The CAS Board recently **issued** a new Staff Discussion Paper (SDP) that covered conformance of CAS with GAAP requirements in general, and conformance of two specific Standards with GAAP. This article will not rehash the 49-page SDP in detail. Follow the link and read it for yourself.

Instead, we are going to focus on significant issues/questions raised within the SDP. These are issues and/or questions for which the CAS Board staff has requested input from stakeholders—including contractors. We will probably submit input (time permitting). Will you?

The SDP states—

The growth in GAAP content presents potential opportunities to modify or eliminate overlapping CAS requirements where GAAP standards may be applied reasonably as a substitute for CAS to support contract cost and pricing. Such reductions might help to reduce overall burden in the procurement process by allowing contractors to more heavily rely on GAAP, which they are already using to report on their daily business activities. … At the same time, rolling back CAS and relying on GAAP may create challenges where the standards are similar, but not the same, and leave the Government vulnerable to future GAAP changes that, as explained above, are implemented with a purpose that differs from the goals of CAS.

CASB organized the existing 19 Standards into four groups: (1) Standards focused primarily on cost measurement and assignment of costs to accounting periods; (2) Standards focused primarily on allocation of costs; (3) Standards with complex rules satisfying unique needs of Government contracting; and (4) Standards that are generally foundational principles of Government contracting.

Unsurprisingly, the Board started with examining the Standards associated with the first group, which includes 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 material), CAS 415 (Accounting for a the cost of deferred compensation), and CAS 416 (Accounting for insurance costs).

In this SDP, CASB focused on only two of the Standards in the first group: CAS 408 and CAS 409. The Board promised to issue another SDP focusing on “two other Standards in the first group,” which are currently unidentified but may include CAS 411, a Standard that is woefully

outdated and does not address use of ERP systems to acquire goods via aggregated demand.

The Board has invited input regarding its planned approach. For example, is the grouping of the Standards appropriate? Have the Standards been bucketed in the correct groups? Has the Board properly prioritized its efforts?

Another issue for which CASB invites input is whether the existing whether the existing CAS clause found at 9903.201-4 ("Cost Accounting Standards, July 2011) should be revised "to protect the interests of the Government and contractors," because the current language does not address noncompliances with GAAP. What do you think?

One problem may be that the single CAS clause found in the regulations has been split into seven separate solicitation provisions and contract clauses by the FAR Council (see 52.230-1 through 52.230-7). When discussing the single CAS clause, it is easy to get confused by the individual requirements of the FAR provisions/clauses. We suggest sticking to the CAS language since that's the only thing CASB has authority to change. (Of course, if the CAS language changes, presumably the FAR Council would need to make conforming changes to their provisions and clauses.)

When looking at both CAS 408 and 409, the SDP asserts that GAAP largely covers the same requirements as CAS does. Of course, the coverage is not exactly perfect and gaps remain. (*N o pun intended.*
) Input to the Board should address whether the coverage is sufficient to permit elimination of the Standard(s) altogether, or whether the existing Standard should be rewritten to cover the remaining gaps in coverage. The answer may turn on whether the cost of compliance exceeds any foreseeable benefit that the contracting parties may receive. The opinion of contractors should carry significant weight.

For example, with respect to CAS 408 conformance, the SDP requests input on "whether the GAAP requirement of generally assigning the cost of benefits in the year the employee performed services upon which the benefit was earned would result in a materially different result than the requirement in CAS 408-40(a) to accrue only vested benefits earned." Moreover, the SDP solicited input regarding "the magnitude of compensated personal absence costs that accumulate but don't vest, as described in GAAP, taking into consideration the reduction for estimated forfeitures." Importantly, the SDP requests input on noncompliances with CAS 408. The SDP asks for –

… facts and data of the history of CAS 408 non-compliance issues raised and how they were resolved. In particular, what is the frequency and magnitude of the issues identified on Government contracts? Furthermore, could the issue raised have been considered non-compliant with GAAP, other CAS or FAR?

Looking at CAS 409 conformance, the SDP requests input regarding "what detailed records contractors would keep and for what purpose (e.g., GAAP compliance) if the requirement in CAS 409 to support service lives with actual historic records was eliminated?" Additionally, the SDP solicits input regarding "about the impact to estimated service lives used, if any, anticipated if the requirement to use estimated service lives based on contractor historical experience was eliminated?"

One potential issue identified by the Board is the CAS requirement to "assign to the transferor the gain/loss on disposition of an asset transferred in an other than an arms-length transaction and subsequently disposed of within 12 months of transfer"—a requirement not found in GAAP. Thus, the SDP requests input regarding "the frequency of such transfers and data about the magnitude of the gains/losses experienced on the assets transferred. In addition, how could the selection of service life, depreciation method, and residual value mitigate the risk of a significant gain/loss at disposition?"

Moreover, "The Board is interested in public comments about how contractors set residual or salvage values for categories of assets and the frequency that for a particular asset the residual value used for CAS and a salvage value used for GAAP are the same."

Finally, as was the case with the CAS 408 discussion—

The Board is interested in public comments with facts and data of the history of CAS 409 non-compliance issues raised and how they were resolved. In particular, what is the frequency and magnitude of the issues identified on Government contracts? Furthermore, could the issue raised have been considered non-compliant with GAAP, other CAS or FAR?

In summary, it's been a long time—roughly 15 years—since the CAS Board indicated significant

interest in revising its regulations or Standards. Contractors are being offered a rare opportunity to help shape at least two Standards, with the promise of another opportunity to help shape two more in the future. We have written about several specific areas of input requested by the Board, and there are other areas buried deep in the CAS-to-GAAP comparison charts included in the SDP.

If you are concerned about the burdens and complexities of CAS compliance—*and aren't we all?*—we urge you to read this SDP carefully and provide the Board with your constructive input. Importantly, if you can speak to the burdens the two Standards create and what savings might be achieved from reduction or elimination, we hope you will do so.

If you don't speak up now, then we feel you will have no right to complain later if the regulatory revisions don't go the way you think they should have.