entirely in Defense. Both Energy and NASA have assigned Defense the responsibility of managing many of the contracts. DCAA performs contract audits for each agency reviewed, and DCAS or one of the military services performs contract administration duties. The emergence of CAS in the 1970s has added new emphasis to the role of the administrative contracting officer (ACO) in making decisions regarding differences of opinion between DCAA and the contractor in cost accounting matters.

ORGANIZATION FOR CAS IN DCAA AND IN THE PROCURING
AND CONTRACTING ADMINISTRATION OFFICES

DCAA has assigned a properly trained CAS monitor to each of its field audit offices. Generally, an alternate monitor is also appointed. These monitors in field audit offices are supported by regional CAS monitors and by a group at headquarters. There are frequent consultations among these experts at all levels to ensure that CAS is being uniformly implemented throughout DCAA. We believe that, on the whole, progress has been made toward attaining such uniformity in recent years.

Agencies or service branches charged with contract administration responsibilities, such as DCAA and the Air Force Contract Management Division (AFCMD), have developed their own network of CAS experts that generally follows the pattern established by DCAA. For example, 21 plant representative offices are under the administrative guidance of AFCMD. Altogether we visited nine offices. Of these, seven offices had designated CAS experts; the other two offices relied primarily on experts at DCAA units in their area.

During our review, we observed differences in the way organizations were implementing CAS. For example, the expertise and commitment to a thorough understanding of CAS found in AFCMD was not present to the same degree in the other agencies or services responsible for contract administration. This does not mean that these other agencies have been deficient in their endeavors, but it does recognize the fact that the Air Force Systems Command has understood the benefits to be derived from a thorough understanding of an involvement with CAS. Consequently, the necessary resources were made available to AFCMD that enabled it to do an outstanding job in this area.

In 9 of the 18 procuring offices reviewed, there was no designated CAS expert. However, each of these nine offices claimed to know whom to contact either locally or at a higher organizational level if expert advice on CAS was needed. Where procuring offices had CAS experts assigned, the experts were usually found in the Pricing or Financial Advisory Division.

Each agency service has at least one person at the headquarters level who must coordinate CAS activities of field personnel. The number of personnel assigned to this duty seems to depend on the size of the agency and the nature of its CAS implementation duties. As noted earlier, DCAA has a fully developed regional network of CAS monitors backed by an expert team at headquarters. A recent reorganization at DCAA has changed the character of this group slightly, but the basic headquarters monitoring function has been retained. Agencies, such as NASA or Energy, where the primary concern is with procurement activities rather than with contract administration, may have one or two individuals at the

headquarters perform the CAS coordination function for the agency. As mentioned previously, these agencies rely on DCAA and DCAS for the bulk of their CAS contract audit and contract administration.

INTERAGENCY COOPERATION FOR CAS

Besides recognizing the problems of coordination and guidance within their agencies, Defense, Energy, and NASA have also recognized a need for interagency cooperation. This has been achieved mainly through Defense's CAS Steering Committee and its CAS Working Group.

Defense established the CAS Steering Committee and CAS Working Group in 1976. The Steering Committee Chairman is the Deputy Under Secretary of Defense (Acquisition Policy). Members include a delegate from the Assistant Secretary of Defense (Comptroller) and management representatives from each military service and the Defense Logistics Agency. The Director, DCAA, and the Assistant General Counsel (Logistics), Office of the Secretary of Defense, serve as advisors. The Committee's duties are to

- establish policy guidelines for CAS administration;
- issue interim guidelines on CAS;
- provide contact and communication between Defense, the CAS Board, and the Office of Federal Procurement Policy; and
- respond to congressional inquiries.

The CAS Working Group, which carries out the Committee's policy directions, is composed of representatives from the same agencies, but at different levels. NASA, Energy, General Services, Office of Federal Procurement Policy, and the Office of Management and Budget also send representatives to the CAS Working Group meetings. The Group meets less frequently than it did in the past since no new standards are now being issued. Unless extended by DOD Instruction No. 5126.45, as amended, the CAS Steering Committee and the CAS Working Group will automatically end on October 21, 1982.

The Working Group meetings usually deal with implementation problems from the field, which have broad implications. The Group tries to avoid issuing guidance related to problems that are limited to a single service or agency. Its primary function is to resolve problems that would have an impact beyond that of a single service or agency. To date, the Working Group has issued 26 guidance papers to help the field in applying new standards as they become effective.

THE CHANGING ENVIRONMENT FOR CAS IMPLEMENTATION

In the past, as new standards were being issued regularly, the various CAS experts were devoting much of their time to preparing comments on proposed CAS Board promulgations. Although new standards are no longer being issued, implementation problems which pervade the entire system continue to appear. In April 1981 the CAS Working Group issued an amendment (#1 to WG 78-21) to solve a widespread implementation problem that had developed in connection with CAS 410. The issuance of this amendment was required, even though the effective date of the standard was October 1, 1976, and the CAS Board had ceased operation in 1980. Thus, while the CAS experts are no longer preparing comments on new standards, they are providing implementation guidance.

Another trend that has developed in recent years has been the assignment of responsibility for the implementation of certain standards to groups or committees specializing in specific areas of accounting. For example, the handling of pension costs within the framework of contract audits, including assistance in implementing the pension standards, CAS 412 and 413, has been assigned to specially trained auditors within DCAA. Also, special groups at certain DCAS regions have been established to deal with pension and insurance issues. Similarly, regarding Independent Research and Development, implementation of CAS 420, "Accounting for Independent Research and Development Costs and Bid and Proposal Costs," has become largely a responsibility of the Tri-Service Negotiations Staff.

Such an allocation of responsibility for certain standards to specific groups of experts clearly demonstrates that CAS is not a distinct body of cost accounting practices to be treated separately from other cost measurement problems in Government contracting. Currently, CAS is being integrated into the Government procurement process and thereby is beginning to lose some of its own special identity. The existing CAS experts positions were primarily established to respond to the promulgations of the CAS Board, but their role clearly has changed since the demise of the Board.

CONCLUSIONS

Agency organizational alignment is adequate to facilitate the implementation of the CAS, rules, and regulations. A network of CAS experts has been established and is being integrated into the procurement system. This network of experts is supported by several interagency groups coordinating the application of CAS.

CHAPTER 3

IS CAS MATERIAL AVAILABLE AND ARE AGENCY

IMPLEMENTATION REGULATIONS ADEQUATE?

We found that agencies generally made the CAS, rules, and regulations available to their field offices in a timely manner. However, since the basic source for the regulation, appendix O of the Defense Acquisition Regulation (DAR), has been updated only after considerable delay, the agencies responsible for CAS implementation have devised alternative methods for disseminating the necessary CAS material. Consequently, much duplication has ensued in printing and distributing this material. We believe that some of the duplication can be eliminated without any detrimental effect on the CAS implementation program.

Besides availability of the basic CAS material, a successful implementation program also requires a body of implementation instructions. For example, the Working Group's guidance papers offer more detailed and pertinent guidance to field personnel than that which can be found in the CAS regulations. Such guidance has been provided by the interagency CAS Working Group.

AVAILABILITY OF CAS MATERIAL

Defense, Energy, and NASA--the three agencies responsible for national defense contracts that are subject to CAS--incorporate the standards in their procurement and contract administration regulations. Upon promulgation, the Cost Accounting Standards are first published in the Federal Register and are later reproduced in several other publications. Eventually, they are reprinted in appendix O of DAR, in appendices to other comparable agency acquisition regulations, and in Title 4, Chapter III of the Code of Federal Regulations. A considerable amount of printing is involved in all these reproductions. For instance, in the Code of Federal Regulations, the CAS material covers some 400 pages.

As new standards are issued, the agency regulations should be updated in a timely manner. We found this not to be the case, however. For example, as of November 1981, appendix O of DAR included CAS Board promulgations through CAS 414, which had an effective date of October 1, 1976. In the intervening 5 years, CAS 417, CAS 418, CAS 420, and numerous regulation changes have been issued but have not been included in the appendix. Thus, the agencies and their field offices have been forced to use or to develop other sources to ensure that up-to-date CAS information is available to those who needed it.

The standards and other CAS material were also reproduced in several other publications made available by the U.S. Government Printing Office and by a commercial publisher, the Commerce Clearing House. The Government Printing Office publication has not been updated since the Board ceased operations in September 1980.

Consequently, most Government field offices who are regularly involved with CAS rely heavily on the Commerce Clearing House's service. In addition, the different services and agencies have developed their own procedures for informing their field offices of any changes in CAS regulations as soon as they occur. The net result of these practices is that the "official" publication, appendix O of DAR, is not often used by the field personnel.

AGENCY IMPLEMENTATION REGULATIONS

In addition to making CAS material available promptly, agencies must provide proper implementation guidance to field personnel. This guidance is best given by an organization which can closely monitor field operations, such as the CAS Working Group, and thus can react to emerging problems with a minimum of delay.

In addition to the 26 guidance papers produced by the Working Group, the various services and agencies have developed their own implementation guidelines on an "as needed" basis. Thus, DCAA issues its own "guidance memoranda" addressing the implementation of specific standards. (These memoranda are subsequently incorporated in the DCAA Contract Audit Manual.) Similarly, AFCMD has produced a Cost Accounting Standards Administrative Guide to assist contracting officers in implementing CAS. In general, we found that the varying practices among the agencies in this area reflected the degree of their involvement with CAS as well as their commitment to the basic objective underlying the CAS program.

CONCLUSIONS

All three agencies reviewed incorporated the CAS, rules, and regulations into their procurement regulations and their procurement and contract administration procedures. While there have been delays in revising the procurement regulation appendices, field office personnel are adequately informed of changes or new standards through agency "flash" notices or memoranda with guidance on implementation.

The Defense CAS Working Group has provided a central authoritative body responsible for issuing guidance on CAS implementation, thereby contributing to greater uniformity in the implementation process among the agencies.

We found that appendix O of DAR, which incorporates the standards in Government procurements regulations, was not regularly used by field personnel to implement CAS. Field personnel cited delayed issuance as the primary reason for not using the appendix. CAS, rules, and regulations are also published in the Code of Federal Regulations (Title 4, Chapter III), which is annually updated and is available in a

convenient format for reference purposes. Referring personnel to the Code of Federal Regulations will be adequate in view of the minimal use currently made of material in appendix O.

RECOMMENDATION

We recommend that the Secretaries of Defense and Energy and the Administrator, NASA, eliminate appendix O of DAR or comparable agency procurement regulation appendixes and insert one page citing the Code of Federal Regulations (Title 4, Chapter III) as a source reference for CAS. The need to reprint all of the standards in the relevant procurement regulations could thus be avoided.

AGENCY COMMENTS AND OUR EVALUATION

NASA questioned our recommendation to eliminate appendix O of DAR and to refer to the Code of Federal Regulations as a source reference to CAS. NASA does not distribute the Code of Federal Regulations to its field offices and it expressed concern that their personnel could not get all the information they required by simply referring to the Code of Federal Regulations. Defense, which publishes appendix O, made no comment on this section of the report.

Because agency regulations on CAS were not updated in a timely manner and appendix O was not used by field personnel, we continue to believe that a single page reference to the Code of Federal Regulations is cost effective.

CHAPTER 4

IS AGENCY CAS TRAINING ADEQUATE?

In the three agencies reviewed, training in CAS varied. The variances were dependent on the agency or service branches and on the position held by an individual. We found training in CAS to be most intensive and systematic in DCAA. We believe that other agencies involved in the procurement process should improve their training programs. In particular, basic CAS training should be required of procurement personnel who will be involved with CAS matters. In addition, advanced training should be made available to all personnel designated as CAS experts.

THE DIVERSITY OF CURRENT CAS TRAINING PRACTICES

In DCAA, all entry-level auditors must take a self-study course on CAS using a cassette tape and a workbook. By alternately listening to the tape and then reading and working problems in the workbook, the auditor can complete the course in about 1 to 2 weeks. CAS is further covered in the Technical Indoctrination and Intermediate Contract Auditing courses, which are mandatory for all the auditors. DCAA requires all CAS experts and monitors to take an advanced 1-week course on CAS and a special course on pension costs (CAS 412-413). All of these courses are given at the DCAA Management Training Institute in Memphis, Tennessee. Additionally, many auditors participate in the Army Logistics Management Center's 2-week course at Fort Lee, Virginia, which is primarily designed for ACOs.

In contrast to DCAA's highly structured approach, only minimal mandatory CAS training is prescribed by agencies or military services who must train those individuals involved in contract administration and procurement (contracting officers and their supporting staff). To the extent CAS material is covered for this latter class of personnel, it can be found as brief sections in an entry level course, such as Contract Pricing or Cost and Price Analysis, which is mandatory by Defense for all the General Service (GS) 1102 occupational series covering procurement and contract administration personnel. No mandatory training requirements are prescribed by any of these agencies for the CAS experts that they employ.

The mandatory training requirements are either minimal or totally lacking. In many instances, those interviewed in the agencies responsible for CAS implementation said that employees with CAS responsibilities need more training in CAS. Consequently, a number of different CAS training practices were encountered among the affected agencies. These practices depended on such factors as

--agency policy, if any, on training for CAS;

- the view of individual officials in charge of various field offices;
- availability of training funds and staff time; and
- availability of suitable courses at convenient times and locations.

The primary consequence of these different agency policies is that, except for DCAA field offices throughout the country, the level of competence in CAS matters varies substantially.

DIFFERENT TYPES OF CAS TRAINING REQUIRED

Knowledge of CAS at the various agencies involved in the procurement process is required at two different levels. First, all contracting and procurement (GS-1102 occupational series) personnel who will deal with national defense contracts should have exposure to some basic CAS material. In our opinion, the best way to obtain such exposure would be to incorporate the appropriate CAS material in the curricula of the agency's training courses. Second, more advanced expert knowledge in CAS is required at many contract management and procurement field offices. Formal recognition of CAS experts and prescription of appropriate training are matters that need further attention.

At the more basic level of training, it may be useful to distinguish between the needs of the ACO and PCO and their respective supporting staffs. This view was expressed by informed individuals in 19 of the offices visited. They agreed that the knowledge of CAS required by ACOs in carrying out their day-to-day responsibilities differs significantly from that required by PCOs. More specifically, we believe all ACOs and their supporting staffs could benefit from a training program that gives an overview of all the standards with a possible emphasis on certain specific standards, such as CAS 401, 402, and 410. PCOs are charged with responsibilities that bring them into contact with different aspects of CAS requirements. Principally, PCOs are concerned with the impact of CAS requirements on the contractual process. The need here is for course material addressing such matters as the legal requirement for inclusion of a CAS clause in contracts, the different types of CAS clauses, the role of the disclosure statement, and the implications of contractor noncompliance with CAS. This training should also try to explain and emphasize the importance of CAS and other cost measurement techniques in the Government contracting process.

The need for advanced training in CAS is more clearly associated with the ACO's functions. The PCO can generally

obtain expert advice on an "as needed" basis. However, in the area of contract administration, the ACO must try to resolve problems when the two contending parties, the contractor and the DCAA representative, cannot agree upon a solution. The problems frequently are of a complex nature which must be handled in a highly contentious environment. The ACO thus has an important role in implementing CAS--a role which cannot be filled adequately without sufficient training in CAS. This point was recognized by individuals interviewed in 30 of the offices visited. They agreed that the ACO needs more knowledge of CAS than the PCO. Twelve of these respondents thought that the Principal Administrative Contracting Officer should have CAS knowledge equivalent to that of the DCAA auditor.

However, as a rule, significant training in CAS and cost accounting is currently not mandatory for ACOs. We believe that this deficiency should be corrected. Because CAS relates to and constantly interacts with a variety of contractor cost accounting systems, and because ACOs have been given this heightened responsibility in CAS, an efficient and meaningful training program should be established. As part of such a program, ACOs and all CAS experts should be encouraged to develop a better understanding of the basics of cost accounting.

AVAILABILITY OF CAS TRAINING

The above comment on the need for additional ACO training in CAS does not suggest that all ACOs currently are ill-equipped to deal with CAS problems. For many years, the Army Logistics Management Center at Fort Lee, Virginia, has conducted a well-attended 2-week course on CAS, designed primarily for ACOs. Over 1,800 military and civilian personnel have received CAS training in this program since July 1, 1974. Also, individual commands, such as AFCM, stipulate that any prospective ACO should have a high level of CAS competence before being assigned to the position. In addition, numerous well-attended courses have been presented in different parts of the country under the auspices of various Governmental agencies or of such bodies as the Association of Government Accountants and the National Contract Management Association. A number of commercially presented courses are also available.

CONCLUSIONS

A lack of uniform basic requirements in CAS training and competence was noted in agencies other than DCAA. Although courses, such as the Army Logistics Management Center's 2-week CAS course for contracting officers fulfills the basic need of ACOs in this area, attendance at courses of this type is generally not mandatory. We found that the exposure to CAS matters in the agency courses required for series GS-1102 contract and procurement personnel was minimal. Courses

tailored to suit the specific requirements of the PCO, ACO, auditor, and CAS expert seem advisable.

DCAA has established uniform training and achieved a high level of CAS competence. Similar steps should be taken by DCAS and the military services to ensure a high level of CAS competence especially among their ACOs.

RECOMMENDATIONS

We recommend that the Secretaries of Defense and Energy and the Administrator, NASA, require CAS training as part of the entry-level training for all series GS 1102 contract management and procurement personnel who will be involved with national defense contracts.

Additionally, we recommend that advanced training, such as a 2-week training course in CAS, be made available to ACOs charged with the responsibility of dealing with CAS issues.

CHAPTER 5

ARE CAS CLAUSES INCLUDED IN CONTRACTS AND SUBCONTRACTS?

In addition to interviewing various Government procurement and contract management officials, we conducted three sets of tests to verify that the CAS clause was actually included in contracts where required by law. The first and second sets of tests dealt with prime contracts and made use of a data sample and other data supplied by the Federal Procurement Data Center. The third test set dealt with subcontracts and made use of a more subjectively selected sample and data base. On the basis of these tests, we concluded that the CAS clause is generally included in contracts where required by the law.

During our review, we noted that the Federal Procurement Data Center's data bank contained a significant amount of erroneous statements regarding the CAS clause. A significant part of those erroneous statements could be traced to errors in coding the original input documents, such as the DD 350. We believe that steps should be taken to reduce that error rate.

VERIFICATION OF CAS CLAUSE INCLUSION - FIRST TEST

The first test was based on a comparison of selected data stored in the Data Center's system. It was designed to examine the Center's information on contract actions and to compare the reported status of the CAS clause with the CAS Board criterion which required inclusion of the clause. We requested the Center to provide a list of all fiscal contract actions, the type of contract, and the type of business. Data for these contracts was then screened to see whether the recorded data indicated that the clause was actually included in the contract. This screening ultimately produced a list of 2,524 contracts which indicated the CAS clause should be included but where the CAS clause was reported as omitted. We reviewed 1,217 of these contracts to determine why the contract (or contract action) did not include the CAS clause, when it appeared to meet the criteria for inclusion of the clause. The following table shows the contracts we reviewed for CAS clause omissions:

	<u>No. of contracts</u>	<u>Percent</u>
Clause actually included	553	45
Clause omitted in error	48	4
Exclusion of clause justified	<u>616</u>	<u>51</u>
Total number of contracts reviewed	<u>1,217</u>	<u>100</u>

The listing of 2,524 contracts was drawn from a total universe of some 66,000 relevant contract actions (as distinguished from contracts) for 1980. We were able to review approximately half (1,217) of the total number of contracts on the "possible error" list. Thus, our results should be regarded only as an indication of the types of errors encountered. Our data and analyses do not appear to be adequate to estimate an overall error rate in the Federal Procurement Data Center's data bank. However, the number of anomalies observed in recording the CAS clause in the Center's data bank indicates that further studies of the accuracy of all of the information in the data bank and the relevant data handling procedures should be conducted.

Of the total contracts reviewed in 553 cases (45 percent), we found that the clause was actually included in the contract, notwithstanding the fact that the printout indicated that the clause was not included. Therefore, erroneous data had been entered into the data bank. Although we did not, in all cases, establish where the error had occurred, it is evident that a major cause for these errors was the miscoding of data input.

In 48 cases (4 percent), the clause was omitted in error. Thus, the requirement that the clause be included was not carried out. Generally, these cases resulted from an oversight on the part of the responsible procurement personnel.

The remaining 616 cases (51 percent) represent instances where the exclusion of the clause was in accordance with the exemption provisions of Public Law 91-379. Generally, the inclusion of these contracts on the "possible error" list was inappropriate and resulted from a difficulty in developing satisfactory computer test criteria for screening the contract data. For example, the computer was instructed to examine only contract actions where the amounts involved were \$100,000 or higher. However, since the data was rounded off before it was entered into the system, items just below \$100,000 were shown as satisfying this criterion. In addition, we noted other types of coding errors, which could have resulted in the erroneous classification of a contract in the "possible error" list in the present instance.

While our review showed few cases of the CAS clause being erroneously omitted from the contracts, it did indicate a relatively high error rate in the reported CAS information. It is true that our list was predisposed toward error, since its prime characteristic was contracts appearing to require CAS but reported as not including the clause. We did not check consistently whether the contract information was recorded incorrectly on agency forms, such as Defense's DD 350, Energy's PR 328A, and NASA's Form 507, or whether it was subsequently entered incorrectly into the data bank. However, we did observe some cases of CAS miscoding on agency reporting forms. Management attention is needed to improve the quality of information reported on

the agency forms and the accuracy of the Federal Procurement Data Center's information.

VERIFICATION OF CAS CLAUSE INCLUSION - SECOND TEST

The second test was designed to randomly check contracts that were reported as containing the clause. In this test, we took a random sample of 631 contracts that, according to the Federal Procurement Data Center, required the inclusion of the CAS clause. The auditors were asked to verify that the clause was actually included in the contracts. Of these 631 contracts, we actually examined 299 contracts. Of those, the clause was found to be present in 272 cases. In the remaining 27 cases, the clause was excluded. In those instances, the Federal Procurement Data Center's information erroneously showed that the inclusion of the clause was required. In only two instances did we find that the clause should have been included but was erroneously omitted in the contract. This relatively small error rate gives us reasonable assurance that the CAS clause is actually included in contracts when required.

INCLUSION OF CAS CLAUSE IN SUBCONTRACTS

The third test was intended to verify that the CAS clause is being included in appropriate subcontracts, as required by CAS, rules, and regulations. The Federal Procurement Data Center maintains records only of data pertaining to prime contracts. Therefore, in seeking some assurance that the CAS clause actually "flows down" from prime contractors to subcontractors, as required by law, other means had to be used to develop an underlying data base for our test in this area. We contacted selected Government Plant Representative Offices and Defense Contract Administration Services Management Areas and asked them to select a representative sample of the subcontracts for which they were responsible. However, we did not participate in the sample selection process. On this basis, we reviewed 171 subcontracts for our review. Of this total, the clause was included in 122 subcontracts and was excluded in 49 subcontracts. We noted improper exclusion of the clause in only one case. In other instances, the exclusion of the clause seemed justified. Again, we believe that this test offers at least some assurance that, in general, the CAS clause is included in subcontracts where required by the law.

CONCLUSIONS

The CAS clause is generally included in negotiated defense contracts where required by Public Law 91-379.

However, the Federal Procurement Data Center's data bank contains a significant amount of erroneous information regarding the CAS clause. There is a definite need to improve the quality of this information. We believe that such an improvement in the quality of this data can be most expeditiously achieved by

incorporating an appropriate audit step in the internal auditors' audit programs for contract management reviews.

While we limited our review to CAS data, the number of anomalies observed in the data indicates a need for agencies to improve the accuracy of the data in the entire Federal Procurement Data Center system.

RECOMMENDATION

We recommend that the Secretaries of Defense and Energy and the Administrator, NASA, strengthen their internal controls to increase the accuracy and reliability of contract data recorded on forms currently sent to the Federal Procurement Data Center.

AGENCY COMMENTS AND OUR EVALUATION

Energy suggested that the situation could be corrected by deleting the inaccurate CAS data from its Form PR-328A. We disagree with this suggestion. The inaccuracies pertaining to CAS information found on Energy's Form PR-328A raise questions about the accuracy of other data reported to the Federal Procurement Data Center. Thus, not reporting CAS information would not correct the basic problem of improving the validity and reliability of all data recorded in this system.

LIST OF STANDARDS PROMULGATED BY THE CAS BOARD

The CAS Board issued 19 standards during its 10 years of operations. These standards, which covered virtually every cost element of the defense contractors' accounting systems, were divided into three categories:

- Overall cost accounting matters;
- Classes, categories, or elements of cost; and
- Pools of indirect costs.

The following sections list these categories of standards.

STANDARDS ADDRESSING 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.

STANDARDS ADDRESSING CLASSES,
CATEGORIES, OR ELEMENTS OF COST

- CAS 404 - Capitalization of Tangible Assets.
- CAS 407 - Use of Standard Cost 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 Material.
- CAS 412 - Composition and Measurement of Pension Cost.
- CAS 413 - Adjustment and Allocation of Pension Cost.
- 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.

STANDARDS ADDRESSING POOLS OF INDIRECT COSTS

- CAS 403 - Allocation of Home Office Expenses to Segments.
- CAS 410 - Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives.
- CAS 418 - Allocation of Direct and Indirect Costs.
- CAS 420 - Accounting for Independent Research and Development Costs and Bid and Proposal Costs.

LOCATIONS VISITED DURING OUR REVIEWAGENCY HEADQUARTERS

National Aeronautics and Space Administration, Washington, D. C.

Department of Energy, Washington, D. C.

Department of Defense - Office of the Secretary of Defense,
Washington, D. C.

Defense Logistics Agency, Cameron Station, Alexandria,
Virginia

Defense Contract Audit Agency, Cameron Station, Alexandria,
Virginia

SERVICE HEADQUARTERS

Navy Material Command, Arlington, Virginia

Army - Material Development and Readiness Command, Cameron
Station, Alexandria, Virginia

Air Force - Headquarters, Washington, D. C.

Air Force Systems Command, Andrews Air Force Base, Camp
Springs, Maryland

BUYING ACTIVITIES

National Aeronautics and Space Administration - Goddard
Space Center, Greenbelt, Maryland

Department of Energy - Albuquerque, New Mexico

Department of Energy - Washington, D. C.

Ballistic Missile Command - Norton Air Force Base,
San Bernardino, California

Navy Regional Contracting Center, Washington, D. C.

Air Force - Space Division, Los Angeles, California

Navy Supply Center, Puget Sound, Washington

National Aeronautics and Space Administration, LBJ Space
Center, Houston, Texas.

Army Engineering District, Fort Worth, Texas

BUYING ACTIVITIES

Kelly Air Force Base, San Antonio, Texas

Edwards Air Force Base, Edwards, California

Air Force - Air Force Logistics Command, San Antonio,
Texas

Department of Energy - Richland, Washington

National Security Agency - Fort Meade, Odenton, Maryland

Army - Fort Meade, Odenton, Maryland

Army - Mobility Equipment Research and Development Command,
Fort Belvoir, Alexandria, Virginia

Office of Naval Research, Washington, D.C.

Naval Sea Systems Command, Arlington, Virginia

REGIONAL ADMINISTRATION

Defense Contract Audit Agency, Los Angeles, California

Defense Contract Administration Services Region, Dallas,
Texas

Defense Contract Administration Services Region, Los
Angeles, California

Air Force Contract Management Division, Albuquerque,
New Mexico

BRANCH MANAGEMENT AREA

Defense Contract Audit Agency, Inglewood, California

Defense Contract Audit Agency, Dallas, Texas

Defense Contract Administration Services Management Area,
Inglewood, California

Defense Contract Administration Services Management Area,
Seattle, Washington

PLANT REPRESENTATIVE OFFICES

Navy Plant Representative Office - Vought, Dallas, Texas

Air Force Plant Representative Office - General Dynamics,
Dallas, Texas

Army Plant Representative Office - Bell Helicopter,
Dallas, Texas

Defense Contract Audit Service - Plant Representative
Office - McDonnell-Douglas, Huntington Beach, California

Air Force Plant Representative Office - Hughes Air Craft,
Los Angeles, California

Air Force Plant Representative Office - Boeing Company,
Seattle, Washington

Navy Plant Representative Office - Applied Physics Laboratory,
Baltimore, Maryland

Air Force Plant Representative Office - Westinghouse,
Baltimore, Maryland



RESEARCH AND
ENGINEERING

THE UNDER SECRETARY OF DEFENSE

WASHINGTON, D.C. 20301

January 25, 1982

Mr. Donald J. Horan
Director, Procurement, Logistics
and Readiness Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Horan:

We appreciate the opportunity to comment on your draft report entitled "Implementation of Cost Accounting Standards" (OSD Case #5844).

This confirms DoD's oral comments to Mr. James A. Driggins on the draft report dated January 11. We disagree with the wording that indicates the Administrative Contracting Officer (ACO) is an arbitrator between DCAA and the contractor in cost accounting matters. The ACO is never in the role of an arbitrator. We suggest the sentence be reworded as follows: "The emergence of CAS in the 1970s has added a new responsibility to the role of the Administrative Contracting Officer who, at times, must decide difficult issues regarding contractor compliance based on advice from the DCAA auditor."

We also disagree that "advanced CAS training should be made a prerequisite for an ACO charged with the responsibility of dealing with CAS issues. If the prospective ACO is otherwise qualified for appointment, advanced CAS training need not be a prerequisite. Additionally, ACO training need not be at an advanced level. It should be at a level sufficient for the ACO to recognize the CAS issues involved and make the appropriate decisions.

The comment "In the interim, GAO suggests that a price analyst with appropriate training in CAS and cost accounting be assigned to each ACO as an independent advisor. . . ." should be deleted. The Defense Acquisition Regulation already designates the DCAA auditor as the principal advisor to the ACO in CAS and other financial matters. The draft report acknowledges that the auditor, who is an independent member of the ACO's team, is already trained and qualified in CAS. Duplicating the DCAA auditor's role would be a waste of valuable resources. [See GAO note below.]

Some of the Military Departments have not received or reviewed the draft report. Therefore, additional comments will probably be submitted in response to the final report.

Sincerely,


for Richard D. DeLauer

GAO note: Report recommendations have been adjusted to reflect the concerns raised.

DATE
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