




Information Assurance Small Business Association (IASBA)

DCAA Audits and Small Businesses

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DCAA has a "**new attitude**" and a more prominent role in the procurement process. The Agency is staffing up, and they have changed their priorities. Small businesses are particularly at risk for adverse findings, and the impact can be dramatic. Join us for a one hour discussion including a recap of audit exposure for small businesses and a review of some new developments in FAR compliance.

Topics

- When does cost compliance start?
- What triggers a DCAA audit of a SB?
- What are the most common audits of SB?
- What is an "Adequate" accounting system?
- What is needed to support proposed indirect rates?
- Are there thresholds for Small Business compliance?



When does cost compliance start?

Cost accounting requirements and audit risk are triggered by:

- Cost vs. Price Proposal – Was cost accounting data submitted? If yes, was it certified?
- FAR clauses – What FAR clauses are in the RFP and in the contract?

When does cost compliance start?

Three broad “types” of Cost/Price proposals:

- FP or T&M proposal contains only prices (no cost data submitted)
- Some form of cost data is submitted in proposal, regardless of contract type
- “Certified cost or pricing data” is submitted, regardless of contract type



When does cost compliance start?

Certain FAR clauses for cost accounting are by contract type:

- Firm Fixed Price contract – FP payments clause.

When does cost compliance start?

Certain FAR clauses for cost accounting are by contract type:

- Time & Materials contract for commercial item –T&M proposal commercial item clause, T&M payments clause.

When does cost compliance start?

Certain FAR clauses for cost accounting, determined by contract type:

- Time & Materials contract for non-commercial items –T&M proposal non-commercial item with adequate competition, T&M payments clause, or
- T&M Proposal Non-Commercial item without Adequate Competition item, T&M payments clause.



When does cost compliance start?

Certain FAR clauses for cost accounting by contract type:

- Cost Reimbursement contracts – Allowable Costs and Payments clause.



When does cost compliance start?

Lowest level of cost accounting:

- FP, no cost data submitted
- Must have contract billings and receipt of payment capability only.



When does cost compliance start?

Low level of cost accounting:

- Commercial item T&M, no costs data proposed submitted or billed
- Must have timekeeping, job cost ledger with hours by person by labor category by job, material usage by job, contract billing and receipt of payment.

When does cost compliance start?

Medium level of cost accounting:

- Non-commercial item T&M with cost data
- Same as T&M commercial item PLUS
- Support for proposed costs, plus
- **Might** be required to have “Adequate” accounting system.



When does cost compliance start?

High level of cost accounting:

- Cost Reimbursement contract
- Support for proposed costs, plus
- Must have “Adequate” accounting system, plus ...



When does cost compliance start?

Highest level of cost accounting:

- Certified cost or pricing data submitted
- CAS covered contracts



What triggers a DCAA audit of a Small Business?

Common audit triggers:

- Submission of DOD* contract proposal with cost data (certified or uncertified)
- Cost Reimbursement DOD* contract
- Prime contractor request CO to initiate assist audit of subcontractor
- Submission of annual ICS


* Or civilian agency that uses DCAA.



What triggers a DCAA audit of a Small Business?


Other possible audit triggers:

- Rejection or other problem with contract invoices
- REA, Termination, or contract modification requires cost data submission
- Adverse event on another contract
- Adverse event at your prime contractor
- Civilian Agency policy change to use DCAA



What are the most common audits of SB?


- Accounting System
- Proposal - Cost Realism
- Financial Capability
- Estimating System
- Labor charging/timekeeping
- Defective pricing



What is an "Adequate" accounting system?

Includes much more than accounting software:


- Written policies & procedures (P&P), COI, Business Ethics
- Timekeeping systems for employees, consultants and subcontractors
- Compliant accounting practices
- Purchasing and “vendor management”
- Contract billings review/approval process
- Consistent application of above practices
- Employee training
- Cost estimating/pricing controls
- Monitoring and improvement all of the above



What is an "Adequate" accounting system?

Minimum capabilities of accounting software:

- Clear and consistent distinction between direct vs. indirect costs
- Direct costs accumulated in job cost ledger
- Recording of all employees' time by job/activity and labor category
- Identify and segregate unallowable costs
- Indirect costs accumulated into logical groupings (pools)
- Allocate intermediate service centers
- Calculate/apply indirect rates



What is an "Acceptable" accounting system?

Full Absorption Job Cost Ledger:

- Direct and indirect costs by job
- Full cost details (names, hours, dates)
- Costs recorded by “cost objective”
- Able to roll up costs to higher WBS levels
- Able to apply/reapply rates by time period
- Recognizes contract type, funding limits, start/end dates
- Applies labor rates for each T&M
- Job cost reconciled to GL
- Recognizes non-billable costs



What is needed to support proposed indirect rates?

- Historical rates, trend data, and projected data
- Proposals - Multi-year projections for full contract period
- NICRA/FPRA - Minimum of 2 years supported by company budgets & sales projections
- First projected year must be supported by detailed analysis
- Subsequent years may be calculated using extrapolations
- Assumptions and methodology explained



What is needed to support proposed indirect rates?

DCAA Guidance:

- “Criteria for Adequate contractor Pricing Proposals” ADEQUACY.DOC, Version 3.2, April 2010.
- “Audit Alert Related to Budgetary Data supporting Forward Pricing Proposals” MRD #10-PSP-021, August 24, 2010
- www.DCAA.mil



Are there thresholds for Small Business compliance as of 10/1/2010?

- FAR 31.2 Cost Principles – No threshold, full compliance required whenever applicable
- Micro-purchase threshold - \$3k
- Inclusion of FAR 52.204-10 Reporting Executive Compensation and Subcontract Awards - \$25k
- Subcontractor threshold for reporting executive compensation – 80% of revenue totaling at least \$25M are government funded. Phased in: 10/1/2010 to 2/28/2011 for prime contract of \$500k or more, afterwards for all prime contracts over \$25k.



Are there thresholds for Small Business compliance as of 10/1/2010?

- Progress payments for SDB - \$65k
- Simplified Acquisition threshold - \$150k
- Defective Pricing/TINA - \$700k
- Publicizing contract actions, limitation on contract consolidations - \$6.5M
- Cost Accounting Standards, modified coverage – SB exempt, otherwise \$650k
- Cost Accounting Standards, full coverage – SB exempt, otherwise \$50M
- Executive Compensation GFY 2010 = \$693,951.
GFY 2011 = TBD.

FAR Clause References

- Firm Fixed Price contract – payments 52.232-1 or -2 or -5 or -10.
- Time & Materials payments 52.232-7,
- T&M Proposal Commercial item 52.216-31,
- T&M Proposal Non-Commercial item with Adequate Competition 52.216-29
- T&M Proposal Non-Commercial item without Adequate Competition item 52.216-30,
- Allowable Cost & Payments 52.216-7

Questions?

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