Are You Looking to Sell Your Products & Services to the US Government?

What You Need to Know About Accounting, Compliance, and Reporting!

- The US Government is the largest consumer of goods and services in the World
- The US Government purchases both commercial and non-commercial items
  - Commercial Items are based on commercial prices
  - Non-Commercial Item prices are based on cost
- Highly regulated business environment with extensive oversight
- Numerous opportunities to expand your business, but you must ENTER WITH CAUTION!

- Federal Acquisition Regulations (FAR)
- Individual agency supplements (i.e., DFARS)
- Cost Accounting Standards (CAS)
- Truth-in-Negotiations Act (TINA)
- Generally Accepted Accounting Principles (GAAP)
- Contract terms and conditions

- **The FAR:**
  - FAR is "umbrella" procurement regulations.
  - Each agency can develop its own supplement to the FAR.
- **Key FAR sections:**
  - Contractor Qualifications (FAR Part 9) – Are you Financially Capable?
  - Contracting by Negotiation (FAR Part 15) – Can you support your prices with adequate and accurate cost accounting data?
  - Cost Accounting Standards (FAR Part 30) – Applicability depends on contract size
  - Cost Principles (FAR Part 31) – Applicable to any negotiated procurement
  - Contract Management (FAR Part 42) – Governs Contract Officer & ACO responsibilities in monitoring contractors
  - Contract Clauses (FAR Part 52) – Terms & Conditions of the Contract

- **FAR Part 12's Preference For Commercial Items:**
  - Conduct market research to determine whether commercial items are available that meet the Government's requirements.
  - Acquire commercial items when they are available to meet the Government's needs.
  - Require prime contractors and subcontractors to incorporate, commercial items as components of items supplied to the Government to the maximum extent practicable.
- **Commercial Item Acquisition allows for Streamlined Procurement & Contract Administration.**

- **What Is A Commercial Item?**
  - Sold, Leased, or Licensed To The General Public.
  - Offered For Sale, Lease Or License To The General Public.
  - Standard Modifications Available In The Commercial Marketplace.
  - Minor Non-Standard Modifications.
  - Some Types Of Services.
  - Some Types of Non-Developmental Items.

- The General Services Administration provides numerous schedules where contractors can list goods and services that they sell commercially for sale to the government
- Streamlined acquisition capability
- Prices are publicly listed on schedules for the goods & services
  - Remember, the government must always be the most favored customer……if they don't get the best price it can cost you!
- Any company can apply for a GSA Schedule as long as you have price history of sales in the commercial marketplace
- The application process can take several months – Remember you are trying to do business w/ the US Government so its not going to be easy

- **Applies to all awards in which negotiation process takes place as basis for award**
  - **Essentially everything that is NOT a commercial Item**
- **Addresses solicitation and source selection.**
- **Establishes requirements for obtaining cost or pricing or other cost information.**
- **Addresses cost and price analysis techniques.**
- **Provides 15.408, Table 15-2, which details the contractor's responsibility when preparing proposals that require the submission of certified cost and pricing data**.

FFP (FAR 16.2)

- **Firm Fixed Price (FFP)**
- **Fixed Price Incentive Fee (FPIF)**
- **Fixed Price w/ Economic Price Adjustment (FP/EPA)**
- **Fixed Price Level of Effort Contract (FP-LOE)**

Cost Plus (16.3)

- **Cost Plus Fixed Fee**
- **Cost Plus Award Fee**
- **Cost Plus Incentive Fee**
- **Cost Sharing**

Other Types

- **FAR 16.4—Incentive Contracts**
- **FAR 16.5—Indefinite Delivery Contracts**
- **FAR 16.6—Time & Materials, Labor Hour and Letter Contracts**

Gov't Risk

- CPFF/LOE (preliminary studies and R&D)
- CPFF (preliminary exploration or study)
- CPAF (use if difficult to *objectively* measure work)
- CPIF (prototyping and initial production)
- FFP/LOE (specific research or investigation)
- Time & Materials (cannot predict extent or duration)
- Cost and Cost Sharing (commercial opportunities)
- FPIF (initial production)
- FFP w/EPA (cost variations expected)
- FFP (commercial items, low *performance* risk)

Contractor Risk

- All negotiated contracts are subject to the cost principals of FAR part 31
  - 52 specific cost principles governing allowable and unallowable costs
- Certain contracts may be subject to the 19 Cost Accounting Standards
  - CAS actually trumps GAAP if you are subject to CAS
  - Numerous exemptions to CAS, including any contract awarded to a Small Business

48 CFR Chapter 99 Cost Accounting Standards:

- **Establishes requirements for contractors in accounting for costs passed on to Government contracts.**
- **Individual standards setting forth how direct and indirect costs should be accounted for:**
  - **Measurement.**
  - **Assignment.**
  - **Allocation.**
- **Identifies:**
  - **CAS Applicability.**
  - **Disclosure statement requirements.**
  - **Changes in cost accounting practices, etc.**

- CAS coverage is determined on a contract by contract basis.
- Two types of coverage:
  - Full CAS coverage.
  - Modified CAS coverage.
- Applicability and type of coverage will drive cost accounting system requirements.
- Remember, CAS trumps FAR Part 31 in regulatory authority for having acceptable cost accounting practices.
- CAS is comprised of 19 individual cost accounting standards
  - Modified CAS covered contracts subject to 4 stds (401,402,405, & 406)
  - Fully CAS covered contracts are subject to all 19 standards

Establish boundaries and parameters regarding allowable costs that can be negotiated and/or claimed under government contracts or subcontracts.

Criteria for determining allowability—must comply with all of the following:

- Reasonableness
- Allocability
- Cost Accounting Standards (CAS), if applicable
- GAAP if CAS does not apply
- Contract terms and conditions
- FAR 31.205 selected cost restrictions ("allowable")
- Company policies to the extent more restrictive than FAR Part 31

- It is contractor's responsibility to properly support proposed or billed costs to demonstrate:
  - Costs were incurred
  - Are allocable
  - Comply with cost principles (i.e. allowable)
- The contracting officer may disallow all or part of a claimed cost that is inadequately supported--failure to have adequate documentation to substantiate allowability may result in disallowance of costs

Types of Unallowable Costs

- Lobbying & political activities
- Public relations and corporate enhancement (advertising)
- Bad debts
- Contributions and donations
- Alcoholic beverages
- Entertainment and recreational activities
- Interest and other financial costs
- Contingencies for historical costing purposes
- Fines and penalties
- Memberships to social clubs
- Goodwill
- Certain legal proceedings
- Asset write-ups
- Losses on other contracts
- Mergers & acquisitions
- Federal income & excess profit taxes

- Contractors must be able to segregate direct costs BY Project in their accounting systems, BY cost element
  - Direct Labor
  - Direct Materials
  - Direct Subcontractors
  - Other Direct Costs (i.e. travel, consultants, etc)
- Direct Labor is identified and tracked through the use of timesheets, which are required and "highly" scrutinized

- Contractors must be able to capture indirect expenses in homogenous cost pools and allocate them to final cost objectives using a causal beneficial relationship, i.e.
  - The direct projects receiving allocations of cost must receive a benefit from that cost
- Contractors typically establish fringe, overhead, and G&A pools that allocate to final cost objectives
- This cost allocation methodology yields "full cost absorption", meaning that all allowable costs are allocated to projects

- Non-commercial FFP contracts are often subject to audit during the pre-award (proposal) phase
- T&M and Cost Reimbursement contracts are subject to audit in both the pre-award, during execution, and after contract completion
- Audits are performed typically by the Defense Contract Audit Agency (DCAA), but may be performed by individual agency representatives

- In addition to individual cost requirements, contractor systems are also subject to audit. This includes:
  - Accounting System
  - Estimating System
  - Billing System
  - Timekeeping System
  - Purchasing System
  - Other Systems as Necessary

- Doing business with the government can not only be profitable (if you do it right), but also generate backlog and cash flow for years (contracts can last 5+ years) to offer stability
- The requirements for success, however, are arduous and the regulation is extensive
- The good news – The Government is not going to stop spending money
- The bad news – In order to successfully win contracts and maintain compliance, contractors must invest in their own infrastructure

Website (http://www._____)	Description
DCMA.mil	Contract Administration Information (limited)
DCAA.mil	Open Audit Guidance, Standard Audit Programs & Publication, "Information for Contractors"
Recovery.gov Federalreporting.gov	ARRA Information
GAO.gov	GAO Reports
Access.gpo.gov/su-docs/aces/aces140.html	Federal Register
FBO.gov	Fed Biz Opps website, where all RFQs and RFP opportunities are listed
Acquisition.gov	Links to FAR and other Agency specific regulations
Capedgeconsulting.com	Website and Blog covering Govcon issues

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