

Revisions to the Cost Accounting Standards Board



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON D.C. 20503

OFFICE OF MANAGEMENT AND BUDGET
Office of Federal Procurement Policy
48 CFR Part 9903
Cost Accounting Standards Board;
Revisions to the Cost Accounting Standards Board
Disclosure Statement Form (CASB DS-1)

AGENCY: Cost Accounting Standards Board, Office of Federal Procurement Policy, OMB

ACTION: Final rule.

The Office of Federal Procurement Policy, Cost Accounting Standards Board (CASB), is revising its Disclosure Statement Form (CASB DS-1). Section 26(g)(1) of the Office of Federal Procurement Policy Act, 41 U.S.C. 422(g)(1), requires that the Board, when promulgating any new or revised Cost Accounting Standard, publish a final rule. This final rule incorporates an updated and revised CASB Disclosure Statement developed by the Board.

EFFECTIVE DATE: February 28, 1996.

FOR FURTHER INFORMATION CONTACT: Rein Abel, Director of Research, Cost Accounting Standards Board (telephone: 202-395-3254).

SUPPLEMENTARY INFORMATION:

A. Regulatory Process

The CASB's rules, regulations and Standards are codified at 48 CFR Chapter 99. Section 26(g)(1) of the Office of Federal Procurement Policy Act, 41 U.S.C. 422(g)(1), requires that the Board, prior to the establishment of any new or revised CAS, complete a prescribed rulemaking process. The process generally consists of the following four steps:

1. Consult with interested persons concerning the advantages, disadvantages and improvements anticipated in the pricing and administration of Government contracts as a result of the adoption of a proposed Standard.
2. Promulgate an Advance Notice of Proposed Rulemaking (ANPRM).
3. Promulgate a Notice of Proposed Rulemaking (NPRM).
4. Promulgate a final rule.

This promulgation completes the four step process.

B. Background

Prior Promulgations: The original Disclosure Statement form (CASB DS-1) was developed and promulgated in the early 1970s. No revisions to the document were made until the Board was reestablished in 1990. In 1992, some minor revisions were made. 57 FR 14148, 14159 (April 17, 1992). Subsequently, a project was initiated to revise and update the Disclosure Statement (CASB DS-1).

On April 2, 1993, a Staff Discussion Paper incorporating a revised Disclosure Statement was distributed to certain interested parties who generally possessed actual field experience in submitting and auditing these Statements. On the basis of the comments received in response to this Staff Discussion Paper, an Advance Notice of Proposed Rulemaking (ANPRM) was developed and published in the Federal Register on April 4, 1994 (59 FR 15695).

The majority of the comments received in response to the ANPRM were generally supportive of the proposed approach, but at the same time, numerous revisions were suggested that were intended to improve and streamline the document. Many of these suggested revisions were incorporated in the Notice of Proposed Rulemaking (NPRM) that was published in the Federal Register on November 29, 1994 (59 FR 60948).

Public Comments: Nine sets of public comments were received in response to the NPRM from government contractors, industry associations and Federal agencies.

Most commenters acknowledged that the NPRM version of the DS-1 was a significant improvement as compared with the earlier versions of the Disclosure Statement. Nevertheless, numerous additional revisions were suggested by commenters in order to further simplify and streamline the DS-1. Of particular concern to several commenters was the amount and type of information needed to respond adequately to questions in Part VII of the Statement.

In general, the Board has tried to be responsive to the suggestions made by commenters. In particular, a careful reevaluation of Part VII has been undertaken. In reevaluating this Part, the instructions have been clarified to make clear that only relevant cost accounting practices and applicable identifying data need be disclosed. Therefore, numeric data representing accounting estimates is not required to be

submitted. Also, in most sections of Part VII, the substantive questions have been limited to items that cover only 80-percent of the relevant cost groupings.

The commenters overall concerns and suggestions are addressed in greater detail under Section E., Public Comments.

The Board and the CASB staff express their appreciation for the constructive suggestions and criticisms provided by the commenters with regard to the content of the revised Disclosure Statement. Many of the commenters' suggested improvements have been incorporated into the final rule being promulgated today.

Benefits: After consideration of the public comments received, the Board believes that the revised Disclosure Statement, as set forth in this final rule, will improve the cost accounting practices followed by contractors when estimating, accumulating and reporting costs deemed allocable to Federal contracts. Adequate disclosure of cost accounting practices is essential in order to ensure consistency in cost measurement as costs are first estimated and then accumulated and reported. A Disclosure Statement that has not been updated for some two decades clearly cannot adequately reflect currently prevailing cost accounting practices and cost elements. Therefore, in order to ensure that the policies and Standards promulgated by the Board are implemented in an economical and effective manner, a revised and updated Disclosure Statement becomes essential. In addition, the Board has previously expressed the view that an updated Disclosure Statement should facilitate interaction between contractors and Government representatives when dealing with contract costing matters.

The introduction of the revised statement should not impose any new burden on contractors as it merely replaces an existing form which requires periodic updating of disclosed practices.

To further reduce the possibility of increased costs, the extended dates for submission of the new Disclosure Statement are designed to provide an opportunity to delay submission until such time as contractors would most likely have to file an updated disclosure form regardless of whether a new Disclosure Statement is introduced or not.

Summary of Amendments: The primary purpose of this revision of the Disclosure Statement is to bring it up to date and to improve it in light of two decades of field experience that the government procurement community has had with this document. The basic characteristics of the Disclosure Statement have not been changed. However, a multitude of specific changes are incorporated in the revised Statement. It would be impractical to list here all the specific changes. However, most of these changes can be summarized as follows:

1. The current Disclosure Statement specifies that Parts I through VII be prepared at the segment or business unit level, while Part VIII should be prepared at the corporate or group headquarters level. This

revised Statement provides that although Parts V, VI and VII still have to be submitted by segments, they may be completed either at the segment or headquarters level depending on where the applicable practices or procedures are established or where the cost is actually incurred.

2. In general, various legal references have been updated.

3. As the original Disclosure Statement was in essence prepared before any Cost Accounting Standards were issued, the revised format includes references to subsequently issued Standards where appropriate. In this context, some cost accounting practices described in the original Disclosure Statement may not be in compliance with the relevant provisions of a Cost Accounting Standard. The purpose of the Disclosure Statement is not to elicit noncompliant answers, and therefore, any references to potentially non-compliant practices have been eliminated.

4. Requests for certain statistical data have been eliminated as this information is no longer used.

5. Certain new topical areas have been added to the Disclosure Statement. These cover items that have become important from a cost measurement perspective over the last two decades. The topical areas include cost-of-money, post-retirement health benefits and employee stock ownership plans. Most of these new topical areas are incorporated in a significantly revised Part VII.

C. Paperwork Reduction Act

The information collection aspects of this rule have been approved by the Office of Management and Budget, and assigned Control Number 0348-0051.

D. Executive Order 12866 and the Regulatory Flexibility Act

The economic impact of this final rule on contractors and subcontractors is expected to be minor. As a result, the Board has determined that this final rule does not result in the promulgation of a "major rule" under the provisions of Executive Order 12866, and that a regulatory impact analysis will not be required. Furthermore, this final rule does not have a significant effect on a substantial number of small entities because small businesses are exempt from the application of the Cost Accounting Standards.

Therefore, this rule does not require a regulatory flexibility analysis under the Regulatory Flexibility Act of 1980.

E. Public Comments

This final rule is based upon the NPRM published in the Federal Register on November 29, 1994 (59 FR 60948), wherein public comments were invited. Nine sets of comments were received from government contractors, industry associations and Federal agencies. The more significant comments received, and the Board's actions taken in response thereto, are summarized below. Many other comments that were more of an editorial nature have been incorporated in the document where appropriate.

Comment: Two commenters suggested that compliant as well as non-compliant cost accounting practices should be described in the Disclosure Statement.

Response: The Board agrees that the actual cost accounting practices being followed must be described. However, where the Disclosure Statement provides a list of alternative practices, only compliant alternatives will be listed. If the contractor's practice is not one of the listed alternatives, the actual practice must be described on a continuation sheet. This will not be tantamount to conceding that the practice is non-compliant since such a determination can only be made after appropriate analysis and review.

Comment: Several commenters indicated that although the NPRM has been significantly improved and streamlined, the draft still contains too many questions of a detailed nature that may, in the future, increase rather than decrease the opportunities for disputes.

Response: The Board has, once more, consulted with the respondents to the NPRM and all the concerns have been subjected to additional review. As a result, some changes have been made to the version incorporated in the NPRM that should contribute to further streamlining and clarification of the final document. This comment applies in particular to Part VII of the Disclosure Statement.

Comment: At least two commenters indicated that, in their opinion the revised document still contains too many pages.

Response: In the final format there is no substantial difference in the length of the original and the final Disclosure Statement.

Comment: One commenter stressed that whenever possible, existing CAS wording or definitions should be used.

Response: The Board agrees with this suggestion and, wherever appropriate, the Disclosure Statement has accordingly been changed.

Comment: Several contractors indicated that throughout the document the term "CAS-covered contracts" rather than "Federal contracts" should be used.

Response: The Disclosure Statement deals with the cost accounting practices of an entity such as a segment or home office and it is presumed that cost accounting practices are applied consistently to all the applicable final cost objectives. Although the dollar amount of CAS-covered contracts received is crucial in determining whether a Disclosure Statement has to be filed, once the requirement to file has been met, the disclosure will cover all of the entity's policies and practices as they affect cost measurement and allocation to all contracts. Therefore, a broader term, such as "Federal contracts", seems preferable to a narrower term such as "CAS-covered contracts".

Comment: Two commenters suggested a shorter implementation period than the one proposed in the NPRM.

Response: While the Board encourages early adoption of the new form, it does not believe that it can adequately envision all the circumstances that might arise necessitating a delay in the introduction of the new form. It believes that any deadline imposed for the introduction of the new form should make ample provision for any unexpected difficulties that may arise at the implementation stage. Therefore, the final filing date for existing contractors has not been changed, although the Board hopes that an earlier adoption is possible in most cases.

Comment: Several commenters expressed some criticism of the procedure outlined in General Instructions that allows parts of contractors' accounting manuals to be incorporated by reference in the Disclosure Statement.

Response: The wording in the Instructions has been changed to make it clear that the procedure in question is an optional one -- particularly from the perspective of the contractor.

Comment: Several commenters suggested that the language be clarified to indicate the appropriate circumstances in which home offices may be able to complete Parts V, VI, or VII to be filed by segments reporting to the home office.

Response: The language in the General Instructions has been clarified. In particular, it has been made clear that where the home office establishes the applicable cost accounting policies and procedures, it may also complete the relevant Parts of the Disclosure Statement to be submitted by its subordinate segments.

Comment: Several commenters offered suggestions for clarifying the layout and terminology used on the Cover Sheet.

Response: Certain changes have been made to the Cover Sheet, in particular to item 0.2, Reporting Unit Classification, in order to introduce standard CAS terminology and definitions whenever appropriate.

Comment: Several commenters pointed out that in Part I, General Information, the wording of several items could be improved in order to ensure that the questions are more clearly focused and take into account current practices.

Response: Some changes have been made to Part I to reflect the suggestions made by several commenters. In particular, the question dealing with unallowable costs has been reformatted so as to reflect the basic structure of CAS 9904.405, Accounting for Unallowable Costs.

Comment: A number of comments were received concerning the formulation of questions in Part II, Direct Costs, dealing with direct material, direct labor and other direct costs. Some commenters suggested that the questions included in this part might be more appropriate elsewhere, such as in Part III, Direct vs. Indirect Costs, of the Disclosure Statement.

Response: The basic characteristic of Part II, as a section dealing with direct material, direct labor and other direct costs has been retained. The purpose here is to obtain information on how certain elements of cost are treated once it has been determined that they represent direct costs for government contract costing purposes. Therefore, items such as the question dealing with employee travel expenses that are directly charged to contracts have been retained.

On the other hand, as suggested by several commenters, the question dealing with interorganizational transfers has been eliminated primarily because it requested information about the cost accounting practices of the transferor and not of the transferee who is preparing the Disclosure Statement. It cannot be assumed that such information is always readily available to the transferee. The transferee's practices in this area are covered in Part IV, Indirect Costs.

Comment: A few commenters suggested that Part III should be drastically recast -- including a suggestion that instead of long lists of functions, elements of cost and transactions, the equivalent information should be described on a continuation sheet.

Response: The existing format has been retained as it seems to be the most effective way to obtain the relevant information on whether an item of cost is being treated as a direct cost, as an indirect cost or as a sometimes direct/sometimes indirect cost. The lists of functions, elements of cost and transactions have been somewhat modified on the basis of comments received.

Comment: In Part IV, several commenters pointed out that the subtitles used to describe various methods of allocating General and Administrative (G&A) expense did not properly reflect the requirements of CAS 9904.410, Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives.

Response: The subtitles in question have been modified to conform more closely to the requirements of CAS 9904.410.

Comment: A number of commenters were concerned about the amount of detail required in Part IV dealing with modified allocations from indirect cost pools using a modified allocation base or a rate that is either more or less than the normal "full rate". Some commenters indicated that too much detail was requested regarding those modified allocations whereas others expressed the view that more information should be made available.

Response: Certain parts of Part IV, in particular the question dealing with the application of overhead and G&A rates to specified transactions or costs, have been restated in an attempt to present a more effective and balanced data gathering instrument. It should, once more, be remembered that the aim has been to provide a vehicle for a contractor to disclose its CAS compliant cost accounting practices. Therefore, the Disclosure Statement should not be regarded as a substitute for an audit check list. It is for this reason that non-compliant practices have been expressly excluded from the Disclosure Statement.

Comment: Several commenters suggested changes in the format in which questions regarding Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs were presented in Part IV.

Response: The two questions that previously dealt separately with IR&D and B&P respectively have been combined to provide a more compact approach to the topic. In particular, the new approach, unlike the one in the NPRM, does not presuppose that every contractor who incurs B&P expense also has incurred IR&D expense -- a supposition that does not necessarily hold for civilian agencies.

Comment: One commenter suggested that the headings in the question in Part VI, Other Costs and Credits, dealing with charging and crediting vacation, holiday and sick pay be rearranged.

Response: The column headings have been changed to reflect the fact that salaried exempt and non-exempt employees (as defined by the Fair Labor Standards Act) are generally treated differently in this area.

Comment: Regarding Part VII, Deferred Compensation and Insurance Costs, most commenters representing contractors expressed the view that too much detailed and possibly superfluous and ambiguous information was required with respect to the various pension, post-retirement health,

deferred compensation and insurance plans. One commenter had actually tested the proposed NPRM requirements by using actual plan data in completing selected parts of the various sections in Part VII. The estimated time to complete these various sections were clearly significant and possibly burdensome when extrapolated to cover the whole of Part VII. Even though the data submitted was not verified on an overall basis, it did provide valuable insight into the relative amount of time required to complete the various individual questions. The data also distinguished between time required on a "recurring" basis to keep the Disclosure Statement current, as contrasted with the initial effort of "non-recurring" time required to prepare the original submission. The general comments regarding time required to complete Part VII were frequently supplemented by specific suggestions regarding individual sections or questions.

Response: The Board is grateful to those commenters who spent significant amounts of time to prepare constructive comments on this part of the Disclosure Statement. In particular, the Board would like to express its gratitude to the commenter who actually completed sections of Part VII and made the relevant data available to the Board.

As a result of the input received from commenters, Part VII has been substantially redesigned in order to make it more "user friendly". When dealing with pension plans, post-retirement health benefits, employee group insurance, deferred compensation, and worker's compensation and property insurance, the amount of detailed information related to various aspects of cost measurement has been substantially reduced. The detailed data is required only for those plans or policies that account for 80-percent of the relevant category of costs -- provided data on at least three plans is disclosed. Only a limited amount of general plan information is sought for all the other plans. By excluding the less significant plans from the more detailed disclosure requirements, it is anticipated that the paperwork burden will be significantly eased.

Some commenters also inferred that in certain instances actual numeric data was requested that would have to be updated annually. It has been made clear in the final document that when dealing with such items as actuarial assumptions, only the basis used to determine numeric values need be disclosed and not the actual values themselves. This clarification should ensure that no regular annual updates of the Disclosure Statement are prepared and submitted merely to reflect changes in the relevant numeric values.

Other, more specific changes to the various sections of Part VII are summarized below:

Pension Plans. The number of General Plan Information questions has been reduced from nine in the NPRM to six in the final document.

In the NPRM, the information requested for Defined Contribution Plans applied to all plans of this type. In the final version, if there are more than three plans, this information has to be supplied only for plans that account for 80-percent of the defined contribution plan costs.

Defined Benefit Plans. The number of questions asked in this area has not been changed. However, the topics covered and the manner of presentation have been somewhat changed. In particular, it has been made clear that regarding actuarial assumptions, no disclosure of actual numeric values is required. Only the basis for determining these numeric values need be described.

Post-retirement Benefits (PRBs). This section has been rearranged to conform with the pattern established for pension plans in the previous section. In the NPRM, the questions posed were applicable to all PRB plans. In the final rule, questions dealing with general plan information have been separated from questions dealing with more specific aspects of PRB cost determination. The latter group consists of five questions and they have to be completed only for those plans that, in the aggregate, account for at least 80-percent of the total PRB costs. However, if there are three plans or less, then data on all the plans must be disclosed.

Employee Group Insurance Programs. Responses to this section of Part VII of the NPRM indicated that it was the most time consuming section to complete. Therefore, some significant changes have been made to the amount of information to be disclosed. First, if there are more than three policies or self-insurance plans, the applicable information should be provided only for those policies and self-insurance plans that, in the aggregate, account for at least 80-percent of the costs of the program for each category of insured risk. Second, the information previously requested under three separate questions has been recast as a single question in a tabular form. Third, a number of specific questions dealing with treatment of dividends, earned refunds, and employee contributions have been dropped as these items are largely covered by the provision of CAS 9904.416, Accounting for Insurance Costs. It is anticipated that the time needed to complete this section of Part VII will be significantly reduced as a result of the changes listed above.

Deferred Compensation Plans. This section has been recast to conform to the format used in the sections dealing with pension plans and PRBs. Therefore, the first five questions dealing with general plan information are applicable to all the plans. Two other questions, of a more substantive nature, should be completed for all the plans if there are no more than three plans. If there are more than three plans, the information should be provided for those plans that in the aggregate account for at least 80-percent of these deferred compensation costs.

Employee Stock Ownership Plans (ESOPs). Questions in this section have been reformulated, and, as a result, the total number of these general plan information questions has been increased by two as compared with the NPRM. These questions must be completed for all ESOPs.

Worker's Compensation Liability and Property Insurance. This section has been rearranged to conform to the format used in dealing with employee group insurance plans. In addition, the term "line of insurance" has been introduced in an attempt to clarify the nature of the aggregation of costs for which the relevant cost data has to be disclosed. In this context, for the purpose of guidance, "line of insurance" has the meaning attributed to it in Generally Accepted Auditing Standards (GAAS) literature (see AICPA Audit and Accounting Guide, Audits of Property and Liability Insurance Companies) and includes groupings such as fire and similar perils, general liability, marine perils, automobile liability and property damage, worker's compensation, theft, etc. If there are more than three policies or self-insurance plans, the applicable information should be provided only for those policies and plans that in the aggregate account for at least 80-percent of the applicable costs for a line of insurance. Also, two separate questions have been combined into a single question in a tabular form.

Comment: Several comments relating to Part VIII, Corporate or Group Expenses, dealt with the requirement in the NPRM to "list all active segments and groups that are material in size reporting to the home ... office". Suggestions received included deletion of the words "all", "active", and "that are material in size" in the above quote from the first question in this part. At least one commenter suggested that if the term "material" is used, criteria for materiality should be developed.

Response: The suggestions regarding deletions have been accepted by the Board. The restated sentence reads: "list segments and other intermediate level home offices reporting to this home office."

The Board believes that this is an area where the individuals implementing the Standards and other regulations necessarily must exercise their own judgment in carrying out their tasks. The objective of this provision in the Disclosure Statement is to obtain a listing of segments and other entities to which home office expenses may be allocated. This allocation is part of the cost determination process for government contract costing purposes. Furthermore, this cost determination process, which includes all the relevant pronouncements of the Board, is subject to the materiality provisions of 9903.305. Specific reiteration of the materiality provision in each instance is not needed. Therefore, the requirement in the present instance is to list all the segments or other entities reporting to the home office that may have other than immaterial impact on the cost allocation process from the home office to its subordinate entities.

Comment: Several suggestions were received to improve and streamline the main section of Part VIII that deals with the pooling and allocation of home office expenses.

Response: Several of the suggestions received have been adopted. An addition has been made to the list of allocation base codes used and one question in the NPRM has been eliminated and its substance combined with another question.

List of Subjects in 48 CFR Part 9903

Cost accounting standards, Government procurement.

Richard C. Loeb

Executive Secretary, Cost Accounting Standards Board

For the reasons set forth in this preamble, chapter 99 of title 48 of the Code of Federal Regulations is amended as set forth below:

1. The authority citation for Part 9903 continues to read as follows:

Authority: Public Law 100-679, 102 Stat. 4056, 41 U.S.C. 422.

PART 9903 - CONTRACT COVERAGE Subpart 9903.2 - CAS Program Requirements

2. Section 9903.202 is amended by deleting the illustrated CASB DS-1 and inserting a revised CASB DS-1.

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