

The Critical Discipline often overlooked



Cost and Pricing for Government Contracting

Overview with Q&A

Overview of basic concepts of cost and pricing to improve understanding of:

1. How to develop, support, and propose acceptable and profitable indirect rates
2. How to develop a DCAA acceptable accounting system
3. FAR Part 31 on allowable & unallowable costs, and
4. Minimizing exposure to fines, penalties, and interest.



1. Introduction

- Cost and pricing mean different things to different people in different firms in different agencies. However, the basic concepts are at the core of all.
- Understanding the concepts will improve chance of success
- You must become very familiar with the unique requirements and environment of government contracting before you can make it work for you. It is ever evolving and changing!

Penalties for Mischarging

Criminal Penalties for Manipulation of charges under 18 USC 1001 reads as follows:

Whomever, in ANY MATTER, knowingly and willfully

1. Falsifies, conceals or covers up...a material fact;
2. Makes any materially false, fictitious or fraudulent statement or representation; or
3. Makes or uses any false writing or document knowing the same to contain any materially false, fictitious or fraudulent statement or entry;
4. Shall be fined or imprisoned for not more than 5 years, or both.
5. Penalties may be assessed for including costs in final indirect cost rate proposal which are:
 - expressly unallowable costs, or
 - costs previously determined unallowable



Understand it is impossible to memorize all of the rules, regulations, guidelines, updates, changes, policies, procedures, etc. you need to know to do your job well and succeed.

However

You can learn how to find, select, and use tools and resources available for issues and situations specific to your firm.



What Do We Mean By Tools?

- Books - Related to your field
- Related Websites



- FAR – Federal Acquisition Regulations

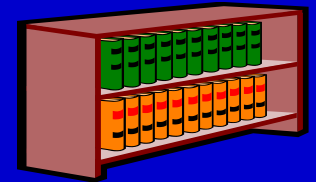
Also related FAR Supplements (e.g. DFARS)



- Defense Contract Audit Manual

- Information for Contractors per DCAA

- Specialized Workshops and Training
- Specialized Newsletters or Associations



Learn how to navigate and use all to get results

Remember

The process of acquiring wisdom takes time.

Some things are learned only through the school of experience.

Understanding the cost and pricing process takes time and repetition, repetition, repetition....

The more you practically apply what you learn, combined with ongoing training, the more your understanding will improve. Also, the more confident you will become in presenting your point of view.

Don't forget to commit resources to this area!



2. Two Basic Groups of Cost

1.DIRECT COST

2.INDIRECT COST

Direct Costs

- Any cost, which is identified specifically with a particular final cost objective (contract).

- No contract must have allocated to it as a direct cost any cost, if other costs incurred for the same purpose in like circumstances have been included in any indirect cost pool to be allocated to that or any other contract.

Indirect Costs: FAR 31.203 defines indirect cost as follows:

- **An indirect cost is any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives. It is not subject to treatment as a direct cost. After direct costs have been determined and charged directly to the contract or other work, indirect costs are those remaining to be allocated to the several cost objectives. An indirect cost shall not be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of that or any other final cost objective.**

I
N
D
I
R
E
C
T

P
o
o
l
%

ALLOCATION

Base

=

I
N
D
I
R
E
C
T

Rate

Pool / Base
Example

3. Indirect Costs

Broad Categories are:

1. **Fringe Benefits & Payroll Taxes**
2. **Overhead**
3. **General & Administrative**

Indirect Cost

1
Tier

F/B, O/H & G&A
100% - \$100,000

2
Tier

O/H
Overhead
85% - \$85,000

G&A
General & Administrative
15% - \$15,000

3
Tier

F/B
Fringe Benefits & Payroll Taxes
35% - \$35,000

O/H
Overhead
50% - \$50,000

G&A
General & Administrative
15% - \$15,000

Fringe Benefits Pool

Any required payroll taxes, mandated and firm provided insurance, paid leave, and other employee benefits.

Fringe Benefits Typical Costs

- FICA (Social Security & Medicare) company portion
- FUTA (Federal Unemployment Insurance)
- SUTA (State Unemployment Insurance)
- Worker's Compensation Insurance
- Health & Welfare including Group Life, Health, Dental, Eye, Disability, etc.
- Paid Leave (Holiday, Vacation, Sick, Military, Maternity, etc.)

Typical Fringe Benefit Base

Total Productive Labor

(Total Wages excluding Leave Labor)

- Direct Productive Labor
- Overhead Productive Labor
- G&A Productive Labor
- B&P Productive Labor
- Other Productive Labor

Overhead Pool

- All costs not charged directly to a contract. These cost are typically incurred for more than one contract and are in support of contracts.

Overhead Typical Costs

- Indirect labor and supervision (not charged direct)
- Employee related expenses – shift/overtime premiums, employee taxes & fringe benefits
- Indirect material & supplies, small tools, etc.
- Fixed charges – depreciation, insurance, rent
- Downtime of direct employees, training, leave, wages when not working on a specific contract or job

Typical Overhead Bases

- ***Direct Labor Dollars***

- Direct Labor Dollars plus Fringe Benefits
- Direct Labor Hours
- Machine Hours
- Number of Units Produced, and
- Other measures based on solicitation or uniqueness of business.

G&A Pool

Any general management, financial, administrative, or other expense that is incurred for the benefit of the business unit as a whole.

G&A Typical Costs

- General & executive office
- Legal, accounting, public relations, and financial
- Selling and marketing
- Corporate or home office
- Independent research and development – IR&D
- Bid and proposal – B&P
- Other miscellaneous costs related to overall business operations

Typical G&A Bases

Most Common are Based on Input

1. Total Cost Input (TCI)

(Total cost excluding G&A expenses)

2. Single element cost

(e.g., direct labor or direct materials)

3. Value-added cost

(Total cost less direct materials and/or subcontract costs)

Indirect Costs

What is your Basis of Support?

- Supporting schedules,
- Spreadsheets,
- Reports,
- Written descriptions, etc.



These should explain and show *in detail* how your Indirect Costs are classified and accounted for in the accounting system. Also describe how Indirect Rates are developed and calculated.



4. Federal Acquisition Regulations

The primary source of authority governing the Government procurement process. The FAR is published as Chapter 1 of Title 48 of the Code of Federal Regulations (CFR).

The FAR provisions are implemented by various government agencies and subject to interpretation by the Federal Courts, the Armed Services Board of Contract Appeals (ASBCA), the GSBCA, and others.

The FAR parts mainly applying to cost and pricing are FAR Parts 52, 42, 31, and 15

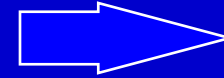
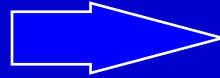
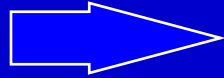
The letters 'FAR' are rendered in a large, bold, sans-serif font. The letters are filled with a light gray color and have a thin red outline. They are positioned on the right side of the slide.

What is FAR Part 31?

Provides detailed guidance on cost accounting issues. For example:

- 1. Defines direct and indirect costs**
- 2. Provides guidelines on accounting treatment**
- 3. Identifies allowable and unallowable costs and their treatment**
- 4. Identifies Cost Accounting Standards (CAS) which apply**
- 5. Refers to Generally Accepted Accounting Practices (GAAP) which apply**

FAR on Consistency



To ensure the Individual Contractor (you) treat financial activities using:

- **Same method in like circumstances**

Situation 1

Situation 2

Situation 3

- **Same method over different periods**

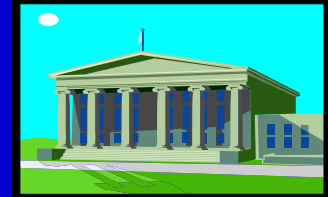
Period 1

Period 2

Period 3

FAR on ALLOWABILITY

Those costs that are permissible or acceptable under government contracts.



FAR 31.201-2(a) Describes Allowability Factors as:

1. Reasonable in amount
2. Allocable to the contract
3. Acceptable under CAS; otherwise acceptable under GAAP and practices appropriate to the circumstances
4. In accordance with Terms of Contract
5. Allowable per FAR 31.205

Determining Allowability of Specific Costs

31.205

Each type of cost is defined by FAR cost principles as either:

- 1. Allowable**
- 2. Unallowable, or**
- 3. Allowable with restrictions**

Example of guidance interpretation under FAR 31.205

<u>Selected Costs</u>	<u>FAR Ref.</u>	<u>A</u>	<u>UA</u>	<u>AWR</u>
Public Relations & Advertising	31.205- 1			X
Bad Debts	31.205- 3		X	
Bonding Costs	31.205- 4	X		
Compensation	31.205- 6			X
Donations	31.205- 8		X	
Employee Morale	31.205- 13			X
Entertainment	31.205- 14		X	
Alcoholic Beverages	31.205- 51		X	
.....etc.				

5. How do you begin to set up your accounting system to meet these criteria and capture the information required?

1. **General Ledger Chart Of Accounts Coding System**
2. Job Cost Tracking System
3. Payroll (how you describe your payroll items)

Major Account Breaks

<u>ACCOUNT BREAK TITLE</u>	<u>ACCOUNT NUMBER</u>				
	MAIN		Dept or Pool	LOC	
CURRENT ASSETS	1000	-	00	-	00
FIXED ASSETS	1200	-	00	-	00
OTHER ASSETS	1290	-	00	-	00
CURRENT LIABILITIES	2000	-	00	-	00
LONG TERM LIABILITES	2500	-	00	-	00
EQUITY	3000	-	00	-	00
REVENUE:	4000	-	00	-	00
<u>EXPENSES:</u>					
⇒ DIRECT COST OF SALES	5000	-	00	-	00
{ FRINGE BENEFITS	6000	-	00	-	00
{ OVERHEAD EXPENSES	7000	-	00	-	00
{ G&A EXPENSES	8000	-	00	-	00
{ UNALLOWABLE & OTHER for Government Contracting	9000	-	00	-	00
PROVISION FOR TAXES	9900	-	00	-	00

6. The DCAA and You (Defense Contract Audit Agency)

- The audit agency responsible for carrying out the audit function for contracts with the Department of Defense (DoD).
- The best known and most influential of the various Government audit agencies.
- Makes its services available to many other civilian agencies

Major Areas Of Concern

1. Accuracy and reasonableness of cost representations
2. Financial capability
3. Policies and procedures
4. Contractual provisions having significance
5. Internal control systems
6. Management policies

Typical Accounting Software

- **QuickBooks Pro/Premier**
 - www.efaact.com
- **ICAT**
 - www.fcservicesnetwork.com
- **T and E Solutions**
 - www.erpgov.com
- **Deltek GCS Premier**
- **Peachtree; MAS90; SBT;**
- **MYOB; Microsoft**
- **100's of Others**

Approved by DCAA

**It's not the software,
It's the Setup!**

N O N E

7. SUMMARY

Paul's 10 Keys To Cover Yourself

- 1) Get everything in writing including time extensions
- 2) Brief your contracts
- 3) Exclude unallowable cost on proposals, bids, invoices, all submissions
- 4) Provide adequate support for all proposed & actual cost
- 5) Adequate accounting system
- 6) Notify CO or DCAA of major changes in policy or accounting system
- 7) Report any updated information prior to final negotiations, mods, or change orders
- 8) Be consistent
- 9) Maintain files on all activity from award up to contract completion and closing
- 10) Use the contract, FAR and related supplements as your guide. Don't take anyone's word!

Paul's Recommended Websites

1. SBA www.sba.gov (good overall portal)
2. DCAA www.dcaa.mil
3. FAR www.acquisition.gov/far
4. FBO www.fedbizopps.gov
5. Gov Store <http://bookstore.gpo.gov>

Finally!

Remember: **If this was easy**, even more people would be doing it and you would have even **more competition**. Don't let the difficulty stop you. Use what you learn and the tools and resources available. Don't go it alone.

Be willing to invest in your accounting and support staff and systems. *Don't under-estimate their value!* It could cost you dearly in the end but the payback on the investment is worth it.

Continue the learning process in your company. Knowing your true costs will help ensure you recover them when pricing your contracts, within competitive limits.

You don't have to make uninformed guesses!

www.paulgunn.com

Q&A Time



Thank You

Beneficial Design, Inc. – *SDVOSB Firm*



Dear Mr. Gunn,

Your DVD class that presents the principles of DCAA accounting procedures was very helpful. I felt like I was right there with you. The information was presented clearly. Having all of the power point slides in a binder with the examples allowed me to perform the exercises right along with the class as if I was there. I was able to watch the DVDs during the evenings after work.

As I had explained to you on the phone, traveling is a bit more difficult for me with my mobility impairment. I have a spinal cord injury and after 34 years in a wheelchair, I look for ways to not travel if at all possible.

I have a small business that provides wheelchair testing services and need to expand our accounting system to meet DCAA requirements for this agency. Our business is located in a rural area of Nevada and there are no accountants in the area with DCAA expertise.

My bookkeeper also watched the DVDs and she is now confident that between the two of us with occasional outside coaching that we will be able to make the needed modifications to our accounting system. Thank you again

