

Incurring Cost Submissions and Audits

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Hot Topics and Recent Developments on Incurred Cost Proposals

DCAA Priorities on Incurred Cost

- Complete adequacy assessment within 60 days of receipt.
- Complete audits in one year from receipt of adequate submission.
- Contract with independent private auditors to perform a certain number of incurred cost audits.

Selected Areas of Cost Guidebook Update

- Ch. 3 – Cost of Money
- Ch. 28 – Gains and Losses on Disposition or Impairment of Property or Other Capital Assets
- Ch. 57 – Precontract Costs
- Ch. 67 – Special Tooling and Special Test Equipment
- The Selected Areas of Cost Guidebook can be accessed from the DCAA Public Website (dcaa.mil – Customers – Guidance).

Real-Time Audit of Labor and Purchase Existence and Consumption

- Revised Procedures for Real-Time Audits of Labor and Purchase Existence and Consumption.
- Mandatory annual requirement has been removed.
- Incorporate best practices and efficiencies gained during the pandemic.
- Create more flexibilities and align audit resources to appropriate risk levels.
- Flexibility in conducting real-time audits on an interval basis or at a specific point in time.
- Leveraging results from accounting system and material management accounting system audits.

Potential Updates to the ICE Model

- Streamlining ICE Model Schedules.
- Collaboration with DCMA and Industry.
- Build more efficient and flexible process.
- Remain flexible to new approaches and suggestions from DCMA and Industry.
- Still in preliminary exploratory phase.

Filing Extensions on Incurred Cost Proposals

Due Dates of Submissions

- Incurred cost claims are due six months after completion of the contractor's fiscal year end, as specified by the Allowably Cost and Payment Clause (FAR 52.216-7(d)(2)).
- If submissions are six months delinquent, DCAA will recommend a decrement factor for the Contracting Officer to make a unilateral determination (FAR 42.703-2(c)(2)).

Extension on Submission of IC Proposal

- Can DCAA Grant an Extension for Submitting Incurred Cost Proposals?
- **No.** Extensions can only be granted by the Administrative Contracting Officer (ACO).
- The Administrative Contracting Officer (ACO) may grant an extension to the 6-month period in exceptional circumstances at the request of the contractor (FAR 42.705-1(b)(1)(ii)).

How to Request an Extension

- The contractor must submit the request for an extension to ACO in writing (FAR 42.705-1(b)(1)(ii)).
- The ACO will consult with the DCAA auditor prior to making a decision on the time extension.

Contractor Submission Portal

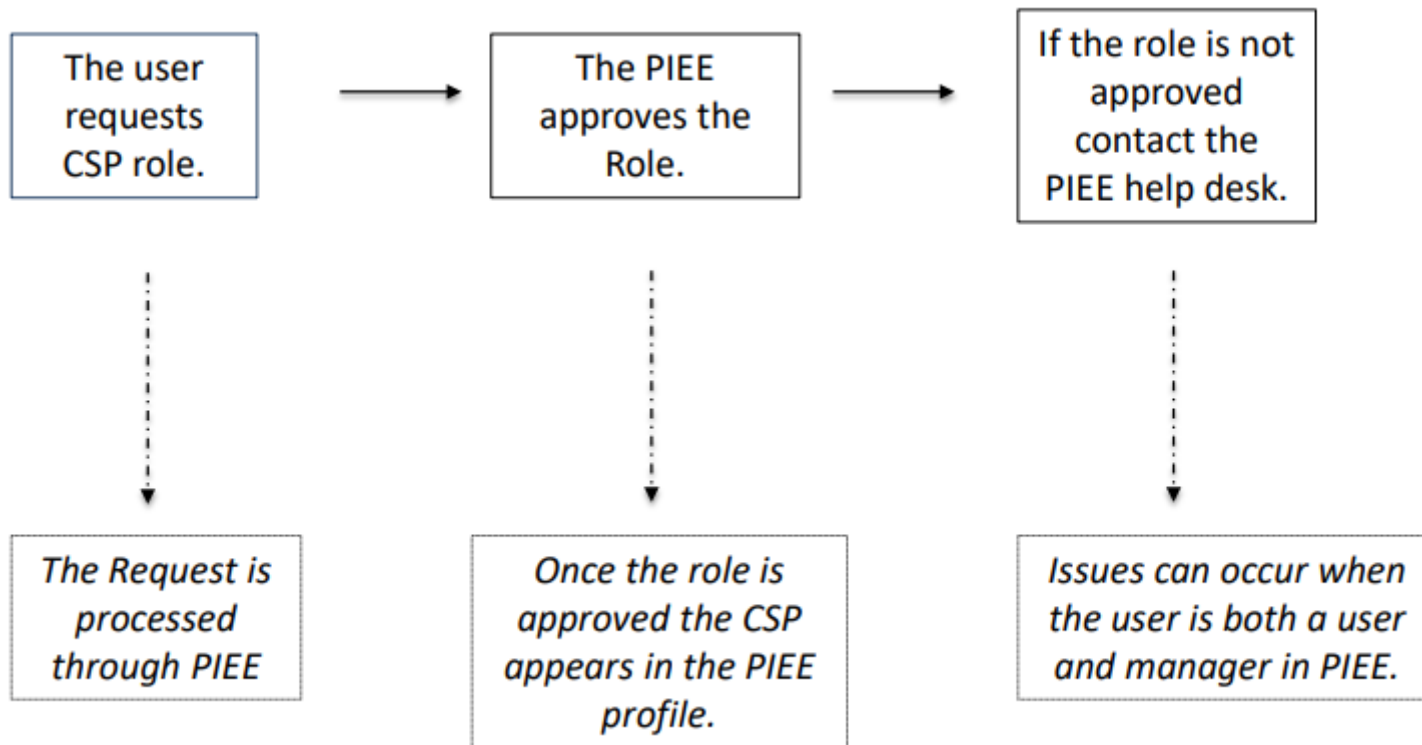
What is the CSP?

- CSP is a new online application where contractors can easily and securely submit incurred cost proposals in one place on a platform they are already using.
 - Uses the Procurement Integrated Enterprise Environment (PIEE) platform.
 - All DoD contractors that use PIEE (almost 100%), can use this new platform.

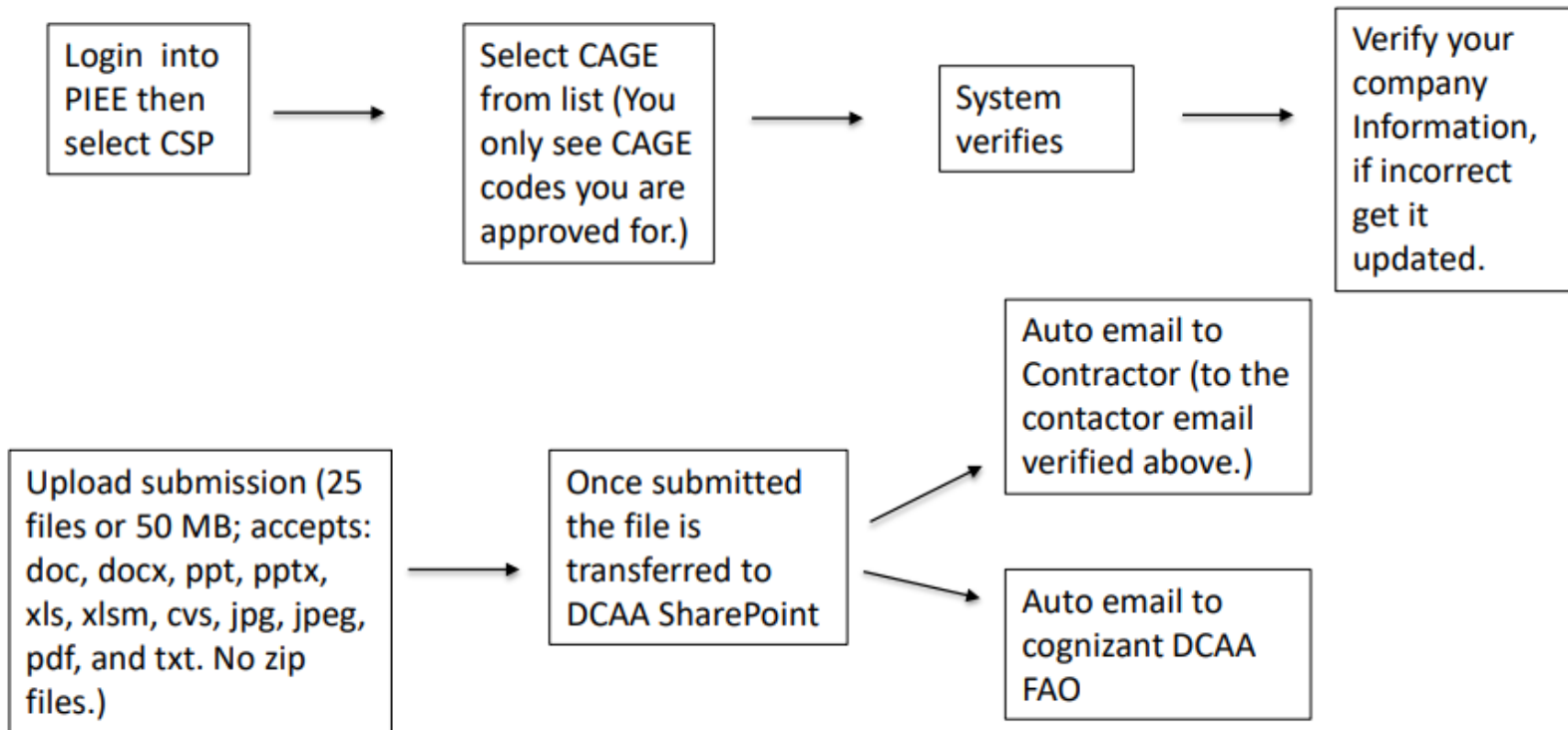
Key Benefits of CSP

- Improves a manual undefined process whereby contractors historically provided incurred cost proposals using a variety of methods (e-mail, disc, shared drives, paper, etc).
- Delineates an easy, systematic, and organized process which identifies and monitors incurred cost proposals.
- Validation of receipt to both Government and Contractor.
- Simple *online* process for initiating, updating, and withdrawing IC proposal.
- Secure application optimized to protect contractor information.
- Automated *notification* of successful submission to FAO.
- Capacity to handle large IC submissions.
- Centralized *file management* to ensure proper version control.

Gaining Access to PIEE CSP Module



Submission of ICP using CSP



Notification/Reminder Letters for CSP

- Contractor Communication
 - DCAA has established a process whereby it generates a letter to each contractor with detailed CSP guidance. The letter is issued 30 days prior to the contractor's submission due date
 - Includes guidance on enrolling into CSP.
 - Includes a comprehensive overview of the CSP portal and a user guide.

Security and Protection Offered by CSP

- CSP can only be accessed through PIEE and the approved Commercial and Government Entity (CAGE) Codes in the profile.
- PIEE approval required for access request to any new CAGE Code not within a users CSP profile.
- Data is transferred one way only (from CSP to DCAA SharePoint).
- The web browser is secure - encrypted in hypertext transfer protocol secure (HTTPS).
- If someone request a new CSP role, it is always approved by the Contractor's Administrator (CAM) (contractor employee with PIEE responsibility).
- Contractor is always aware of everyone who has access to their cage codes in CSP.

Public Vouchers

FAR 52.216-7 Allowable Cost and Payment

Clause included in cost reimbursable contracts

Invoicing

- Not more often than once every 2 weeks
- For amounts allowable
 - In accordance with FAR Subpart 31.2, and
 - Terms of this contract
- Invoice in a form and with reasonable detail as the Government may require
- Provisional billing rates for indirect costs are to be anticipated final indirect cost rates

FAR 42.704 Billing rates

- Rates may be CO determined or audit determined
- Billing rates established on info from recent review, previous rate audits or experience, or similar reliable data or experience
- Billing rates to be as close as possible to FY final anticipated rates
- Detailed billing rate proposal not required for smaller contractors, rates may be established by adjusting for prior experience to
 - Eliminate unallowable and nonrecurring costs
 - Reflect new or changed conditions
- Established billing rates may be prospectively or retroactively revised by mutual agreement
 - At either party's request,
 - To prevent substantial overpayment or underpayment
- Billing rates unilaterally determined by CO if agreement cannot be reached

Audit Program - Establishment of Provisional Billing Rates

- Notify contractor of audit efforts
- Math check
- Nomenclature review for unallowable costs
- Comparative analysis of current and prior FY indirect costs and bases
- Review perm file for relevant info
 - Anticipated volume changes
 - Accounting practice or organizational changes
 - Policy and procedure changes
 - Prior audit questioned costs
- Comparison of current and prior FY provisional rates

FAR 52.216-7 Allowable Cost and Payment

The amounts included in the voucher should include only:

- Recorded costs that have been paid for items or services purchased directly for the contract
- Costs incurred, but not necessarily paid, for
 - Supplies and services purchased directly for the contract and associated financing payments to subcontractors where payments due will be made
 - In accordance with the terms and conditions of a subcontract or invoice
 - Ordinarily within 30 days of the submission of the payment request to the Government
 - Materials issued from inventory and placed in the production process for use on the contract
 - Direct labor
 - Direct travel
 - Other direct in-house costs
- Financing payments that have been paid to subcontractors
- Properly allocable and allowable indirect costs, as shown in the accounting records

FAR 52.216-7 Allowable Cost and Payment

Final contract costs and indirect rates

- Rate true-ups within 60 days after settlement of final indirect cost rates for any FY
 - Billings on all contracts to reflect the final settled rates, and
 - Contractor update of the schedule of cumulative direct and indirect costs claimed and billed
- Completion invoices or vouchers are to be submitted
 - Within 120 days (longer period may be authorized)
 - After settlement of the final annual indirect cost rates
 - For all years of a physically complete contract

Final Vouchers

Schedule I, Cumulative Direct and Indirect Costs claimed and billed

- Summary schedule of cumulative allowable contractor costs for each open flexibly priced contract through the last CFY with settled rates
- Preferably in contractor prepared electronic form
- Contractor may
 - Include CACWS with its indirect cost rate proposal using claimed rates, updated after settlement of rates, or
 - Agree to provide a CACWS within 60 days of rate agreement
- ACO should have sufficient data to approve final vouchers to close contracts without requiring further assistance from DCAA
- DCAA will provide additional support upon ACO request

Progress Payments Based on Costs

FAR 52.232-16 Progress Payments Based On Costs

- Contract Financing for fixed price contract
 - Progress payment amount to equal
 - 80 percent of total cumulative costs incurred
 - Plus financing payments to subcontractors
 - Less the sum of all previous progress payments
- Eligible costs and exclusions
- Unliquidated progress payment and other limitations
- Reduction, suspension, or liquidation rate increase
- Title, risk of loss
- Accounting system and controls, reports, forms and access to records
- Default terms
- Subcontract financing

DCAA Audit Program Progress Payments Based On Costs

- Purpose of Audit
 - Verify the amounts claimed on SF 1443 to accounting books and records and
 - Evaluate the propriety of the progress payment request in accordance with the provisions of the contract
- Preliminary Steps
 - Compare contract price and liquidation rates to contract/mods T&Cs
 - Check math and logical form relationships
 - Apply loss ratio factor if in loss position
 - Assess procedures for monitoring sub progress payments
 - Assess work done regarding ETC/EAC

DCAA Audit Program Progress Payments Based On Costs

- Review eligibility of costs
 - Costs have been incurred or paid timely
 - Direct costs reconcile to books
 - Indirect costs on approved billing rates or forward pricing rates
 - Sub/vendor payments paid or will be paid per sub T&Cs and within 30 days of PP request
- ETC
 - Verify it is no more than 6 mos old
 - Evaluate reasonableness of ETC/EAC
 - Compare ETC/EAC used for billing with those used for financial statements
 - Review and compare ETC/EAC used for billing with EVMS related reports
- Loss Adjustment
 - If $EAC > \text{contract price}$, USG to compute loss ratio factor and adjust future propays to exclude element of loss

DCAA Audit Program Progress Payments Based On Costs

Other areas

- Determine progress payment is based on currently posted accounting records, and if not, recommend
 - Withhold
 - System disapproval
- Verify the price of delivered/invoiced items to the contractor's DD Form 250
- When the cost of items delivered is based on projected unit costs, compare it to the contract price of these items
- Compare total Amount Liquidated and to be liquidated to contractor's accounting records (contra accounts or schedules)
- Perform Fair Value test to determine if unliquidated progress payments exceed the fair value of the work accomplished on the undelivered portion of the contract

DCAA Audit Program Progress Payments Based On Costs

Other Areas

- Test controls related to billing reconciliations and if evidence of overpayments, controls for timely notification to CO and paying office
- Verify propriety of use of alternate liquidation rate
- Subcontractor Progress Payments
 - Verify the amounts claimed for subcontractor financing to accounting books and records.
 - Determine if procedures for analyzing subcontractor progress payment requests and for liquidating progress payments on subcontractor deliveries protect the Government's interest

Concluding Steps

- Significant procedural or control deficiencies or CAS/FAR noncompliances cited in this report and also reported separately
- If a material weakness or significant internal control deficiency is identified, open a Business System Deficiency assignment

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