



Industry Day
Breakout Session Topic 4
Challenges of Cost Reimbursable
Contracts
by
Division of Audit, Compliance &
Contract Closeout (DACC)

Agenda



❖ Cost Reimbursable Contracts

❖ Cost Accounting Standards (CAS)

❖ Contract Closeout

❖ Contractor Incurred Cost Proposals

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Cost Reimbursable Contracts



Accounting System

FAR 16.301-3 (Limitations), states that “A cost-reimbursement type contract may be used only when the contractor’s accounting system is adequate for determining costs applicable to the contract.”

A **preaward** survey of a prospective contractor’s accounting system may be required (FAR 9.106):

- **Preaward Survey of Prospective Contractor Accounting System, SF 1408, (FAR 53.301-1408) Evaluation Checklist is Used**

Cost Reimbursable Contracts



Accounting System – Cont

❖ Preaward

- Auditors determine the acceptability of the design of the accounting system and determine if the system is (1) in operation, or (2) set up, but not in operation.
- If the design is determined to be acceptable, the CO will make a determination of responsibility.
- If the accounting system design is determined to be unacceptable, the CO will make a determination of non-responsibility – NO AWARD can be made (Cost Reimbursable)

Cost Reimbursable Contracts

Accounting System – Cont

- ❖ Post Award is an examination of the accounting system after contract award. It's purpose is:
 - ✓ To determine if the contractor's accounting system is adequate for accumulating and billing costs on Government contracts.
 - ✓ Generally, it is a follow-up on the pre-award.

In a post award examination, the contractor's accounting system must be functioning/operating effectively.

Regardless of CO's determination, any change to an accounting system would render prior determination invalid.

Cost Reimbursable Contracts

Contract Limitations

- ❖ Limitation of Cost (FAR 52.232.20)
 - a) Purpose: To prevent contract overruns, maintain budget controls and to be in accordance with the anti-deficiency act.
 - b) Clause applies to **each separately priced** contract line item/sub line item
 - c) Contractor exceeds limitation (estimated cost) at their own risk.

Cost Reimbursable Contracts



Contract Limitations

Notification Requirements

- ❖ Contractor **shall notify** the **Government** whenever it has reason to believe that:
 - (1) Within 60 days, total incurred costs will exceed 75% of estimated costs; or
 - (2) Total cost of performance, exclusive of fee, **will be greater** or substantially less than had been previously estimated.

Cost Reimbursable Contracts

Negotiated Indirect Ceiling Rates

- ❖ Cost Rates and Limitations on Indirect Cost Rates – FAR 42.707
 - Government is not obligated to pay any additional amount should final indirect rates exceed the contract ceiling rates.
 - If final indirect cost rates are less than contract ceiling rates, the final indirect rates will prevail.

Cost Accounting Standards (CAS)



CAS

- ❖ Refer to FAR Part 30 and 48 CFR Chapter 99 (FAR Appendix).
- ❖ Applies to “Other than Small Businesses”
- ❖ There are exemptions (small business)/thresholds for applicability.
- ❖ Remember and be prepared:
 - Small Businesses grow into large businesses
 - Small Businesses are acquired by & become large businesses

Contract Closeout

❖ Record Retention

4.703 3 years after final payment

❖ Certification Requirements

General Provisions

Release of Claims

Assignment of Refunds, Rebates, Credits, and Other Amounts

❖ Quick Close-out

3 ICP, 3 audits, 3 FRA, Consult with cognizant authority