

Government Contracting



CAS: The Series – Episode 10: CAS 416 & The Mystery of CAS 419

Forvis Mazars US

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Agenda

- Layout of the series
- CAS 416
- The Mystery of CAS 419

Polling Question

Where are you working from today?

1. Home or alternate work location
2. My company office
3. A different work location
4. Traveling
5. Other

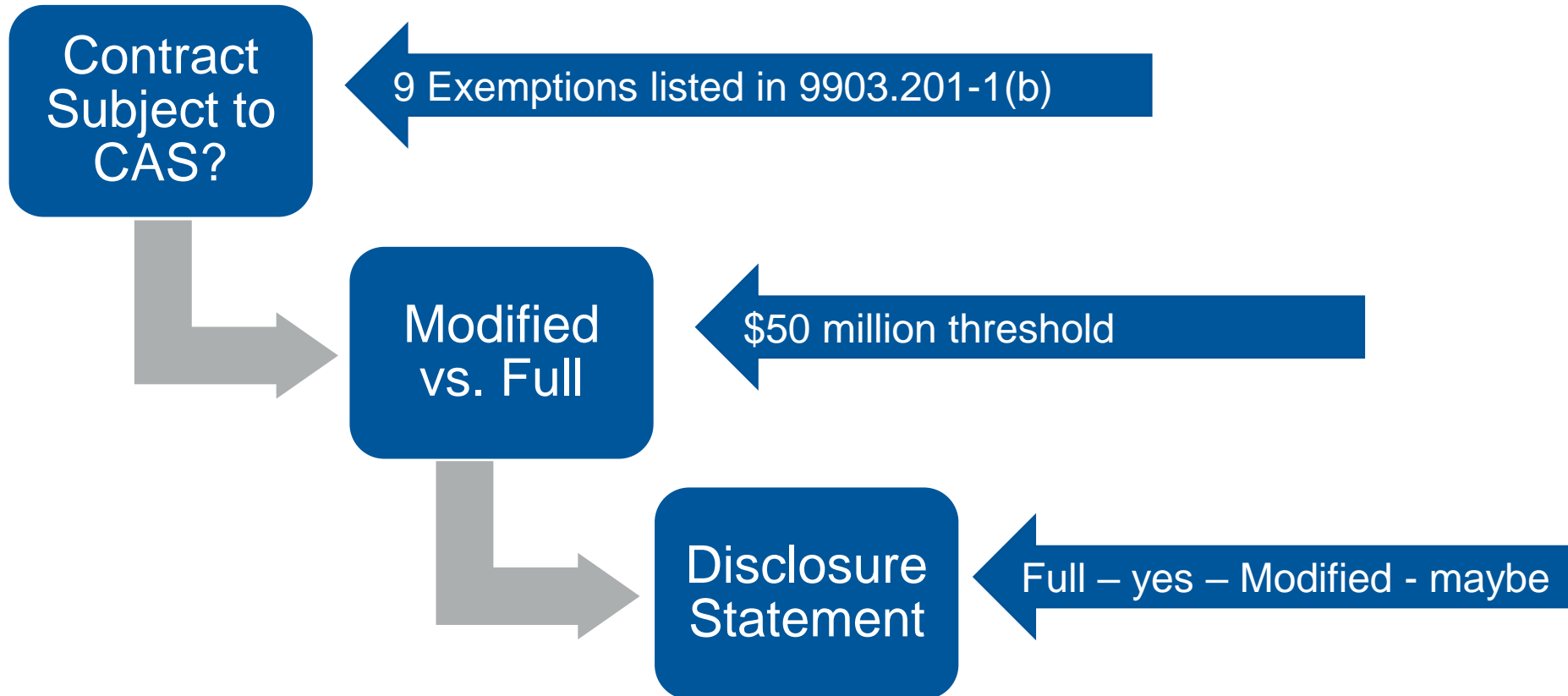


Layout of the Series



CAS in a minute!

- Contracts are subject to CAS – not contractors!



Layout of CAS the Series

- Pilot Episode – 90-minute webinar to kick off the series
- **Individual 90-minute episodes:**
 - Episode 1 – CAS Clauses, Exemptions and Full/Modified CAS
 - Episode 2 – Cost Accounting Practice Changes & Administration
 - Episode 3 – CAS 401, 402, 405 & 406
 - Episode 4 – Compensation – CAS 408, 412, 413 & 415
 - Episode 5 – Direct and Indirect Costs – CAS 418
 - Episode 6 – Home office allocations – CAS 403

Layout of CAS the Series

- Episode 7 – G&A and B&P/ IR&D – CAS 416 & 419
- Episode 8 – COM and Standard Costs – CAS 407, 414 & 417
- Episode 9 – Assets & Material – CAS 404, 409 & 411
- **Episode 10 – Insurance and CAS 419 – CAS 416 and the mystery of CAS 419**
- Episode 11 – Disclosure Statements
- Episode 12 – CAS Administration – Roles of DCMA & DCAA

The Cost Accounting Standards

- BASIC Standards
 - CAS 401: Consistency
 - CAS 402: Direct v. Indirect Costs
 - CAS 405: Unallowable Costs
 - CAS 406: Cost Accounting Period
- The Cost Allocation Standards
 - CAS 407: Standard Costs
 - CAS 414: Cost of Money
 - CAS 416: General & Administrative
 - CAS 403: Home Office expenses
 - CAS 418: Direct & Indirect
 - CAS 419: B&P and IR&D
- Asset Accounting Standards
 - CAS 404: Capitalization
 - CAS 409: Depreciation
 - CAS 417: Self Constructed Assets
- Compensation Standards
 - CAS 408: Compensated Assets
 - CAS 412 & 413: Pensions
 - CAS 415: Deferred Compensation
- **Other Standards**
 - CAS 411: Material Costs
 - **CAS 416: Insurance Costs**

The Format of the Standards

- Purpose (.20)
- Definitions (.30)
- Fundamental Requirement (.40)
- Techniques for Application (.50)
- Illustrations (.60)
- Interpretation (.61)
- Exemption (.62)
- Effective Date (.63)

CAS 416



Polling Question

What type of insurance does your firm have:

1. Purchased insurance
2. Self-insurance
3. Some purchased . . . Some self-insurance
4. No clue
5. Other



History

- CAS 416 – Accounting for Insurance Costs
 - Published September 20, 1978
 - Took effect on July 10, 1979
- Two proposed rules
- CASB thought Standard was necessary:
 - 1962 USAF Report on insurance coverage of 23 contractors
 - 1969 DCAA report on 34 contractors
 - Identified 4 specific concerns regarding insurance costs
 - Multi-year policies charged to a single year
 - Divergent practices in charging “deposit” premiums
 - Substantial reserves or funds held on behalf of contractors
 - Uncertainty on the proper recognition of costs of self-insurance

CAS 416 – Accounting for Insurance Costs

- Provides criteria for the measurement of insurance costs, the assignment of such costs to cost accounting periods, and their allocation to cost objectives

CAS 416 - Definitions

- **Actual cash value** means the cost of replacing damaged property with other property of like kind and quality in the physical condition of the property immediately prior to damage.
- **Insurance administration expenses** means the contractor's costs of administering an insurance program, e.g., the costs of operating an insurance or risk-management department, processing claims, actuarial fees, and service fee paid to insurance companies, trustees, or technical consultants.
- **Projected average loss** means the estimated long-term average loss per period for periods of comparable exposure to risk of loss.
- **Self-insurance** means the assumption or retention of the risk or loss by the contractor, whether voluntarily or involuntarily. Self-insurance includes the deductible portion of purchased insurance.
- **Self-insurance charge** means a cost which represents the projected average loss under a self-insurance plan.

CAS 416 – Fundamental Requirement

- The amount of insurance cost to be assigned to a cost accounting period is the projected average loss for that period plus insurance administration expenses in that period.
- The allocation of insurance costs to cost objectives shall be based on the beneficial or casual relationship between the insurance costs and the benefitting or causing cost objectives.

Techniques for Application – Purchased Insurance

- Projected Average Loss equals premiums paid or payments to a trustee fund . . .
 - assigned pro rata to the cost accounting periods covered by the policy term
 - refunds, dividends or additional assessments are adjustments in the earliest cost accounting period in which the refund or dividend is received or payable
 - insurance purchased specifically for, and directly allocated to, a single final cost objective, is not prorated among cost accounting periods
 - any part of a dividend or premium refund retained by an insurer or trustee which would be includable as a deposit in published financial statements is accounted for as a deposit

Techniques for Application – Self-Insurance

- For self-insurance, projected average loss:
 - Actual losses shall not become a part of insurance costs, except as provided in (a)(2)(ii) and (iii)*
 - The contractor shall make a self-insurance charge for each period representing the projected average loss for that period.
 - If insurance could be purchased against the self-insured risk, the cost of that insurance can be used as an estimate of the projected average loss
 - The self-insurance charge plus insurance administration expenses cannot exceed the cost of comparable purchased insurance
 - Actual loss experience must be evaluated regularly, and future self-insurance charges reflect experience in the same manner as purchased insurance
 - If insurance could not be purchased against the self-insured risk, the amount of the self-insurance charge for each period is based on experience, relevant industry experience, and anticipated conditions in accordance with accepted actuarial principles.

Techniques for Application – Self-Insurance

- For self-insurance, projected average loss:
 - Actual losses shall not become a part of insurance costs, except as provided in (a)(2)(ii) and (iii)*
 - (a)(2)(ii) - Where it is probable that the actual amount of losses which will occur in a cost accounting period will not differ significantly from the projected average loss for that period, the actual amount of losses in that period may be considered to represent the projected average loss for that period in lieu of a self-insurance charge.
 - (a)(2)(iii) - Under self-insurance programs for retired persons, only actual losses shall be considered to represent the projected average loss unless a reserve or fund is established in accordance with 9904.416–50(a)(1)(v).

Techniques for Application – Amount of Loss

- The amount of a loss shall be measured by:
 - The actual cash value of property destroyed,
 - Amounts paid or accrued to repair damage,
 - Amounts paid or accrued to estates and beneficiaries, and
 - Amounts paid or accrued to compensate claimants, including subrogation.
- Where the amount of a loss which is represented by a liability to a third party is uncertain, the estimate of the loss shall be the amount which would be includable as an accrued liability in financial statements prepared in accordance with generally accepted accounting principles.
- The contractor may elect to recognize immaterial amounts of self-insured losses or insurance administration expenses as part of other expense categories rather than as “insurance costs.”

CAS 416 – Techniques for Application – Allocation

- Where actual losses are recognized as an estimate of the projected average loss, a loss incurred in a given segment shall be identified with that segment.
- Insurance costs must be allocated on the basis of the factors used to determine the premium, assessment, refund, dividend, or self-insurance charge
- Insurance administration expenses which are material in relation to total insurance costs shall be allocated on the same basis as the related premium costs or self-insurance charge.

CAS 416 – Techniques for Application – Records

- The contractor shall maintain such records as may be necessary to substantiate the amounts of premiums, refunds, dividends, losses, and self-insurance charges, paid or accrued, and the measurement and allocation of insurance costs
- Memorandum records may be used to reflect any material differences between insurance costs per CAS 416 and GAAP financial statements

CAS 416 – Illustration #1

- Contractor A pays a company-wide property and casualty insurance premium for the policy term July 1, 1980, to July 1, 1983, and includes the entire amount as cost in its cost accounting period which ended December 31, 1980.
- This is a violation of CAS 416 since only one-sixth of the policy term fell within the cost accounting period which ended December 31, 1980, and therefore only one-sixth of the premium should have been included in cost in that cost accounting period.

CAS 416 – Illustration #2

- Contractor B has a retrospectively rated worker's compensation insurance program. The policy term corresponds with the contractor's cost accounting period.
- Premium refunds are normally received and applied in the following cost accounting period
- The contractor's practice is to include the entire gross premium in insurance cost in the cost accounting period in which it is paid and to credit the refund against insurance cost in the cost accounting period in which it is received
- This practice conforms with CAS 416

CAS 416 – Illustration #3

- Contractor C establishes a self-insured program of life insurance for active and retired persons.
- C pays death benefits directly to the beneficiaries of deceased employees and includes such payments in insurance costs at the time of payment.
- Complies with CAS 416 requiring that only the actual losses be recognized unless a trusteed reserve or fund is established.

Fun Facts about CAS 416

- Last CAS for this 12-Part webinar series
- *Ryan Walsh, Inc.* – Insurance methods, allocability, and assignment

The Mystery of CAS 419



History – Part I

- The Cost Accounting Standards Board on March 16, 1978 proposed five Standards to deal with the allocation of various indirect costs:
 - CAS 417 – Distinguishing Between Direct and Indirect Costs
 - CAS 418 – Allocation of Service Center Costs
 - CAS 419 – Allocation of Material-Related Overhead Costs
 - CAS 420 – Allocation of Manufacturing, Engineering, and Comparable Overhead Costs
 - CAS 421 – Allocation of Indirect Costs
- Proposed CAS 422 was issued on July 28, 1978 regarding B&P/IR&D costs.

CAS 419 – Part Deux

- The Board received letters from 86 commenters
- Based on comments and additional research performed at 10 contractor locations, the number of proposed Standards was reduced to three in the July 23, 1979 publication:
 - CAS 417 – Distinguishing Between Direct & Indirect Costs
 - CAS 418 – Allocation of Indirect Cost Pool (CAS 418 & CAS 421)
 - CAS 419 – Allocation of Overhead Costs of Productive Functions and Productive Activities (CAS 419 & CAS 420)
- On September 25, 1979 – the proposed CAS 422 for B&P/IR&D was renumbered to the now available CAS 420 spot and issued by the CASB.

CAS 419 – Issuance of CAS 418

- CAS Board received comments from 59 interested parties and three industry associations supplemented their views orally.
- After consideration of all views, the Board determined that it was appropriate to reduce the degree of specificity.
- As a consequence, the Board consolidated the three proposed Standards into CAS 418.

CAS 419 – October 5, 2000 – Part III

- A proposed Standard on Post Retirement Benefits
- CAS Board felt contractors need the flexibility to modify, reduce, or even eliminate post-retirement benefits in the future in response to the pressures of medical inflation, an aging population, and global competition.
- The CASB found that the liability for post-retirement benefits cannot be made sufficiently firm to be recognized for government cost accounting purposes without undue financial risk to both the contractor and the government.
- Therefore, the CASB decided to discontinue further development of CAS 419.

Positioning for future sessions . . .

October 31st – 2:00 Eastern . . .

Episode 11 – Disclosure Statements

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Last Chance for Some Questions

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