From a DCAA Perspective Series:
Breaking into GovCon
Types of Government Contracts

- Fixed Price
- Cost Reimbursable
- Time and Material
- Indefinite Delivery Contracts
- Letter Contracts
- Basic Ordering Agreements
Fixed Price Contracts

- Firm Fixed Price (FFP)
  - Not subject to any adjustments
  - Max incentive to control costs and perform efficiently
  - Minimal administrative burdens
  - Subject to audit when estimated price is over $10M
  - FP with Performance Based Payments: does NOT require an adequate accounting system

- Fixed Price with Economic Price Adjustment (FPEPA)
  - Provides for upward (or downward) revisions of labor and/or material
  - Adjustments limited only to contingencies stated in contract terms
  - Used to protect both government and contractors from volatile climates
  - Adjustments based on catalog/market prices, cost of labor or material actually incurred, and cost indexes all established in terms of contract
Cost Reimbursable Contracts

- **Cost Plus Incentive Fee**
  - Negotiated profit later adjusted based on relationship of total allowable costs to the total target costs
  - Formula of profit calculation included in contract terms

- **Cost Plus Award Fee**
  - Includes base fee at inception plus an award fee based on Government evaluation on performance
  - More for service-based contract awards

- **Cost Plus Fixed Fee**
  - Fee varies on actual performance costs incurred
  - More for research, testing, development contract awards

- **Prohibitions and Limitations**
  - Cost Plus Percentage (CPPC)
  - Accounting Systems
  - Limitation of Costs/ Limitation of Funds
Time and Material Contracts

- **Time and Material (T&M)**
  - Specific PoP, fixed & burdened hourly rate
  - Labor categories and qualifications
  - Includes reimbursement for material and ODCs
  - High level of monitoring, administration, support, and LOE
  - Services for engineering, design, repair, emergency situations
  - NTE ceiling price

- **Labor Hours**
  - Similar to T&M
  - No materials, just labor services
  - Same clauses and provisions apply
Other Types of Contracts

- Indefinite Delivery Contracts
  - Definite Quantity
  - Requirements
  - Indefinite Quantity
- Letter Contracts
- Basic Ordering Agreements (BOAs)
Pros and Cons of Fixed Price Contracts

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<th>CONS</th>
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<td>CERTAINTY OF COSTS</td>
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<td>BUDGETING</td>
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<td>SET TIMELINE</td>
<td>NOT RECOMMENDED FOR MID TO LARGE-SCALE PROJECTS</td>
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<td>FALSE CERTAINTY OF COSTS</td>
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# Pros and Cons of Cost Type Contracts

## COST PLUS CONTRACT

COST PLUS CONTRACT is an agreement where one party gets reimbursed for all its expenses plus a profit margin at a pre-decided rate on total cost.

### TYPES

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
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<tbody>
<tr>
<td>Cost Plus Award Fee Contract</td>
<td>The contractor gets a performance based award after completion of contract at a pre-decided rate by client.</td>
</tr>
<tr>
<td>Cost Plus Fixed Fee Contract</td>
<td>Here, the contractor gets the reimbursement of total cost along with a fixed fee determined in advance.</td>
</tr>
<tr>
<td>Cost Plus Incentive Fee Contract</td>
<td>In this case, the contractor gets incentives if he meet or exceeds the expectations. These incentives are under the head of contract provision in contract.</td>
</tr>
<tr>
<td>Cost Plus Percentage of Cost Contract</td>
<td>Here, contractor gets profit as percentage of total cost incurred by him. Profit increases with an increase in total cost.</td>
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### ADVANTAGES

- Contractor gets flexibility.
- Contractor's risk is minimized.
- It focuses on quality rather than cost.
- Budget-friendly contract.
- Helpful in outsourcing R&D activities.

### DISADVANTAGES

- Buyer has to bear the risk.
- Total cost is uncertain.
- May cause disputes in calculating cost.
- Difficult to realize indirect cost.
- Completion may get delayed.
Contractor Qualifications

Responsible Prospective Contractor Criteria:

- Adequate financial resources to perform the contract
- Ability to comply with the required or proposed delivery or performance schedule, considering the firm’s existing commercial and governmental business commitments
- A satisfactory performance record
- A satisfactory record of integrity or business ethics
- The necessary organization, experience, accounting, operational controls, and technical skills to perform the contract
- The necessary production, construction and technical equipment and facilities
- Eligibility to receive the award under applicable laws and regulations
Prior to Contractor’s First Cost Type Contract Award

- FAR 242-7502(a): Contractors receiving cost-reimbursement, incentive type, time-and-materials, or labor-hour contracts, or contracts which provide for progress payments based on costs or on a percentage or stage of completion, shall maintain an accounting system.

- Contracting Officers request contractors to compose the Preaward Survey of Prospective Contractor Accounting System Checklist

- Checklist asserts contractor meets SF1408 criteria and provides narrative describing how they meet each criterion

- Only the Contracting Officer (either from the buying command or DCMA) can request DCAA to perform a Preaward Accounting System Audit
Preaward Accounting System

Audit Objectives

- Is the **design** of the accounting system acceptable for the prospective award?

- Can the contractor’s accounting system **accumulate and segregate** costs under federal cost type contracts?

- Is the contractor’s accounting system **in operation** or **set up**, but not in operation.

- DCAA’s audit program is designed to **evaluate** each criterion of the SF 1408
Defining an Accounting System and What is Acceptable

DFARS 252.242-7006:

○ “Accounting system” means the Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.

○ An acceptable accounting system, means a system that complies with the criteria under paragraph (c) of DFARS 252.242-7006(c) (criterion of SF1408) and provides reasonable assurance that:
  ○ Complies with applicable laws and regulations
  ○ The accounting system and cost data are reliable
  ○ Risk of misallocation and mischarges are minimized; and
  ○ Contract allocations and charges are consistent with billing procedures
How Can A Small Business Prepare for a Preaward Accounting System Audit?

- Be sure your Preaward Accounting System Survey narrative is detailed and includes sufficient explanation for how each criterion meets the SF 1408 requirements
- Compile a list of recent/ relevant audit history (results, reports, outcomes, etc.)
- If applicable, be ready to explain corrective action plans for any prior questioned costs or instances of noncompliance
- Provide all relevant accounting system policies and procedures and be ready to explain/ describe all related internal controls (i.e.- proper segregation of direct versus indirect costs, timekeeping procedures, timesheet controls, how indirect rates are calculated, billing procedures, etc.)
- Adequate support and documentation!
How Can A Small Business Prepare for a Preaward Accounting System Audit? (continued)

- Be able to describe, demonstrate, and provide examples of how your accounting system:
  - Generates basic financial reports (i.e.- trial balance, general ledger, job cost ledger/profit and loss statement, etc.)
  - Identifies and segregates direct versus indirect expenses
  - Routinely (either actually or plans to) post and reconcile to books of account
  - Accounts for both direct and indirect time via paper or electronic timecards.
  - Identifies and handles unallowable costs
  - Provides for sub accounts or multiple contract line items (CLINs)
  - Calculates indirect rates (also what comprises the pools and bases)
  - Generates invoices (and show how these invoices are reliable/accurate for current and cumulative costs)
Examples of Noncompliances for Accounting System Audits

- Failure to properly segregate direct and indirect costs
- Lack of routine (at least monthly) posting to books of account
- Improper timekeeping/labor mischarging
- Failure to exclude unallowable costs
- Inadequate procedures to ensure proper billing of subcontractor/vendor costs
- Invoices that do not include both current and cumulative amounts and also do not reconcile to the job cost/general ledgers
Contractor Labor Floorchecks

Objective:
- To test the contractor’s compliance with its timekeeping internal controls and procedures as well as the reliability of employee time records
- To verify that employees are at work, performing in assigned job classifications, and that recorded time is charged to the proper cost objective

Purpose:
- To analyze current labor charging and cost allocation practices
- To address deficiencies on a real-time basis
- To support direct labor testing during annual Incurred Cost Audits (performed at a later date):
  - Assists DCAA in determining the accuracy of labor charges to contracts, indirect accounts, or other cost objectives
  - Evaluation performed on a real-time basis since employees are more likely to remember recent events
Labor and Timekeeping System

- DFARS 252-242-7006(c) requires:
  - (9) A timekeeping system that identifies employees’ labor by intermediate or final cost objectives
  - (10) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives

  “Intermediate” = Indirect / “Final Cost Objectives” = Direct

- Labor charges must be based on/recorded via paper or electronic timecards

- Proper internal controls, approval process, and daily requirement to fill out timesheets

- Accumulation of labor hours and costs by contract via labor distribution report, which can be reconciled to timesheets, general ledger, and payroll reports
How Can A Small Business Prepare for a Labor Floorcheck?

- Always keep an updated list of employees:
  - Ensure this listing includes employees by location, direct versus indirect, and what types of contracts they are working on.

- Labor floorchecks will be unannounced, so discretion is key. Do not announce to your workforce that DCAA is there to conduct interviews.

- Ensure your employees are recording their time at least once a day.

- Ensure you have clearly documented timekeeping policies and procedures:
  - These P&P should include detail such as set up of new job codes, how time is tracked, review and approval process, who has access to employee timesheets, how payroll is processed, etc.

- Document your company’s procedures for Work at Home program (telecommuting).

- Identify a point of contact (and alternate) for employee interviews:
  - Separate point of contacts for each location.
A Cost Accounting Standard is a statement formally issued by the CASB that:

- Enunciates a principle/or principles to be followed,
- Establishes practices to be applied, or
- Specifies criteria to be employed in selecting from alternative principles and practices in estimating, accumulating and reporting costs on contracts subject to the rules of the Board.
CAS Applicability and Coverage
# Exemptions to CAS

## CAS Exemptions – 48 CFR 9903. 201-1(b)

<table>
<thead>
<tr>
<th>Exemption</th>
<th>Description</th>
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<tbody>
<tr>
<td>Negotiated Government contract/subcontract NOT in excess of TINA threshold as adjusted for inflation.</td>
<td></td>
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<tr>
<td>Sealed bid contract</td>
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<tr>
<td>Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of certified cost or pricing data.</td>
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<tr>
<td>Contracts and subcontracts authorized in 48 CFR 12.207 for the acquisition of commercial items.</td>
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<tr>
<td>Contract/subcontract where price is set by law or regulation.</td>
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<tr>
<td>Contract/Subcontract with a small business.</td>
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<tr>
<td>Contract/Subcontract with foreign governments, their agents, or instrumentalities. Exemption does not extend to contract/subcontract with foreign concern which is subject to CAS 401 &amp; 402</td>
<td></td>
</tr>
<tr>
<td>Subcontract under the NATO PHM Ship Program to be performed outside of the United States by a foreign concern</td>
<td></td>
</tr>
<tr>
<td>Contract/subcontract less than $7.5 million, provided the contractor is not currently performing any CAS covered contracts/subcontracts of $7.5 million or more.</td>
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</tbody>
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Modified CAS Coverage

Modified CAS Coverage Includes:

- 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

Note: Contracts with foreign concerns are subject to only CAS 401 & 402 regardless of Disclosure Requirements.
Overlap of CAS and GAAP

10 GAAP principles

- Regularity
- Consistency
- Sincerity
- Permanence
- Noncompensation
- Prudence
- Continuity
- Periodicity
- Materiality
- Good Faith

Potential overlap between CAS and GAAP:

<table>
<thead>
<tr>
<th>Cost measurement and assignment to accounting periods</th>
<th>Cost allocation</th>
<th>Foundational principles of government contracting</th>
<th>Complex rules unique to government contracting</th>
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</thead>
</table>

Number of standards:

- 7
- 4
- 4
- 4

Source: GAO presentation of Cost Accounting Standards Board information. | GAO-20-266
### Overlap of CAS and FAR

<table>
<thead>
<tr>
<th>Standard</th>
<th>Title</th>
<th>Category</th>
<th>FAR</th>
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<tr>
<td>401</td>
<td>Consistency in Estimating, Accumulating and Reporting Costs</td>
<td>Fundamental Cost Accounting Concepts</td>
<td>31.201-1</td>
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<td>403</td>
<td>Allocation of Home Office Expenses to Segments</td>
<td>Cost Allocations</td>
<td>31.203(b)</td>
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<td>404</td>
<td>Capitalization of Tangible Assets</td>
<td>Tangible Capital Assets</td>
<td>31.205-11, 31.205-16, 31.205-52(a)</td>
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<tr>
<td>405</td>
<td>Accounting for Unallowable Costs</td>
<td>Fundamental Cost Accounting Concepts</td>
<td>31.201-6</td>
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<td>406</td>
<td>Cost Accounting Period</td>
<td>Fundamental Cost Accounting Concepts</td>
<td>31.203(g)</td>
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<td>407</td>
<td>Use Of Standard Costs for Direct Material and Direct Labor</td>
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<td>408</td>
<td>Accounting for Costs Of Compensated Personal Absence</td>
<td>Compensation</td>
<td>31.205-6(a), 31.205-8(m)</td>
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<td>409</td>
<td>Depreciation of Tangible Capital Assets</td>
<td>Tangible Capital Assets</td>
<td>31.205-11, 31.205-16(a)</td>
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<td>410</td>
<td>Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives</td>
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<td>413</td>
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<td>Cost of Money as an Element of the Cost of Facilities Capital</td>
<td>Cost of Money</td>
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<td>Accounting for the Cost of Deferred Compensation</td>
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<td>Cost Allocations</td>
<td>31.205-18</td>
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Truthful Cost or Pricing Data
Formerly Known as Truth in Negotiations (TINA)

Purpose
- To ensure that the Government is placed on equal footing with the contractor with respect to cost or pricing data to support the proposed price

Requirement
- FAR 15.403-4: Requires the CO to obtain certified cost or pricing data
- Contractor certifies their proposal is current, accurate, and complete

Exemptions
- Adequate price competition
- Commercial Items or Services
- Prices Set by Law or Regulation
- Waiver by Agency Head
- Modifying a contract or subcontract for commercial items
TINA and CAS Overlap

- CAS
- FAR
- TINA
Frequently Asked Questions

1. How do I get a DCAA approved government accounting system?
   - You cannot. There is no such thing as a DCAA approved government accounting system.

2. How do I request a DCAA audit of my accounting system?
   - DCAA does not perform audits requested by a contractor. DCAA only performs these audits based on a request from a federal entity who is responsible for determining the acceptability of a contractor’s system.

3. Is QuickBooks or any other accounting software applications acceptable accounting system for federal contracting?
   - An accounting system is more than just a software package. It includes accounting methods, procedures, and controls. Many accounting software application can be part of an acceptable accounting system or set up in a manner that fails to meet the requirements of an acceptable system.
DCAA Internet Resources

- **Guidance**
  - Directory of Audit Programs
  - Contract Audit Manual
  - Select Area of Cost Guidebook (FAR 31.205 Cost Principles)
  - Links to Acquisition Regulations

- **Checklists and Tools**
  - Cost of Money Rates
  - Incurred Cost Electronically (ICE) Model
  - Contractor Submission Portal

- **Frequently Asked Questions For Contracting Officers, Contractors and COVID-19**
Small Business Outreach Survey

We would love to hear about your recent experience with the DCAA Small Business Program, as we are committed to providing the best guidance possible and strengthening our nation's Defense Industrial Base. By participating in our survey, you will help us improve our courses, content and provide you with even better support as we continue to grow our program.
Questions/Comments

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