



ASPR/AMCG AUDIT TEAM

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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.



SF-1408 (Continued)

- 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.



Labor Charging System

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.



FAR 31.201-3

Determining Reasonableness

- 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 difficult 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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