

Accounting and Pricing: Fundamentals

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Accounting and Pricing: Fundamentals

- Many government contracts are awarded either on a cost-reimbursement basis or at a fixed-price negotiated based on the contractor's estimated costs
- Statutes, regulations, and standard contract provisions are designed to ensure that the government is protected from contractors and from the government's own ignorance or inadvertence
- There are three related sets of pricing/estimating/accounting requirements
 - Truth in Negotiations Act (TINA)
 - FAR Part 31 cost allowability rules
 - Cost Accounting Standards (CAS)



Truth in Negotiations Act

- Enacted in 1962 and substantially enhanced in 1986
- Implementing regulations in FAR Part 15
- Primarily a disclosure requirement
- Applies to pricing actions – both original contract awards and subsequent modifications



TINA: Coverage and Exemptions

- Covers non-exempt pricing actions for \$700K or more
- Non-exempt subcontracts also covered
- Exemptions
 - Adequate price competition
 - At least 2 responsive bids
 - Award based on low price
 - Commercial items
 - Prices set by law or regulation



TINA: Substantive Requirements

- Disclose current, accurate, and complete “cost or pricing data” (CPD)
- Certify the required disclosure has been made
- CPD defined as all facts in existence as of the date of agreement on price that prudent buyers and sellers would consider significant
- Government may adjust contract price downward to reflect the impact of “defective pricing” on a no-fault basis



FAR Part 31

- Rules about what the government will reimburse on cost contracts and what costs it will recognize in negotiating fixed-prices
- To be recoverable, costs must be reasonable, allocable, and allowable
- Frequently different from IRS rules about deductibility of costs



Substance of FAR Rules

- Many ordinary and necessary costs are unallowable
 - Interest
 - Compensation limits
 - Charitable contributions
 - Entertainment
 - Many legal costs

Unallowable



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Cost Accounting Standards (CAS)

- CAS addresses accounting system issues, not allowability
- CAS controls measurement of cost, assignment of cost to periods, and allocation of costs to contracts
- Comparable to GAAP/FAS, but emphasis on reporting cost by contract, not for the entire enterprise

CAS Coverage

- \$7.5M trigger contract
- \$650K threshold for new contracts – changes to exempt contracts are not covered
- \$50M threshold for full coverage
- \$50M threshold for disclosure statement
- Non-exempt subcontracts are covered
- Exemptions



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CAS Basics

- Disclose cost accounting practices
- Follow disclosed/established practices consistently
- Comply with specific requirements of the Standards
 - Consistency (CAS 401, 402, 406)
 - Allocation (CAS 403, 410, 418, 420)
 - Material and fixed assets (CAS 404, 409, 411, 414, 417)
 - Labor and employment costs (CAS 408, 412, 413, 415)
 - Standard costs for direct material and labor (CAS 407)
 - Insurance costs (CAS 416)
 - Unallowable costs (CAS 405)
- Adjust contract price if noncompliance or failure to follow caused Government to pay increased costs



Government Audit Rights

- Inspector General Audits
- GAO Audits
- Routine Contract Audits

Questions?

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