Phase 0 Program

Department of Homeland Security SBIR Applicants



DHS SBIR Phase 0 Assistance Accounting Systems

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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

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)

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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 <u>SF 1403</u>, Preaward Survey of Prospective Contractor (General); ... and <u>SF 1408</u>, <u>Preaward Survey of Prospective Contractor-Accounting System</u>



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.

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Requirements

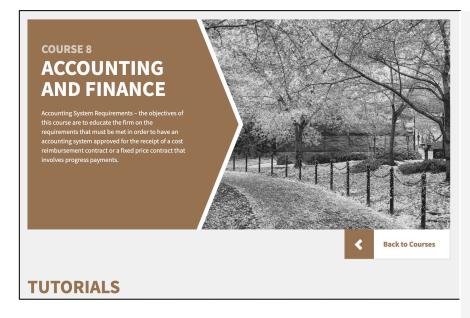
Used in evaluating the adequacy of your accounting system

- 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.

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Accounting course on SBA site

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



Prepared by Reliascent and Dawnbreaker



1/14/2025 **10**

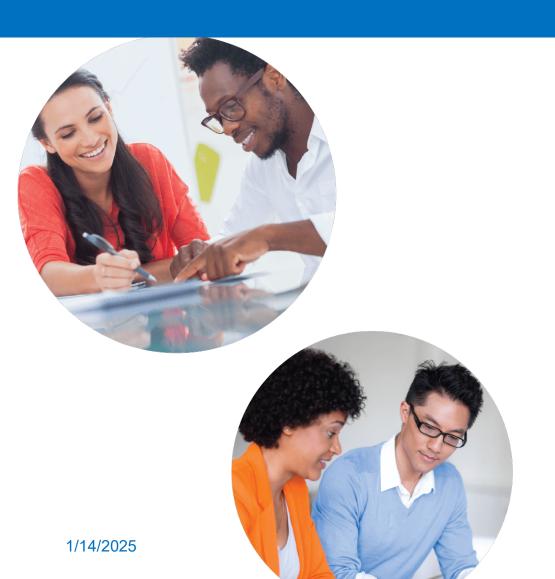
Enabling FAR Clauses

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

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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



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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"



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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

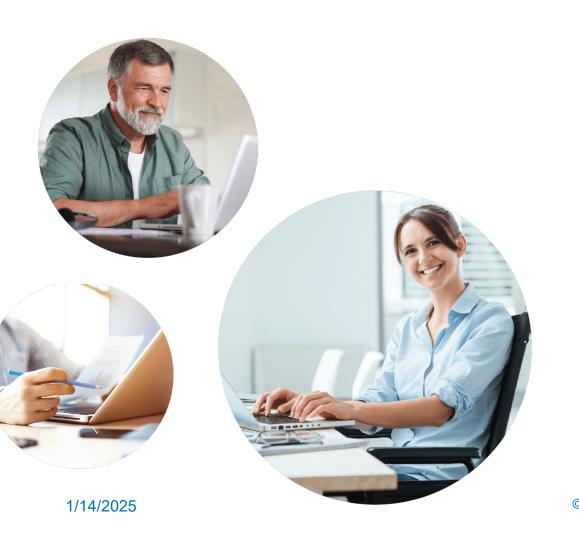
- 31.205-6, Compensation for personal services
- 31.205-13, Employee morale, health, welfare, food service, and dormitory costs and credits
- 31.205-14, Entertainment costs
- 31.205-26, Material costs
- 31.205-30, Patent costs
- 31.205-33, Professional and consultant service costs
- 31.205-46, Travel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

1/14/2025 **19**

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

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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



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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

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FAR Back-up slides



Enabling FAR Clauses

16.307 Contract Clauses

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



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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) <u>Subpart 31.2</u> ...



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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



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