

DHS SBIR Phase 0 Assistance



Goals and Objectives

- Introduction to government contract/grant accounting rules and techniques.
- Examine contract types
- Identify regulatory thread
- Examine accounting structures for costs
- Review allowable/unallowable costs
- Highlight exposure to audit



The Big Why

Contract Types

Firm-Fixed Price (FFP) (Lump Sum)

- Known objectives, schedule
- Product oriented

Cost Plus Fixed Fee (CPFF)

- Research & Development, high risk
- Stretch goals, prototype
- Pre-award Surveys

Indefinite Delivery, Indefinite Quantity

- Time & Material, Labor-Hour

Government Contract Accounting

DHS Solicitation

Paragraph 5.1 Awards

A firm-fixed price (FFP) contract will be awarded for all Phase I awards. Phase II contracts will be awarded as a cost-plus fixed-fee (CPFF) contract. In accordance with FAR 16.301-3, to award a CPFF contract, Offerors must have an accounting system that is adequate for determining cost applicable to the contract.

What is the FAR?

- The Federal Acquisition Regulations (FAR) is created and maintained by three organizations:
 - **Department of Defense (DoD)**
 - **General Services Administration (GSA)**
 - **National Aeronautics and Space Administration (NASA)**
- Under the authority of the Office of Federal Procurement Policy and the Office of Management and Budget (OMB)

Government Contract Accounting

FAR Clauses

- **FAR 16.301-3 (a)(4)** Prior to award of the contract or order, adequate Government resources are available to award and manage a contract other than firm-fixed-priced. This includes appropriate Government surveillance during performance in accordance with [1.602-2](#), to provide reasonable assurance that efficient methods and effective cost controls are used.
- **FAR 9.104-1(e)** To be determined responsible, a prospective contractor must have the necessary organization, experience, **accounting**, and operational controls, and technical skills, or the ability to obtain them
- **FAR 9.105-1(a)** Before making a determination of responsibility, the contracting officer shall possess or obtain information sufficient to be satisfied that a prospective contractor currently meets the applicable standards in [9.104](#).
- **FAR 9.106-4(a)** The surveying activity shall complete the applicable parts of [SF 1403](#), Preaward Survey of Prospective Contractor (General); ... and [SF 1408](#), **Preaward Survey of Prospective Contractor-Accounting System**

Government Accounting



Government accounting and corporate accounting serve different purposes

Corporations Purpose: Provide useful information to Investors, creditors and management

Government Accounting: Designed to ensure accountability and transparency in the management of public funds.




Requirements

Used in evaluating the adequacy of your accounting system

- Proper segregation of direct costs from indirect costs.
- Identification & accumulation of direct costs by contract.
- Logical & consistent method for allocating indirect costs.
- Accumulation of costs under general ledger control.
- A timekeeping system.
- A labor distribution system charging direct and indirect labor appropriately.
- Interim determination of costs charged to a contract.
- Exclusion of unallowable costs.
- Identification of cost by contract line item.
- Segregation of preproduction from production costs.

Accounting course on SBA site

<https://legacy.www.sbir.gov/tutorials/accounting-finance/>



COURSE 8
ACCOUNTING AND FINANCE

Accounting System Requirements – the objectives of this course are to educate the firm on the requirements that must be met in order to have an accounting system approved for the receipt of a cost reimbursement contract or a fixed price contract that involves progress payments.

[← Back to Courses](#)

TUTORIALS

- 01** [FREQUENTLY ASKED QUESTIONS REGARDING BUDGETING BASICS](#) >
- 02** [WHAT ARE THE REQUIREMENTS OF AN APPROVED ACCOUNTING SYSTEM?](#) >
- 03** [WHAT ARE INDIRECT RATES AND HOW DO I DEVELOP THEM?](#) >
- 04** [WHAT ARE ELIGIBLE AND INELIGIBLE EXPENSES?](#) >
- 05** [THE ROLES OF DCMA AND DCAA WITH DEPARTMENT OF DEFENSE AWARDS](#) >
- 06** [AN OVERVIEW OF AUDITS FOR DOD SBIR/STTR AWARDEES](#) >
- 07** [INCURRED COST PROPOSALS AND AUDITS](#) >
- 08** [HOW TO PREPARE FOR A SUCCESSFUL DCAA AUDIT](#) >

Prepared by Reliascent and Dawnbreaker

Government Contract Accounting

Enabling FAR Clauses

52.216-7 FAR Clauses:

52.216-7 Allowable Cost and Payment

– (d) Final indirect cost rates.

(1) Final annual indirect cost rates and the appropriate bases shall be established in accordance with [Subpart 42.7](#) of the Federal Acquisition Regulation (FAR) in effect for the period covered by the indirect cost rate proposal.



Costs Defined – FAR Part 31 Citations



- Direct Costs, 31.202
- Indirect Costs, 31.203
- Allowability, 31.201-2, -6
- Allocability, 31.201-4
- Cost Principles, 31.205-1 thru 52



Government Contract Accounting

Enabling FAR Clauses

52.216-7 FAR Clauses:

- 52.242-04 Certification of Final Indirect Costs
- Penalties/Remedies for not following FAR allowability rules:
 - The unallowable amount x2
 - Interest
 - Indicator of fraud



Costs Defined



- **Final Cost Objective**

A cost objective that has allocated to it both **direct and indirect costs** and, in the contractor's accumulation system, is one of the final accumulation points (Job Cost Journal)

- **Unallowable Costs (31.201-6)**

“Any cost which under the provisions of any pertinent law, regulation or contract, cannot be included in prices, cost reimbursements, or settlements under a government contract to which it is allocable

Direct vs Indirect Costs

- **Direct Costs (31.202)**

“Any cost that can be identified specifically with a particular final cost objective (contract, task order)”

- **Indirect Costs (31.203)**

“Any costs not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective”



Indirect Costs



- Allocation in accordance with cost accounting standards (CAS), if applicable to the contract, otherwise in accordance with generally accepted accounting principle (**GAAP**) consistently applied
- Period for allocating indirect costs is the accounting period (**normally contractor fiscal year**) during which costs were incurred

Cost Allowability

31.201-3 Determining Reasonableness

- (a) A cost is reasonable if ... it does not exceed that which would be incurred by a prudent person in the conduct of competitive business.
- No presumption of reasonableness shall be attached to the incurrence of costs by a contractor.
- (b) Tests for reasonableness



Cost Allowability



31.205 Selected Costs

- 31.205-6, Compensation for personal services
- 31.205-13, Employee morale, health, welfare, food service, and dormitory costs and credits
- 31.205-14, Entertainment costs
- 31.205-26, Material costs
- 31.205-30, Patent costs
- 31.205-33, Professional and consultant service costs
- 31.205-46, Travel costs

Unallowable Costs

- **Entertainment:** Meals, sporting events
- **Bad Debt:** Losses from uncollectable accounts
- **Fines and penalties:** Legal costs incurred
- **Interest:** Costs associated with borrowing money
- **Political contributions:** Donations to political campaigns

Elements of a Compliant System



- Structured Chart of Accounts (Income Statement)
- Accrual vs cash method
- Generally Accepted Accounting Principles (GAAP) compliant, tax compliant
- Need to accumulate all costs (direct, indirect, unallowable)
- Accumulate in the same methods as estimated

Elements of a Compliant System

- Produce a subsidiary job cost journal
- Calculate indirect rates monthly (Year-to-date)
- Support cost billings
- Internal controls, segregation of duties
- **Written procedures**
- **Adequate timekeeping system**
- Efficient reporting



Timekeeping



- Timekeeping not in FAR
- It's an allocation and control issue
- Inspector General (IG) considers labor high risk area
- Self-certifying, company certifies



Labor Distribution

- Collect hours (timekeeping)
- Dollarize the hours (each pay period)
- Distribute dollars to the P&L (post)
- Manual vs automated systems
- Cultural shock
- Exposed to scrutiny from DCAA/DHS



Thank you!

- Thanks for joining us today!
- Please provide your feedback on today's webinar

<https://forms.office.com/r/uvHuZWS5x4>

Phase 0 Program

Department of Homeland Security SBIR Applicants



FAR Back-up slides

Government Contract Accounting

Enabling FAR Clauses

16.307 Contract Clauses

- (a)(1) The contracting officer shall insert the clause at [52.216-7](#), Allowable Cost and Payment, in solicitations and contracts when a **cost-reimbursement contract** or a **time-and-materials contract** (other than a contract for a commercial item) is contemplated.



Government Contract Accounting

Enabling FAR Clauses

52.216-7 FAR Clauses:

52.216-07 Allowable Cost and Payment

- (a) Invoicing

(1) The Government will make payments to the Contractor ... in amounts determined to be allowable ... in accordance with Federal Acquisition Regulation (FAR) [Subpart 31.2](#) ...



Government Contract Accounting

Enabling FAR Clauses

52.216-7 FAR Clauses:

- 52.216-07 Allowable Cost and Payment
 - (b) Reimbursing costs.
- Materials issued from the Contractor's inventory and placed in the production process for use on the contract
- Direct labor
- Direct travel
- Other direct costs, subcontract costs
- Properly allocable and allowable indirect costs, as shown in the records maintained by the Contractor for purposes of obtaining reimbursement under Government contracts

