If you are a CAS-covered government contractor, you already know a lot about cost accounting practices. You probably know about Disclosure Statements and how to prepare them, and how to revise them when cost accounting practices change. If you already know those things, it's likely that you are not a small business.

While many small businesses are required to comply with individual Standards in order to make their costs allowable, those same small businesses are exempt from the CAS requirements pertaining to disclosing cost accounting practices and disclosing changes in cost accounting practice. To be clear: in addition to the 19 Cost Accounting Standards, there are other CAS regulations that large businesses have to deal with. There is also FAR language. And there are certain CAS clauses that come into effect for large businesses that win fully CAS-covered contracts. In sum, while small businesses have to deal with some aspects of CAS that are solely related to cost allowability, there is a whole 'nother world out there that large businesses have to deal with.

We're going to discuss that bigger world of CAS regulations in this article.

For many people, when they hear "CAS" the first thing they think of is "Disclosure Statement." In our experience, that's the bogeyman that small businesses fear when they think they have grown to the point when they may become subject to CAS coverage. We get that, we really do. If you haven't seen a Disclosure Statement before, it can be a daunting challenge to fill one out. (Even if you *have* seen one, it can still be a daunting challenge: Word tables are no fun at all.) It's an eight-part form with lots of topics and opportunities for "continuation pages" that require one to squeeze lots of diverse information into a single document.

But of course it *is* a form. The Disclosure Statement is nothing more than a standard government form. If you are a commercial organization you fill out **Form CAS SB DS-1** and if you are an educational institution you fill out **Form CASB DS-2**. When you have completed your Disclosure Statement form, you submit it to your Cognizant Federal Agency Official (CFAO) and your local DCAA office, and you wait to see if anybody will review it and give you feedback. Meanwhile, your customers tell you that they can't award that contract until your Disclosure Statement has been determined to be adequate. (See FAR 30.202-6(b).) In that case, the timely review of your CASB Disclosure Statement becomes very

very important, and this becomes one government oversight activity that you actually push for.

Because it is a standard government form, it's a one-size-fits-all form. Consequently, the Disclosure Statement does not require you to describe *all* of your cost accounting practices; it only requires you to describe what it requires you to describe. It is likely that your organization may have other, additional, cost accounting practices that the form doesn't address.

That's fine. That's the way it is.

That's why noncompliances can cover not only *disclosed* cost accounting practices, but also *established* cost accounting practices. The promulgators of the CAS regulations and Standards recognized that what your company does may not fit neatly inside their standard form, and they made allowances for that. Thus: you can be noncompliant with Standard 401 ("Consistency in Estimating, Accumulating and Reporting Costs") because you were inconsistent with respect to your *established* cost accounting practices, even if you were consistent with respect to your *disclosed* cost accounting practices.

But the situation does make handling changes to cost accounting practice more challenging.

If you are subject to the CAS regulations then you are required to provide advance notice to your CFAO 60 days prior to making a change in cost accounting practice. You may have to submit a cost impact. If you are changing a disclosed cost accounting practice, you will have to submit a revised Disclosure Statement. Typically, along with the revised Disclosure Statement you include a matrix showing every single change and where in the Disclosure Statement it was made

But if you are changing an *established* cost accounting practice, one that doesn't fit into the Disclosure Statement, then what do you do?

You don't need to submit a revised Disclosure Statement, because nothing in the Disclosure Statement is changing. How do you then provide adequate notification to your CFAO and DCAA of the upcoming change(s)?

Our experience tells us that you still need to comply with the advance notification requirements found in your CAS-related contract clauses. You still need to submit a letter to the CFAO 60 days in advance of the change. It's probably a good idea to have a Gross Dollar Magnitude (GDM) cost impact analysis ready to share with the CFAO and DCAA.

Our experience further tells us that the government folks who receive advance notification and a GDM impact analysis without a revised Disclosure Statement are going to be confused. They are going to be skeptical. They are going to be suspicious. They are not going to understand how a contractor can make a change to a cost accounting practice without also revising its Disclosure Statement. It is likely that they are not going to understand the difference between a *disclosed* cost accounting practice and an *established* cost accounting practice. Most people, both within and without government, believe that the Disclosure Statement is a comprehensive document in which the contractor is required to describe all of its cost accounting practices; they aren't going to easily accept that it's a government form with the same limitations inherent in all government forms. Therefore you are going to have a bit of a sales job on your hands. Some knowledge transfer will be required.

In the final analysis, if you look only at a Disclosure Statement and ignore cost accounting practices that haven't been disclosed, you may miss the changes to established cost accounting practices. If you are a government oversight official, you may miss changes that impact contract costs. If you are a contractor employee, you may similarly miss those changes, and that may lead to you violating the requirements associated with your CAS contract clause(s). Both parties need to look at the entire universe of contractor cost accounting practices holistically, so that all changes that affect contract costs can be identified and used to analyze the cost impact(s).

There's also another way in which an undue focus on the Disclosure Statement can lead people down the wrong path: if you look only at a Disclosure Statement you may see more changes to cost accounting practice than are actually taking place. If you submit a change matrix along with the revised Disclosure Statement, the tendency is to count the number of changes in the matrix and to think that each change is a change in cost accounting practice.

That's not necessarily the case.

And we're not even talking about changes that don't rise to the level of a change in cost accounting practice: the first time incurrence of a cost or the elimination of a cost, or treatment of a cost that had previously been immaterial but is now material. And we're not talking about reorganizations, or pool splits or pool combinations. We're talking about an actual miscount of the real changes to cost accounting practice because "both sides of the same coin" are being counted as two changes.

For example, if there is a change in a home office allocation that forces a change in the receiving segment in order to receive the new home office allocation, that is (in our view) one change, not two changes. The change is being made at the home office and then the segment is reacting to that change. If you look at the two Disclosure Statements, you see two changes. But if you look holistically at what is happening, there is one change with a "ripple effect" at the segment level.

This matters because of the government's cockamamie approach to concurrent changes in cost accounting practice. We've written fairly **extensively** on this site about the government's viewpoint—which was upheld by the ASBCA. (We haven't written that many legal practitioners believe that aspect of the Raytheon appeal was wrongly decided. But that seems to be the case, from what we've heard.) In the government's view the contractor cannot net concurrent changes against each other, since the FAR doesn't permit that.

But one change that has ripple effects is not a set of concurrent changes; it is one change. To evaluate the impact of that one change, the impact at the contract level will have to be estimated. That means that the ripple effects will have to be netted against each other.

We are not here to argue that concurrent changes can be netted against each other. That argument has been made at the ASBCA and the Board didn't buy it. But we strongly believe that an undue focus on the individual revisions to a Disclosure Statement (or set of Disclosure Statements) without a more holistic view of both disclosed and established cost accounting practices may lead one to seeing more changes than are actually present. That's what we want to warn against.

CAS is hard. Disclosure Statements are hard. Changes to cost accounting practice are hard. Remembering that some cost accounting practices exist outside of a Disclosure Statement, while others cross multiple sections of a Disclosure Statement (or cross multiple Disclosure Statements), helps with the challenges inherent in CAS administration.