



CAS: The Series – Episode 1: *CAS Clauses, Exemptions and Full vs. Modified CAS*

Forvis Mazars US

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August 2024

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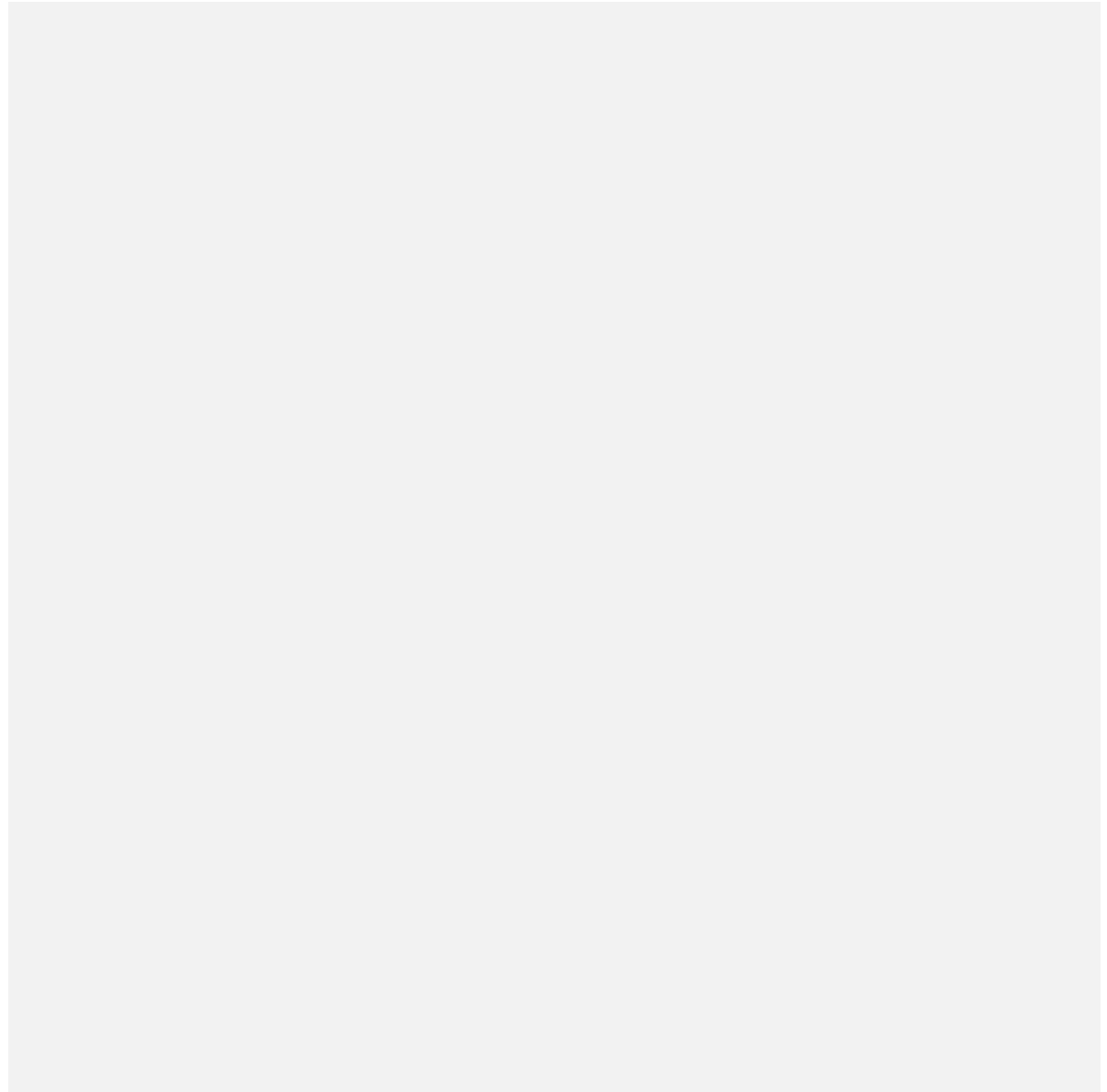


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Today's Agenda

1. Background of the CAS
2. Clauses
3. Exemptions
4. Full and Modified CAS Coverage



Polling Question

- What is your level of comfort with the CAS?
 1. CAS is new to me
 2. I have had some CAS training in the past
 3. I have worked with CAS covered contract
 4. I am comfortable discussing cost accounting practices
 5. I am an expert in CAS



Layout of the Series

Layout of CAS the Series

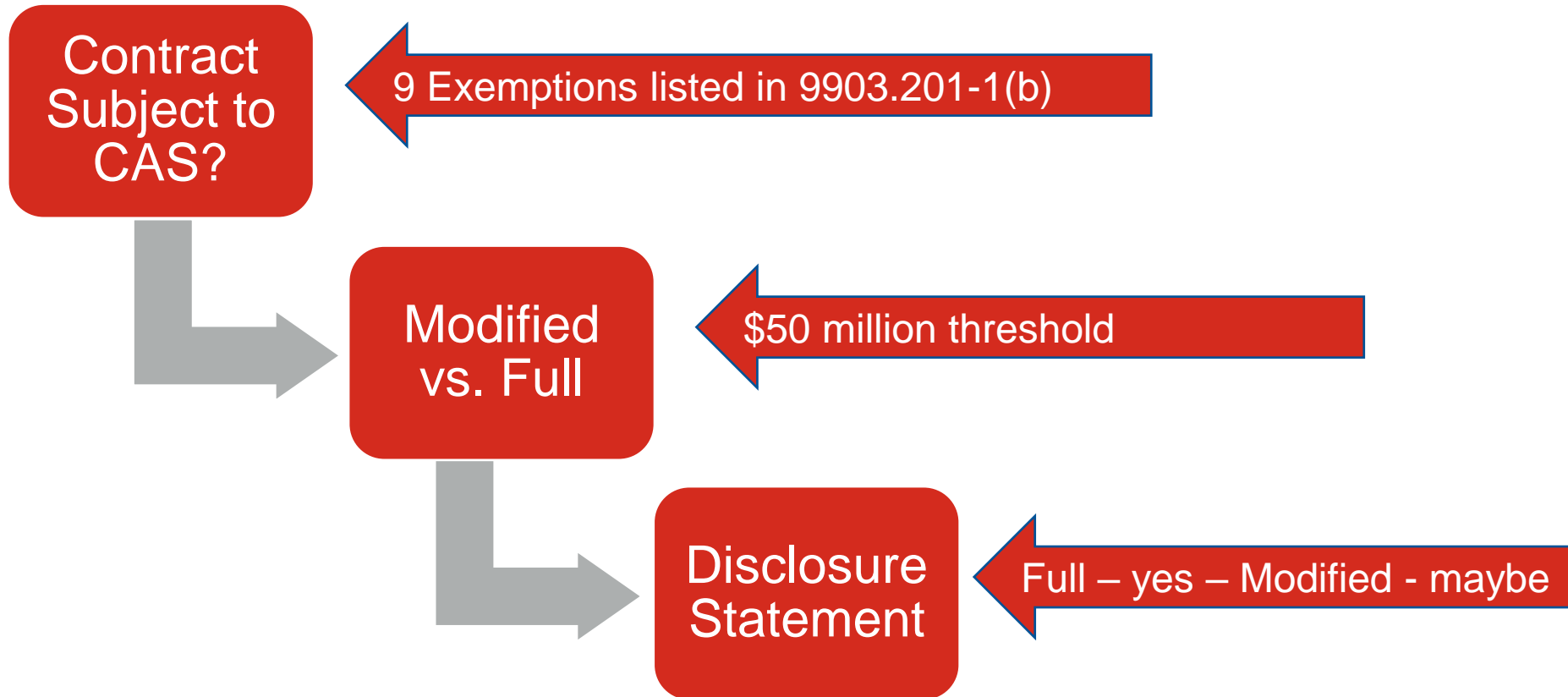
- Pilot Episode – 90-minute webinar to kick off the series
- Individual 90-minute episodes:
 - Episode 1 – CAS Clauses, Exemptions and Full/Modified CAS
 - Episode 2 – Cost Accounting Practice Changes & Administration
 - Episode 3 – CAS 401, 402, 405 & 406
 - Episode 4 – Compensation – CAS 408, 412, 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 410 & 420
- 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

CAS in a minute!

- Contracts are subject to CAS – not contractors!



The CAS Clauses

7 CAS Clauses

- 30.201-3 -- Solicitation Provisions.
 - 52.230-1, Cost Accounting Standards Notices and Certification
 - 52.230-7, Proposal Disclosure--Cost Accounting Practice Changes
- 30.201-4 -- Contract Clauses
 - 52.230-2, Cost Accounting Standards
 - 52.230-3, Disclosure and Consistency of Cost Accounting Practices
 - 52.230-4, Disclosure and Consistency of Cost Accounting Practices--Foreign Concerns
 - 52.230-6, Administration of Cost Accounting Standards
 - 52.230-5, Cost Accounting Standards -- Educational Institution

52.230-1, CAS Notices and Certification

- Disclosure Statement -- Cost Accounting Practices and Certification
 - Any contract in excess of \$2,000,000* resulting from this solicitation will be subject to CAS except for those contracts which are exempt!
 - When a Disclosure Statement must be submitted:
 - Certificate of Concurrent Submission of Disclosure Statement
 - Certificate of Previously Submitted Disclosure Statement
 - Certificate of Monetary Exemption
 - Certificate of Interim Exemption
 - Certificate of Disclosure Statement Due Date by Educational Institution
- Cost Accounting Standards -- Eligibility for Modified Contract Coverage
- Additional Cost Accounting Standards Applicable to Existing Contracts

52.230-2, Cost Accounting Standards

Full CAS Coverage . . . Unless the contract is exempt:

- Disclosure Statement
- Follow consistently cost accounting practices in accumulating and reporting cost
- Comply with all Standards:
 - In effect on the date of award of this contract (or if TINA applies, the date of final agreement on price)
 - Any new Standards that become applicable
- Agree to an equitable adjustment for changes to a cost accounting practice
- Agree to an adjustment when fail to comply with an applicable Standard, or to follow any cost accounting practice that results in increased costs paid with interest
- Permit government to examine and make copies of any documents, papers, or records relating to compliance with the requirements of this clause.
- Flowdown to subcontracts when applicable

52.230-3, Disclosure and Consistency of Cost Accounting Practices (CAP)

Modified CAS - Unless the contract is exempt:

- Comply with CAS 401, 402, 405 and 406
- Disclosure Statement if required
- Consistently follow cost accounting practices.
 - A change may be proposed and the parties agree to a change
 - Desirable changes - negotiate an equitable adjustment - no increase costs
- Agree to an adjustment fail to comply with applicable Standard to follow any cost accounting practice resulting in increased costs paid with interest
- Permit government to examine and make copies of any documents, papers, or records relating to compliance with the requirements of this clause.
- Flowdown to subcontracts when applicable.

52.230-4, Disclosure and Consistency of CAP- Foreign Concerns

Unless the contract is exempt:

- Comply with CAS 401 and 402
- Disclosure Statement if required
- Consistently follow cost accounting practices.
 - A change may be proposed and the parties agree to a change
 - Desirable changes - negotiate an equitable adjustment - no increase costs
- Agree to an adjustment fail to comply with applicable Standard to follow any cost accounting practice resulting in increased costs paid with interest
- Permit government to examine and make copies of any documents, papers, or records relating to compliance with the requirements of this clause.
- Flow down to subcontracts when applicable.

52.230-5, CAS - Educational Institutions

- OMB Uniform Guidance at 2 CFR part 200, subpart A and 20 U.S.C. 1001
- Disclosure Statement (DS-2)
- Follow consistently cost accounting practices in accumulating and reporting cost
- Comply with all Standards at 48 CFR 9905:
 - In effect on the date of award of this contract (or if TINA applies, the date of final agreement on price)
 - Any new Standards that become applicable
- Agree to an equitable adjustment for changes to a cost accounting practice
- Agree to an adjustment when fail to comply with an applicable Standard, or to follow any cost accounting practice that results in increased costs paid with interest
- Permit government to examine and make copies of any documents, papers, or records relating to compliance with the requirements of this clause.
- Flowdown to subcontracts when applicable.

52.230-6, Definitions – 1 of 3

- “Affected CAS-covered contract or subcontract”
- “Cognizant Federal agency official (CFAO)”
- “Desirable change”
- “Fixed-price contracts and subcontracts”
- “Flexibly-priced contracts and subcontracts”
- “Noncompliance”
- “Required change”
- “Unilateral change”

52.230-6, Administration of CAS - 2 of 3

- Submit a description of any cost accounting practice change
 - When submitted and dependent upon contract award – 15 days
 - Required or desirable change – 60 days
 - Voluntary change – 60 days
- Submit:
 - A general dollar magnitude (GDM) proposal
 - A detailed cost-impact (DCI) proposal
 - The data necessary to demonstrate the required cost savings
- Format includes:
 - The estimated increase or decrease by Executive agency
 - Fixed-price contracts and subcontracts
 - Flexibly-priced contracts and subcontracts.
- Noncompliances that involve cost estimates
- Noncompliances that involve accumulating costs

52.230-6, Administration of CAS - 3 of 3

- Failure to submit:
 - Withhold up to 10 percent of each subsequent payment
 - Issue a final decision in accordance with FAR 33.211 and unilaterally adjust by the estimated amount of the cost impact.
- Agree to—
 - Contract modifications to reflect adjustments required
 - Repay the Government for any aggregate increased cost paid to the Contractor.
- Subcontracts:
 - State in the body of the subcontract, in the letter of award, or in both (do not use self-deleting clauses);
 - Include the substance of this clause in all negotiated subcontracts; and
 - Within 30 days after award of the subcontract, submit information to CFAO
 - Notify the CFAO in writing of any adjustments required to subcontracts under this contract and agree to an adjustment to this contract price or estimated cost and fee.

52.230-7, Proposal Disclosure—CAP Changes

- The offeror shall check “yes” below if the contract award will result in a required or unilateral change in cost accounting practice, including unilateral changes requested to be desirable changes.
- If the offeror checked “Yes” above, the offeror shall--
 - Prepare the price proposal in response to the solicitation using the changed practice for the period of performance for which the practice will be used; and
 - Submit a description of the changed cost accounting practice to the Contracting Officer and the Cognizant Federal Agency Official as pricing support for the proposal

Polling Question

Which clause seems the most onerous?

1. 52.230-1 – CAS Notices and Certification
2. 52.230-2 – The CAS Clause
3. 52.230-3 – Disclosure & Consistency
4. 52.230-6 – CAS Administration
5. 52.230-7 – Proposal Disclosure



CAS – Exemptions

Exemptions from CAS Coverage - FAR 9903.201-1

- Sealed bid contracts
- Negotiated contracts and subcontracts not in excess of TINA threshold - currently \$2,000,000 (Orders between segments shall be treated as a subcontract)*
- Contracts and subcontracts with small businesses
- Contracts and subcontracts where the price is set by law or regulation
- Firm fixed-price and fixed price with EPA (provided the price adjustment is not based on actual costs incurred) contracts and subcontracts for the acquisition of commercial items
- Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of certified cost or pricing data**

**June 30, 2018 – prior was \$750,000*

*** February 28, 2018*

Exemptions – Trigger Contract

- Contract or subcontracts of less than \$7.5M, provided that, at the time of award, the business unit is not currently performing any CAS-covered contracts or subcontracts valued at \$7.5M or greater
 - Added June 9, 2000
 - Known as the “Trigger Contract”
 - The Board believes that the term “currently performing” is more than adequately defined in the Board’s rules at 48 CFR 9903.301.
“Currently performing”, as used in the Board’s rules, means that a contractor has been awarded a CAS-covered contract, but has not yet received notification of final acceptance of all supplies, services and data deliverable under the contract (including options).

Exemptions from CAS Coverage FAR 9903.201-1

- Subcontractors on the NATO PHM* Ship program to be performed outside the US by a foreign concern
- Contracts and subcontracts with foreign governments or their agents or instrumentalities or, insofar as the requirements of CAS other than 9904.401 and 9904.402 are concerned, any contract or subcontract awarded to a foreign concern

** Patrol Hydrofoil Missile Ship (PHM)*



CAS Waivers

- The CAS Board may waive any or all CAS requirements – upon request of an agency head
- The Head of an executive agency can waive CAS:
 - When less than \$15M and makes a written determination that the segment is primarily involved in commercial items and has no CAS covered work
 - When exceptional circumstances exist where a waiver is necessary to meet the needs of the agency

CAS Coverage for ID/IQ Contracts

- In debate since FASA authorized ID/IQ use in 1994
- Many articles and opinions – no authoritative guidance
- CASB currently considering guidance
- 1993 – CAS Board:
 - “is amending the definition of “net awards” in order to make it clear that incrementally-funded contracts and the potential value of contract options are to be included in determining a contractor’s or subcontractor’s CAS eligibility status. The Board believes that it is the value of the pricing proposal or action that gives rise to CAS applicability.”

Polling Question

How many CAS exemptions are there?

1. 2
2. 9
3. 10
4. 11
5. 15



Exercise 1 - Is the contract subject to CAS?

- ABC Co. is awarded a \$12,250,000 under FAR Part 14 sealed bidding procedures

- Is the contract subject to CAS?



Exercise 2 - Is the contract subject to CAS?

- John Smith Services Corp is awarded a negotiated contract with the Air Force valued at \$1,675,900
 - Is the contract subject to CAS?

- Follow-on question - What if the contract is modified to add \$8.3M in additional services?
 - Is the contract subject to CAS?



Exercise 3 - Is the contract subject to CAS?

- Jill's GovCon Company, LLC is awarded a competitively bid CPFF contract:

• Base Period	\$	5.5M
• Option 1		6.0M
• Option 2		7.0M
• Option 3		8.0M
• Option 4		9.0M

JGC has average revenues over the prior 3 years of \$22.4M and 132 employees

- Is the contract subject to CAS?



Exercise 4 - Is the contract subject to CAS?

- Shakespeare Industries, Ltd. Is awarded a competitive \$32.5M FFP contract to provide munitions for the F-35 program. The PCO requested data other than certified cost or pricing data to support the commercial price.
- Is the contract subject to CAS?



Exercise 5 - Is the contract subject to CAS?

- BillCo was awarded a \$7.0M FFP contract for welding services.

In 2010, BillCo was awarded a \$13.5M modified CAS covered contract which was completed last year. This was their only CAS covered contract that exceeded \$7.5M. The company is currently working on 75 other contracts subject to modified CAS.



- Is the contract subject to CAS?

Exercise 6 - Is the contract subject to CAS?

- BigCo is awarded a \$32.4M subcontract. The prime contractor, LittleCo, is a small business under FAR Part 19 that was awarded a \$250M CPAF contract subject to TINA. The PCO issued a memo stating that due to the size of the procurement, LittleCo is subject to Full CAS.
- Is the contract subject to CAS?



Exercise 7 - Is the contract subject to CAS?

- Helping Hands, a non-profit organization, is awarded a \$16.6M DoD grant to study the impact of carbon dioxide in sodas.
- Is the grant subject to CAS?



Polling Question

Is your company subject to CAS?

- Yes, we are audited by DCAA
- No, we only do subcontract work
- Bill, I think this is a trick question!



Types of CAS Coverage

FAR 52.230-2 - Full CAS coverage

- Subject to full coverage if:
 - Receive a single CAS covered contract of \$50 million or more
 - Received \$50 million in CAS covered contract awards in the preceding cost accounting period
- Disclose in writing cost accounting practices
- Follow consistently cost accounting practices
- Comply with all CAS
- Agree to an equitable adjustment for changes to cost accounting practices
- Agree to an adjustment if not in compliance with the CAS
- Flow-down to subcontractors

FAR 52.230-3 – Modified CAS coverage

- Modified CAS applies if:
 - The contract or subcontract award is less than \$50 million; and
 - the business unit received less than \$50 million in CAS awards in the preceding cost accounting period
- Comply with CAS 401, 402, 405, and 406
- File a Disclosure Statement if required
- Follow consistently cost accounting practices
- Agree to an adjustment if contractor fails to comply with the applicable CAS
- Requires flow-down to subcontractors

Changes in CAS coverage during a CAP

- If one modified CAS covered contract is awarded all CAS covered contracts of that business unit will be modified during that cost accounting period
- If a \$50 million award is received it must be full CAS covered as will all subsequent CAS covered contracts

Exercise 8 – Full or Modified CAS?

- ABC Co.'s first CAS covered contract is a base of \$5M and 4 options worth \$5M each year.
- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 9 – Full or Modified CAS?

- Bill's GovCon Company, LLC is awarded a CAS covered contract as follows:
 - Base Period \$ 8.0M
 - Option 1 9.0M
 - Option 2 9.0M
 - Option 3 10.0M
 - Option 4 11.0M
- BGC had CAS covered awards of \$49.9M in the prior year.
- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 10 – Full or Modified CAS?

- Sally's Fighter Factory, Inc. was awarded a CAS covered contract valued at \$67M.

Last year, SFFI was a small business.

- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 11a – Full or Modified CAS?

- Bill's Totally Excellent Adventure, Inc. (BTEA) was awarded the following CAS covered contracts this year with no prior CAS covered contracts:
 - January - \$37.5M
 - February - \$46.9M
 - March - \$32.2M
 - April - \$49.7M
 - June - \$765k
 - August - \$12.5M
 - September - \$36.0M
- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 11b – Full or Modified CAS?

- What if BTEA is awarded a \$2,001,000 contract on January 3rd of next year?
- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 12a – Full or Modified CAS?

- 2 years ago, Luther's Missile System Corp. received its first CAS covered contract valued at \$47M.
- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 12b – Full or Modified CAS?

- 2 years ago, Luther's Missile System Corp. received its first CAS covered contract valued at \$47M.
- Last year a modification was awarded for \$12.5M.

- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Exercise 12c – Full or Modified CAS?

- 2 years ago, Luther's Missile System Corp. received its first CAS covered contract valued at \$47M.
- Recently a modification was awarded for \$62M.

- Type of CAS Coverage?
 - Full CAS
 - Modified CAS
 - Need more information



Polling Question

What types of entities have unique CAS requirements?

1. Commercial entities
2. Educational Institutions
3. Foreign Concerns
4. Educational Institutions & Foreign Concerns
5. None of the above



Positioning for future sessions . . .

- Episode 2 – Cost Accounting Practice Changes and Administration

Contact

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Last Chance for Some Questions

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