

Disclosing Your Accounting Practices



Redstone
Government Consulting

Helping You Navigate the Maze of Government Contracting



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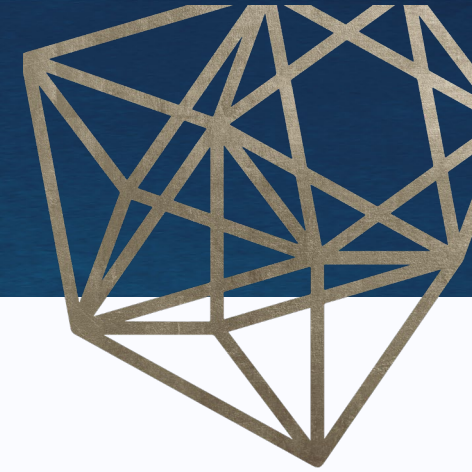
- **Background**

- USG DoD 1984-2020 (Auditor (GS-7) to FAO Quality Auditor)
- DCAA – Auditor, CAS and Financial Capability Technical Specialist, Supervisor, Regional Special Programs, FAO Quality
- DCMA – Lead Price Analyst Commercial Item Group
- BS in Accounting; CPA

- **Today**

- Client Support – Mock CPSR Reviews, Estimating Reviews, Assist with Commercial Item Determinations, Post award Grant Support
- Training (Live and Webinars)

Learning Objectives



Objectives

- **Define “Disclosure Statement”**
- **Events that trigger the need to submit a Disclosure Statement**
- **Identify parts of the Disclosure Statement**
- **Identify areas that are difficult to interpret or that point to a potential CAS noncompliance**

What is a Disclosure Statement?



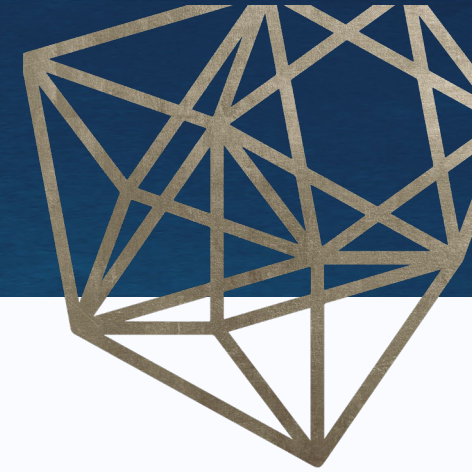
Definition from 48 CFR 9903.202-1:

- A Disclosure Statement is a written description of a contractor's cost accounting practices and procedures

What is the purpose?

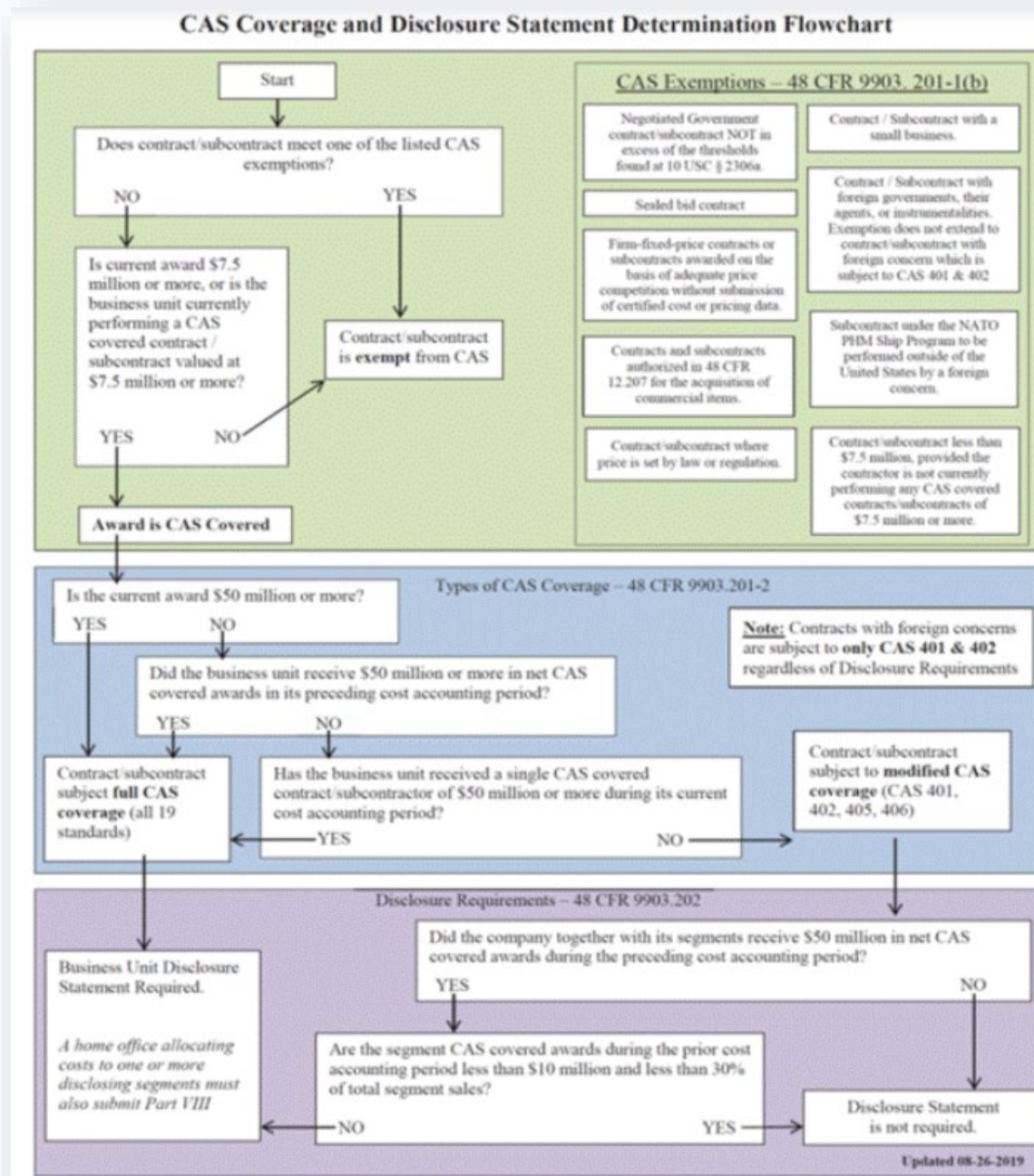
- Provide the government a written description of cost accounting practices
- Certify cost accounting practices are in compliance with Cost Accounting Standards (CAS)
- Provide a benchmark to ensure the contractor is consistently following its cost accounting practices

Disclosure



- **Even if you do not have CAS covered contracts or 9903.202 does not require a statement be submitted, you should have a policy or draft Disclosure statement – you need to be prepared**
- **9904.418-40(a) requires that “A business unit shall have a written statement of accounting policies and practices for classifying costs as direct or indirect which shall be consistently applied”**
- **An auditor is going to want something to compare your price proposal or incurred cost proposal against**

CAS Coverage and Disclosure Statement Flowchart



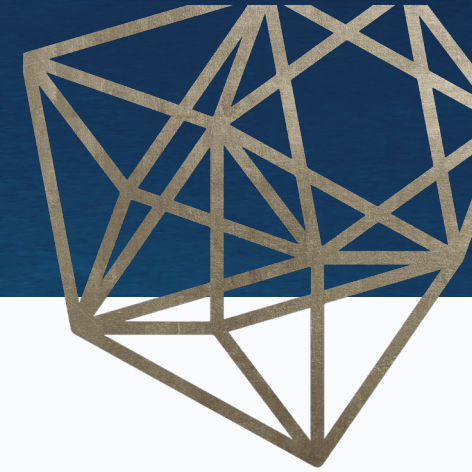
What Triggers the Need for a Disclosure Statement 48 CFR 9903.201 and 9903.202



What most companies need to know:

- Before award of a CAS-covered contract/subcontract of \$50M or more, without an exemption
- Before award of any CAS-covered contract in the following cost accounting period if the company together with its segments have received \$50M or more in net CAS-covered awards in the prior accounting period
 - 90-day grace period to issue CAS DS at the beginning of the cost accounting period
- If one segment of a company is required to submit, any other segments of a company whose intercompany costs exceed \$2M and are included in a CAS-covered contract or subcontract of the submitting segment must submit as well; unless
 - Contract/subcontract is exempt or
 - Segment's CAS-covered awards are less than \$10M and less than 30% of total sales of that segment
- Corporate home offices allocating costs to segments must also submit (Part VIII only)

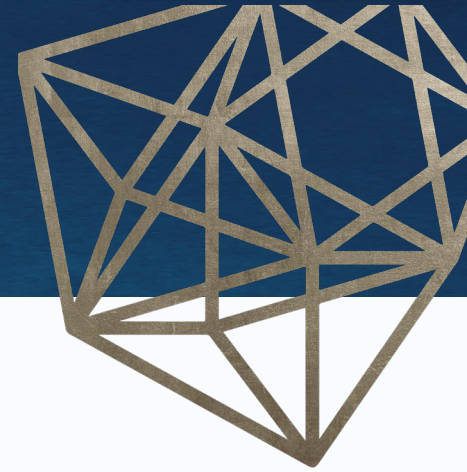
When should a company prepare a Disclosure Statement



- **Sooner Rather than Later**
- **Out growing small business status is on the horizon**
- **Commercial company (large business) that starts bidding on negotiated contracts**

Best practice to have a draft disclosure statement

Parts of a Disclosure Statement



I – General Information

II – Direct Costs

III – Direct vs. Indirect Costs

IV – Indirect Costs

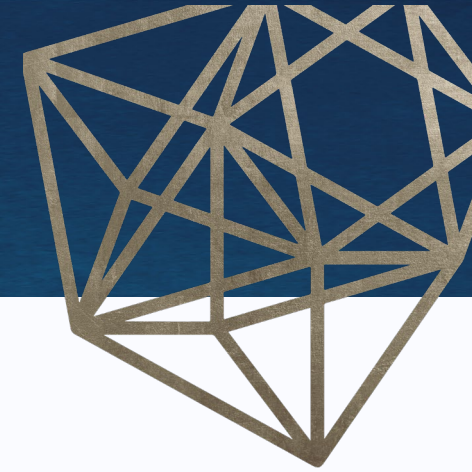
V – Depreciation and Capitalization Practices

VI – Other Costs and Credits

VII – Deferred Compensation and Insurance Cost

VIII – Home Office Expenses

Part I – General Information



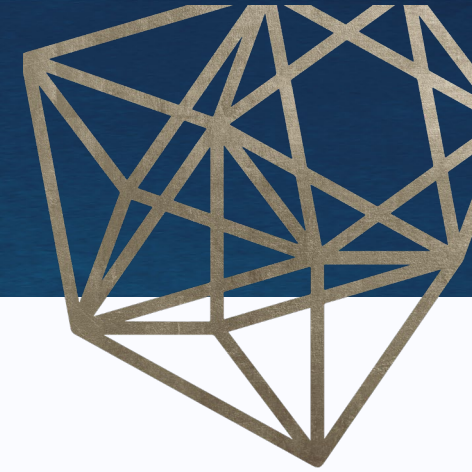
- **Type of Business Entity**
- **Predominant Type of Government Sales**
- **Percentage of Annual CAS Covered Government Sales**
- **Description of Cost Accounting System for Government Contracts**
- **Differences Between Contract Cost Accounting and Financial Accounting**
- **Unallowable costs**
- **Fiscal Year**
- **Cost Accounting Period**

General Information Tips



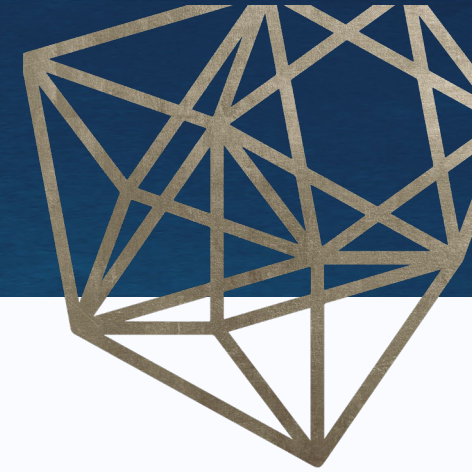
- **Continuation Sheets** –
 - Any time you see “1/” you need to complete a continuation sheet for that item
 - Requirement can be buried in the instructions of a particular Part
 - At the end of the continuation sheet "END OF PART" is a DCAA requirement
- **Differences Between Contract Cost Accounting and Financial Accounting**
- **Unallowable costs** – **Incurred Costs and Estimated Costs**

Part I – Direct Material Costs



- **Contractor Owned Inventory – lists four methods of inventory acceptable under CAS, so if you pick “other” you may have a CAS noncompliance**

Part II – Direct Costs



- **Direct Material**
- **Direct Labor**
- **Other Direct Costs (ODC) and Travel**
- **Credits to Contract Costs**

Part II – Direct Labor



- **Method of Charging Direct Labor (Manufacturing, Engineering, Other Direct)**
 - Individual/actual rates
 - Average rates – uncompensated overtime included /1
 - Average rates – uncompensated overtime not included /1
 - Standard costs/rates /1
 - Other/1

Part II – Direct Labor



- **Instructions require a continuation sheet with list of direct labor categories/classes of labor (easy to miss no "1/" to indicate continuation sheet is necessary)**

Method of Charging Direct Labor: (Mark the appropriate line(s) for each Direct Labor Category to show how such labor is charged to Federal contracts or similar cost objectives, and if more than one line is marked, explain on a continuation sheet. Also describe on a continuation sheet the principal classes of labor rates that are, or will be applied to Manufacturing Labor, Engineering Labor, and Other Direct Labor, in order to develop direct labor costs.

Part II – Direct Costs – ODC and Travel Tips



- **Description of Other Direct Costs**
Need to list Costs charged direct (e.g. fringe benefits, travel costs, services, equipment, subcontracts, etc.)

Part II – Direct Costs – ODC and Travel Tips



- **Travel Expenses**
 - Actual Costs
 - Per Diem Rates
 - Lodging at actual, subsistence at per diem
 - Other Method/1
 - Not applicable

Part II – Direct Costs – Credits



When Federal contracts or similar cost objectives are credited for the following circumstances, are the rates of direct labor, direct materials, other direct costs and applicable indirect costs always the same as those for the original charges?

- Transfers to other jobs/contracts
- Unused or excess materials remaining upon completion of contract

If you answer no, DCAA may ask more questions to determine if you are in compliance with 31.201-5 Credits. It says:

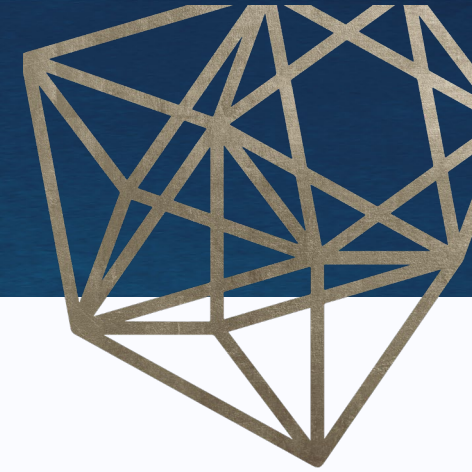
The **applicable portion** of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund

Part III – Direct vs. Indirect Costs



- **Criteria for Determining How Costs are Charged to Cost Objectives**
 - Direct Material
 - Direct Labor
 - Direct material and labor
 - Other direct costs
 - Sometimes direct/sometimes indirect
 - Indirect Only
 - Other 1/
 - Not applicable
- **Treatment of Costs/Transactions Related to**
 - Direct Material (8 material categories)
 - Direct Labor (12 labor categories)
 - Miscellaneous (24 miscellaneous categories)

Part III – Direct vs. Indirect Costs



- **Costs that your company charges sometimes direct/sometimes indirect:**

Name the pool(s) it is charged to when charged indirect.

Explain the circumstances under which costs are charged both direct and indirect.

Think ahead – what if you had that type of cost- how would you charge it?

Part IV - Indirect Costs



- **Overhead pools, G&A pool and service centers.**

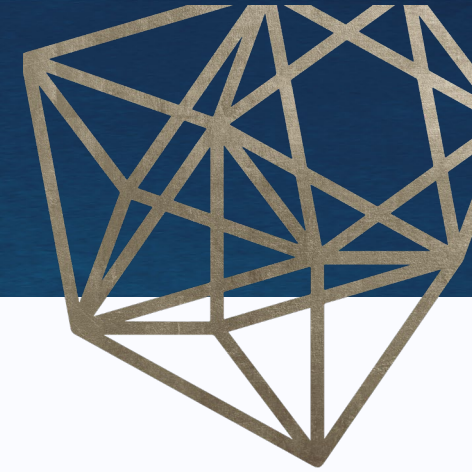
For each:

Describe major functions, activities and elements of costs included

Describe the make up of the allocation base

Provide the allocation base code (18 codes)

Part IV - Indirect Costs



- **Asks how variance from actual cost is treated**
- **Lists 9 types of costs (e.g., subcontract, interdivisional transfers in and out, etc.) and whether they receive full G&A rate allocation, special or no allocation**
- **Treatment of IR&D/B&P costs**

Part V – Depreciation and Capitalization Practices



- **List of 11 Asset categories and list of codes for each of the following:**

Depreciation Method

Useful Life

Property Units

Residual Value

(Note: CAS Board proposed rule to remove CAS 409 and rely on GAAP)

- **Residual value not deducted from asset is a red flag**
- **Useful life should reflect actual period of useful life not IRS or financial accounting**

Part VI – Other Costs and Credits



- **Labor related items:**

Vacation, Holiday and Sick Pay and related credits for unused portions

Supplemental Unemployment

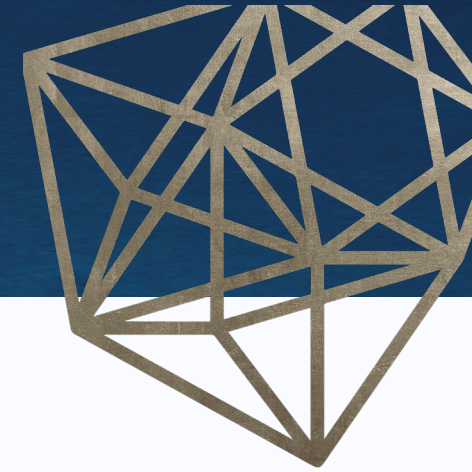
Severance Pay and Early Retirement

(Note: CAS Board proposed rule to remove CAS 408 and rely on GAAP)

- **Incidental Receipts**

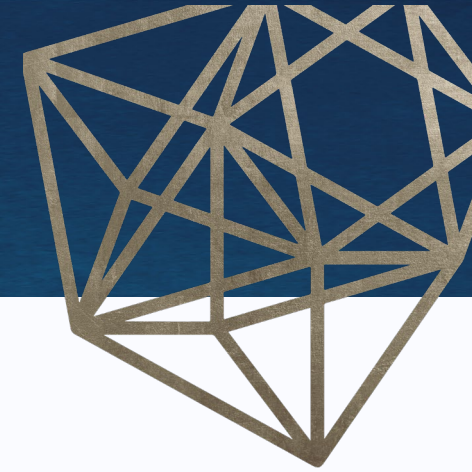
Credited to the appropriate indirect cost pools to which the related costs were charged

Part VII – Deferred Compensation and Insurance Costs



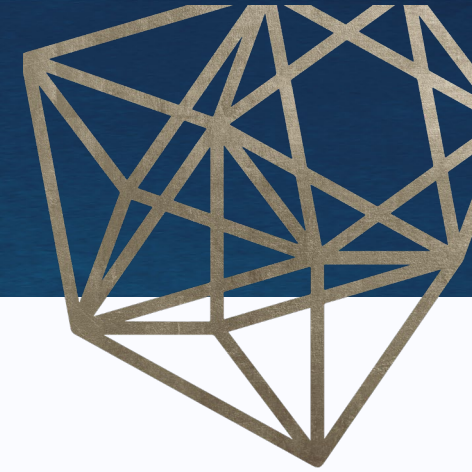
- **Pensions – 401K**
- **Other post-retirement benefits such as health care**
- **Insurance – life, health, disability, accident**
- **Deferred compensation other than ESOPs**
- **ESOPs**
- **Worker's Compensation, Liability and Property Insurance Coverage**

Part VIII – Home Office Expenses



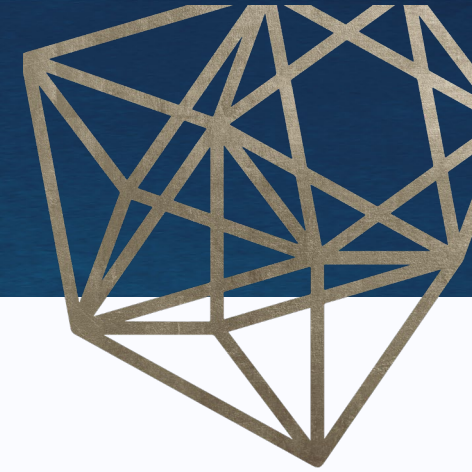
- **Used for Corporate or Intermediate Home Office**
- **List all segments, IHO reporting to the Home Office, whether they have CAS-covered contracts and percentage of CAS-covered Sales to Total Sales**
- **Allocations**
 - Directly Allocated costs
 - Homogeneous Pools
 - Residual
- **If costs normally are transferred from reporting units to the home office, need to explain**

Common Errors



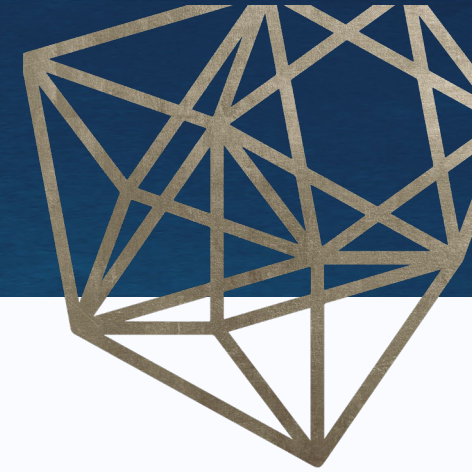
- **Failure to complete continuation sheets**
 - List of direct labor categories
 - Incomplete part on 401-K – basis, treatment of credits, forfeitures
- **Common sections that may be noncompliant with the CAS standard**
 - Estimated residual
 - Replacement experience
 - Minimum service life exceeds 2 year or capitalized value > \$5,000
 - Unallowable costs not identified in accounting records
 - No explanation when costs charged sometimes direct, sometimes indirect
 - Travel based on per diem, but actual cost checked
 - Interorganizational transfers at price for commercial products/services not disclosed

Common Errors



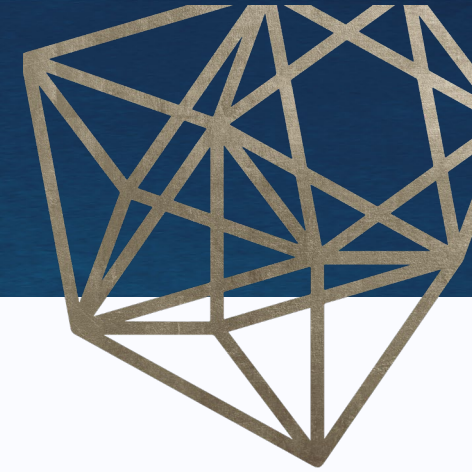
- **Inter-relationships between Parts**
 - DCAA normally looks for 25 inter-relationships (examples)
 - If 2.2.2 Direct material – Inventory is marked A, B, C, D, or Y, item 3.2.1(f) Inventory Adjustment must be marked other than Z
 - If item 4.3.0 Service Center column (2) is marked with a rate code A (predetermined billing rate), item 4.4.0 cannot be marked Z (service center not applicable to reporting unit).

CAS Requirements



- **Any Accounting Changes You MUST:**
 - Notify DCMA ACO or CFAO 60 days in advance
 - Include copies of disclosure statement pages
 - Provide a general dollar magnitude
 - Payback any Increased cost on CAS covered contracts
- **Noncompliance**
 - Actual or disclosed practices
 - Increased cost, plus interest

How Redstone Can Help

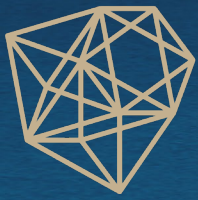


Redstone can assist with:

- **Preparing the disclosure statement for segment/corporate**
- **Reviewing your disclosure statement before submission**
- **Drafting written policies and procedures**
- **Assisting with responses to DCAA audit findings/ACO determinations of noncompliance with disclosed or actual practices**
- **Training on Cost Accounting Standards via webinar or onsite-training**

Questions and Discussion





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