AMCG Audit Team Services

- Accounting System Audits
- Incurred Cost Audits
- Provisional Rate Reviews
- Disclosure Statement Reviews
- Financial Capability Reviews
- CAS and FAR non-compliance Audits
Adequate Accounting System for Government Contractors
Adequate Accounting System

- Conforms with Generally Accepted Accounting Principles (GAAP).
- An accrual based accounting.
- Produces verifiable results.
- Applicable to all types of contracts.
FAR 53.301
Standard Form 1408

- Proper segregation of direct costs from indirect.
- Identification and accumulation of direct costs by contract.
- A logical and consistent method for the allocation of indirect costs to contracts.
- A timekeeping system that identifies employees’ labor by contract.
- A labor distribution system that charges direct and indirect labor to the appropriate contracts.
At least monthly determination of costs charged to a contract through routine posting of account.

Keep separate account for unallowable expenses by terms of FAR Part 31, or other contract provisions.

Identification of costs by contract line item and by units if required by the proposed contract.
Common Audit Findings

- No written accounting policies and procedures
- Unallowable costs not accounted for separately
- Not recording time on a daily basis
- No project or contract number on the timecard
- No document for changes to the timecard (by employees or supervisors)
Common Audit Findings (Continued)

- Not recording all hours whether paid or not
- No official timekeeping system in place
- Timekeeping System not linked to accounting system for reconciliation.
Government Auditors’ Expectations:

- Employee should have correct project number before work starts.
- Time cards should be pre-coded with pay period, name, etc. and provided to employee at beginning of the pay period for each PP.
- Employee should have correct project number before work starts.
Labor Charging System (Continued)

Government Auditors’ Expectations:

- Employee must maintain daily timesheets.
- Supervisors or other personnel do not prepare timesheets for employees (unless if employee out due to sickness, etc.)
- Management approval or correction of timesheets should be noted.
Contractor Requirements for Government Property

FAR 52.245-1 (referenced in the contract)

- Track: *Government property* using an internal inventory system
  - The Contractor must track:
    - Equipment: “means tangible item...for its intended purpose, durable, nonexpendable, and needed...”
    - Sensitive property: “means property potentially dangerous to the public safety or security of stolen, lost, or misplaced...”
      - IT equipment or equipment that tracks data.
    - Material: “...property that may be consumed or expended during the performance of a contract...”

- Maintenance: the contractor must maintain government property
- Report: *Loss of Government property* means unintended, unforeseen or accidental loss, damage or destruction to Government property.

So what should your Government property tracker contain?

- FAR 52.245-1.f *Contractor Plans and systems*
  - (iii) Records of Government property
FAR 52.245-1.f.iii

Records of Government Property

Property records shall...contain the following:

- The name, part number and description
- Quantity received (or fabricated), issued, and balance-on-hand.
- Unit acquisition cost
- Unique-item identifier or equivalent (for individual tracking)
  - USG tracking sticker for equipment and sensitive property
- Unit of measure
- Accountable contract number
- Location
- Disposition
- Posting reference and date of transaction (purchase date)
- Date placed in Service (if required)
FAR 31.205-26(d): Material Costs

- When materials are purchased specifically for and are identifiable solely with performance under a contract, the actual purchase cost of these materials should be charged to the contract.

- If material is issued from stores/inventory, any generally recognized method of pricing is acceptable if that method is consistently applied and the results are equitable.

- The contractor is responsible for providing sufficient evidence that established policies, procedures, operating instructions and related internal controls to ensure that costs are allocable to a contract and in compliance with FAR 31.201-2 and 31.201-3, 31.201-4, and 31.201-5.
No presumption of reasonableness shall be attached to the incurrence of costs by a contractor. If an initial review of facts results in a challenge of a specific cost by the contracting officer, the burden of proof shall be upon the contractor to establish that such cost is reasonable.

Consumable supply items (surgical gloves, gowns, booties, syringes, gauze, pipettes, etc.) are by their nature inherently difficulty to identify with regards to a particular cost objective/project.
FAR 31.201-3 Determining Reasonableness (Cont’d)

- Residual/unused common supply items charged to cost reimbursable contracts are government owned and must be transferred to another government project, or returned to inventory for credit/cost adjustment.

- It can be difficult/impracticable to properly account for unused/residual consumable material.

- Hence the difficulty in assuring proper/equitable allocation of costs on government contracts as direct costs with respect to reasonableness and allocability in accordance with FAR 31.201
Recommendations

Contractor’s revise accounting treatment of consumable/common supply material to:

(1) Include consumable material costs in indirect cost pool for allocation through indirect cost rate.

(2) Use historical cost data to estimate total consumable/common material items costs for an accounting period (FY) and develop percentage factor as a function/ratio of total direct labor

(3) Year-end adjustments for actuals (True up)
Negative Consequences

- Lack of Adequate Accounting System
  - Ineligible for federal award
  - Delays the awarding process

- Lack of Adequate Support for Costs
  - Cost disallowed (both direct and indirect)
  - Extra effort required for both contractor and auditor

- Improper Billing / False Claims
  - Treble damages
  - Suspension and Debarment
  - Referrals to the Office of Inspector General
Cost Accounting Standards (CAS)

- Full CAS Coverage (19 Standards)
  - Over $50 million in single contract or subcontract
  - Disclosure Statement (DS-2) Required

- Modified CAS Coverage (CAS 401, 402, 405, 406)
  - Over $7.5 million in single contract or subcontract
  - Disclosure Statement NOT required
FAR 31

- Costs should be Allowable, Allocable and Reasonable

- Examples of Unallowable Costs
  - Alcohol
  - First Class/business class air-fare (exceptions allowed with proper justification)
  - Advertising/Promotions

- Examples of Unallocable Costs
  - Costs relating to a different project
  - Necessary costs of the organization that does not benefit the contract

- Examples of Unreasonable Costs
  - Pay raises in excess of CPI and rate of inflation (over 3%)
  - Bonuses in excess of industry norms
HHSAR (48 CFR)

- Salary Rate limitations – HHSAR 352.231-70
  Limits direct salary to Federal Executive Level II ($185,100)

- Treatment of IR&D – 352.216-70(b) IR&D costs removed from the G&A pool and included in the G&A base
Questions???

Please email your questions:

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