

# Cost Accounting Standards Guideline - 2.4.G (08/24/04)

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## Last Update: (08/24/04) RShibata:kma - 2.4.G.0

This guideline was extensively revised to address administrative changes throughout the document.

### Definitions

**Cost Accounting Standard (CAS) covered contract or subcontract** is any negotiated contract or subcontract in which a CAS clause is required and is incorporated.

**Cognizant Administrative Contracting Officer (ACO)** is the government officer or prime Contractor responsible for the audit function at a Contractor's facility.

**Commercial Item** is any item other than real property, that is of a type customarily used for nongovernmental purposes and which meets at least one of the following criteria:

- Has been sold, leased, or licensed to the general public (general public means buyers other than the government or affiliates of the Offeror.)

- Has been offered for sale, lease, or license to the general public.
- Has evolved from a commercial item described above through advances in technology or performance and, while not yet available in the commercial marketplace, will be available in the commercial marketplace in time to satisfy the government's delivery requirements.
- Any item that would satisfy the criteria noted above even if they require modifications of a type customarily available in the commercial marketplace or minor modifications not customarily commercially available made to meet Sandia requirements.

Also within the definition of "commercial item" are the following services:

- Installation, maintenance, repair, training, and other services, if such services are procured for support of a "commercial item," and if the source of the services:
  - offers the services to Sandia and to the general public contemporaneously and under similar Terms and Conditions (Ts&Cs); or
  - offers to use the same work force in providing services to Sandia as used to provide services to the general public.
- Services of a type offered and sold in substantial quantities in the commercial marketplace based on established catalog or market prices for specific tasks (does not include services sold based on hourly rates without a fixed catalog price for a specific service performed).

**Company, for application of the disclosure statement submission**, means all divisions, subsidiaries, and affiliates of the entity under common control.

**Contract and subcontract** means all:

- Sandia contracts and orders, except Integrated Contractor Orders (ICOs), Federal Agency Orders (FAOs), and Federal Supply Schedule (FSS) orders, and
- lower tier subcontracts under Sandia contracts.

**Disclosure Statement (Form CASB-DS-1)** is a written description of a Contractor's cost accounting practices and procedures.

## **CAS in Sandia Contracts - 2.4.G.1**

Public Law 100-679 (41 U.S.C. 422) requires certain Contractors and subcontractors to comply with CAS and to disclose in writing and follow consistently their cost accounting practices.

Cost Accounting Standards (CAS) are mandatory in all negotiated prime contract and

subcontract procurements in excess of \$500K, other than contracts or subcontracts that are exempt.

The purpose of CAS is to ensure that:

- each Contractor's practices used in estimating costs for a proposal are consistent with the cost accounting practices it will use in accumulating and reporting costs,
- the Contractor adheres to various accounting principles, and
- any increased costs to the government caused by Contractor's failure to comply with CAS will be reimbursed to the government.

## **CAS Exemptions - 2.4.G.1.a**

Sandia contracts and subcontracts are subject to full or modified CAS coverage unless either an exemption or waiver is applicable to the contract or subcontract. Following is a listing of CAS exemptions:

- Firm-Fixed Price (FFP) and fixed-price with economic price adjustment (provided that price adjustment is not based on actual costs incurred);
- contracts and subcontracts for the acquisition of commercial items;
- negotiated contracts and subcontracts not in excess of \$500K. This exemption includes transfers among divisions, subsidiaries or affiliates of a Contractor;
- contracts and subcontracts placed with small businesses;
- contracts and subcontracts in which the price is set by law or regulation;
- contracts and subcontracts with foreign governments, their agents or instrumentalities, or foreign concern;

**Note:** A foreign company not owned by a foreign government must comply with CAS 401 and 402.

- contracts and subcontracts awarded to a United Kingdom Contractor for performance substantially in the United Kingdom, provided that the Contractor has filed with the United Kingdom Ministry of Defense, for retention by the Ministry, a completed Disclosure Statement (Form No. CASB-DS-1), which shall adequately describe its cost accounting practices. Whenever the Contractor is already required to follow United Kingdom Government Accounting Conventions, the disclosed practices shall be in accord with the requirements of those conventions. See CFR9903.201-4(d) contracts and subcontracts to be executed and performed entirely outside the U.S., its territories, and possessions;
- subcontractors under the NATO PHM Ship Program to be performed outside of the U.S. by a foreign concern;

- Fixed-Rate Labor Hour/Time and Material contracts and subcontracts when award is made without submission of cost data;

**Note:** If the Sandia Contracting Representative (SCR) issued a competitive solicitation and competition did not materialize and an exemption from submission of certified cost or pricing data is no longer possible, the SCR must then obtain cost data from the Contractor and negotiate the inclusion of CAS required clauses in the contract.

- a contract with a value of less than \$7.5 million, if the Contractor has not been awarded at least one contract with a value of more than \$7.5 million, that is covered by CAS,
- FFP contracts or subcontracts that are awarded on the basis of adequate price competition without submission of cost or pricing data.

## **Penalty for Failure to Comply with CAS - 2.4.G.1.b**

Under CAS-covered contracts, Contractors agree to a contract price or cost adjustment for their failure to comply with any applicable standard or to follow any disclosed practice if such failure results in any increased costs to the government.

## **Waiver from CAS Requirements - 2.4.G.1.c**

Only the Department of Energy/National Nuclear Security Administration (DOE/NNSA) can grant a waiver from CAS.

DOE/NNSA may waive CAS applicability for a contract with a value of less than \$15 million if the business unit performing the work is primarily engaged in the sale of commercial items, or would not otherwise be subject to CAS.

DOE/NNSA may waive CAS applicability for a contract under "exceptional circumstances when necessary to meet the needs of the agency."

CAS waivers are requested by letter signed by the Director of Procurement and Logistics and addressed to DOE/NNSA/AL Contracts Procurement Division. The letter shall cover the following considerations:

- an unequivocal statement that the proposed Contractor or subcontractor refuses to accept a contract containing all or part of a CAS clause and the specific reason for that refusal;
- a statement as to whether the proposed Contractor or subcontractor has accepted any prime contract or subcontract containing a CAS provision;
- the amount of the proposed award and the sum of all awards to the proposed Contractor from Sandia for each of the preceding three (3) years;
- a statement that no other source is available to satisfy Sandia's needs on a timely basis;
- a statement of alternative methods considered for fulfilling the need and Sandia's reasons for rejecting them; and

- any other information that may be useful in evaluating the request for the waiver.

In some instances, Contractors or subcontractors may refuse to accept all or part of the CAS requirements. SCRs should attempt to secure Contractor or subcontractor acceptance of the CAS requirements. Waivers are rarely granted. Furthermore, even if eventually granted, waivers will unduly delay contract placement.

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## **CAS Full and Modified Coverage - 2.4.G.2**

### **Full Coverage - 2.4.G.2.a**

Full coverage requires that the Contractor comply with all of the CAS in effect on the date of the contract award and with any CAS that become applicable as a result of any subsequent contract award. The Contractor must submit a written disclosure statement, which describes its cost accounting practices and policies.

Full coverage applies to contracts >\$500K when the following criteria are met:

- a single CAS-covered contract award of \$25 million or more, or
- \$50 million or more in CAS-covered contract awards were received during the preceding cost accounting period of which at least one award was \$1 million or more.

### **Modified Coverage - 2.4.G.2.b**

Modified coverage requires only that the Contractor maintain consistency in estimating, accumulating, reporting, and allocating costs incurred for the same purpose, according to Standard 401, 402, 405, and 406.

Modified coverage applies to contracts >\$500K when the following criteria are met:

- a CAS-covered contract of less than \$50 million awarded to a Contractor that received less than \$50 million in CAS-covered contracts in the immediately preceding cost accounting period; or
- a total of more than \$50 million CAS-covered awards received in the previous accounting period wherein no single contract award exceeded \$1 million;
- when any one contract is awarded with modified CAS coverage, all CAS-covered contracts awarded to the Contractor during that cost accounting period must also have modified coverage; and

**Exception:** If the Contractor subsequently receives a single contract award of \$50 million or more, that contract must be subject to full CAS coverage as well as any subsequent CAS-covered contract awarded during the same cost accounting period.

- a contract awarded with modified CAS coverage shall remain subject to such coverage through its life regardless of changes in the Contractor's CAS status during subsequent cost accounting periods.

## **Subcontracts - 2.4.G.2.c**

Subcontracts are also subject to the same applicability rules, but flowdown is not automatic. For a subcontract to be CAS covered, the prime contract must be CAS covered.

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# **CAS Disclosure Statements - 2.4.G.3**

## **Full Coverage - 2.4.G.3.a**

Complete disclosure statements are required as follows:

- any Contractor that is selected to receive a CAS-covered contract or subcontract of \$50 million or more;
- any Contractor receiving net awards of negotiated contracts and subcontracts subject to CAS totaling more than \$50 million in the most recent cost accounting period,;
- an approved preaward disclosure statement is required before award of its first CAS-covered contract;
- no preaward disclosure statement is required if the Contractor certifies in the proposal to any of the following:
  - monetary exemption,
  - interim exemption (subject to post-award submittal),
  - previously submitted disclosure statement, or
  - if DOE/NNSA agrees to waive;
- a separate disclosure statement must be submitted for each segment whose costs are included in the total price of any CAS-covered contract or subcontract exceeding \$500K unless otherwise exempt; and
- each corporate or group office whose costs of any amount are allocated to one or more segments performing a CAS-covered contract including submission of Part VIII of the

disclosure statement.

## **Modified Coverage - 2.4.G.3.b**

Under modified CAS coverage, a disclosure statement is not required since the monetary threshold for full CAS coverage has not been met.

## **Review of Disclosure Statements - 2.4.G.3.c**

- Sandia, Contractors, and higher tier subcontractors are responsible for administering the CAS requirements contained in contracts and subcontracts awarded. However, contracts subject to CAS requirements which have been under the cognizance of a government agency which has determined the adequacy of the Contractor's disclosure statement, are then administered by that agency.
- If a disclosure statement is submitted to the SCR, it will be transmitted to Sandia Auditing with a cover memo advising them of the reasons for the disclosure submittal and any other relevant information.
- If it is necessary that the disclosure statement be reviewed for adequacy, Sandia Auditing will either perform the review or arrange to have the disclosure statement reviewed by the cognizant agency or other appropriate personnel.
- If the disclosure statement is determined to be adequate, the SCR will so notify the Contractor in writing.
- If the disclosure statement is inadequate, the SCR will notify the Contractor, identify the areas of inadequacy, and request a revised disclosure statement.
- The Procurement Action Summary (PAS) for a contract subject to CAS shall include a statement specifying the CAS clauses used (based on the Contractor's certifications) and the facts concerning the status of the disclosure statement or the appropriate exemption from disclosure.
- The cognizant ACO is responsible for obtaining the Contractor's cost impact proposal and for the conduct of all negotiations of such adjustments to all government contracts. However, the cognizant ACO shall invite Procurement offices to participate in negotiations of adjustments when the price of any of their contracts will be increased or decreased by \$25K or more. The Procurement office may be invited to participate in adjustments of small units.

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## **CAS and Other Contract Issues - 2.4.G.4**

## **CAS in Contract Amendments - 2.4.G.4.a**

Contract revisions do not affect the application of CAS. If CAS were applicable to the original contract, CAS will continue to be applicable to that contract. If CAS were not applicable to the original contract, CAS will not become applicable to the contract or the revision regardless of the value of the revision. The initial CAS status remains constant through the duration of the contract.

## **CAS in Undefined Contracts - 2.4.G.4.b**

CAS is applicable to undefined contracts. Use the same applicability rules as pertain other types of contracts noted in the guideline.

## **CAS in Just-In-Time (JIT) Contracts and Ordering Agreements (OAs) - 2.4.G.4.c**

CAS is not applicable to the JIT Contractor OA; however, CAS is applicable to any order under either a JIT contract or an OA when the order meets the criteria for CAS application in contracts. For instance, any orders against a JIT or OA valued over \$500K must contain the required other types of CAS coverage unless an exemption applies.

## **CAS Certification - 2.4.G.4.d**

Contractor certification notices are contained in the solicitation clause SC 214-CAS.

## **CAS and Contract Options - 2.4.G.4.e**

CAS applicability is based on the award value, or the face value of the procurement on the date of contract award. Options are treated as a part of the award value only if the options are priced.

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## **References - 2.4.G.5**

- SC 214-CAS - Cost Accounting Standards Certification

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Send feedback on ideas and information on this page to the Process Expert, Randy Shibata.



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