

INCURRED COST SUBMISSIONS (ICS)

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



AGENDA

Overview of Presentation

- I. Background
- II. Timeline and Submission
- III. Preparation Techniques and Best Practices
- IV. ICS Audit Trends
- V. Questions

BACKGROUND

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



WHAT IS AN INCURRED COST SUBMISSION (ICS)?

- ▶ Formally known as an Indirect Cost Rate Proposal (ICP, ICRP or ICS); used interchangeably.
- ▶ Purpose is to establish final annual indirect cost rates and determine over/under billing for the period covered by the ICS (presented on Schedule I)
- ▶ The submission includes the direct and indirect expenses incurred by the contractor during its fiscal year.
- ▶ ICS schedules show the detailed calculations of indirect pool(s) and base(s), a summary of costs incurred by contract, other supporting schedules, and the Certificate of Final Indirect Costs.
- ▶ Rates developed from this submission are used for a variety of purposes, typically as the source or starting point for calculations such as Provisional Billing rates, Forward Pricing rates, etc.

REQUIREMENTS

- ▶ FAR 52.216-7 - Allowable Cost and Payment requires Government contractors to *“submit an adequate final indirect cost rate proposal to the Contracting Officer (or cognizant Federal agency official) and auditor within the 6-month period following the expiration of each of its fiscal years.”*
- ▶ Reasonable extensions may be requested in writing by the Contractor and granted in writing by the Contracting Officer.
- ▶ The proposed rates shall be based on the Contractor’s actual cost experience for that period.
- ▶ The Allowable Cost and Payment clause applies to cost-reimbursement type and T&M contracts (FAR 16.307).
- ▶ All federal contracts should be included and reported individually. It is permissible to lump or group all commercial and fixed price work together. In total, all contract costs should reconcile to the Trial Balance and other books of record.
- **For Subcontractors:** Refer back to your subcontract agreement to ascertain whether the Allowable Cost and Payment clause has been flowed-down; thus requiring subcontractors to prepare and provide an incurred cost submission.

WHY IS AN ICS SIGNIFICANT?

- ▶ Finalized indirect cost rates provide for a timely settlement of costs under cost-reimbursement and T&M contracts.
 - The establishment of final rates shall be used for contract closeout (unless quick-closeout procedures are used).
- ▶ The ICS is the contractor's final opportunity to voluntarily disallow costs (pre-audit) that could be perceived or determined to be unallowable.
- ▶ Adjusts provisional or interim billing rates as necessary to establish the final indirect cost rates after year end.
- ▶ Final indirect cost rates are used in negotiating the final price of Federal contracts and in other situations requiring that indirect costs be settled before contract prices are established.
- ▶ An ICS can provide a historical basis for the determination of final rates and which can be used to forecast provisional rates.
- ▶ Contractors must update billings on all contracts to reflect the final indirect cost rates and update the schedule of cumulative direct and indirect costs claimed and billed within 60 days after settling final rates (per FAR 52.216-7(d)(2)(v)).

WHY IS AN ICS SIGNIFICANT? (CONT.)

- ▶ Concluding the audit of an ICS, the contractor and contracting officer will execute a written understanding specifying the terms and finalization of indirect rates, which would include:
 - The agreed-upon final indirect cost rates,
 - The bases to which the rates apply,
 - The periods for which the rates apply,
 - Any specific indirect cost items treated as direct costs in the settlement, and
 - The affected contract and/or subcontract, identifying any with advance agreements or special terms and the applicable rates.

- ▶ The written agreement does not change any monetary ceiling, contract obligation, or specific cost allowance or disallowance provided for in the contract.

TIMELINE AND SUBMISSION

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TIMELINE FOR AN INCURRED COST SUBMISSION

- ▶ Per FAR 52.216-7, an incurred cost submission is due within six (6) months after the contractor's fiscal year end (FYE).
- ▶ If the contractor does not submit the proposal within six (6) months of its FYE the DCAA may send reminder letters to the contractor.
- ▶ Once the submission becomes six (6) months overdue (one year after the end of the fiscal year) and no extension has been granted by the Contracting Officer, the DCAA auditor may provide the CO with unilateral rate recommendations. As a result, the Contracting Officer can make a unilateral determination as authorized by FAR 42.703-2(c)(1) and FAR 42.705(c)(1).
- ▶ Delinquent ICS' result in rate recommendations that will be based on either (1) a decrement factor applied to indirect rates using relevant contractor historical data or (2) a company-wide decrement factor based on questioned costs at high risk contractors applied to total contract costs, if no relevant historical data exists.
- ▶ The rate recommendation will apply to active contracts, as well as physically complete contracts for the overdue fiscal year end.

INCURRED COST SUBMISSION AUDIT

- ▶ After submission, and the determination has been made that a contractor's incurred cost submission is adequate, then typically the cognizant DCAA Field Audit Office (FAO) will initiate the incurred cost audit within six months after receipt of an adequate proposal.
- ▶ The audit is guided by DCAA's Post Year End Incurred Cost Audit Program
- ▶ During the course of the audit, the DCAA auditor should discuss audit findings with the government contractor as they arise.
- ▶ The contractor is expected to provide *timely* feedback on these issues to ensue prompt resolution of audit findings and facilitate an efficient and effective audit process.
- ▶ An exit conference will be held to summarize issues and resolutions identified during the audit process when significant audit findings are found.

INCURRED COST SUBMISSION AUDIT (CONT.)

- ▶ The contractor will be given a final opportunity to respond to the audit findings and comments submitted by the contractor will be included in the audit report (as comments should have been relayed during the audit process as questioned costs were identified).
- ▶ The DCAA office provides the final report to the contracting officer (CO) (or cognizant Federal agency official) for establishing the final indirect cost and billing rates.
- ▶ The Contracting Officer may provide the government contractor an opportunity to personally address the results of the audit report during “Negotiations.”
- ▶ During negotiations the contractor’s position and supporting documentation is presented and considered prior to the CO issuing its final decision regarding questioned costs and final indirect cost rates. DCAA auditors can be extended the invitation to attend negotiations.
- ▶ Within 120 days, or longer if approved in writing by the CO, after settlement of the final annual indirect cost rates for all years of a physically complete contract, the contractor must submit a completed invoice or voucher reflecting the settlement amount and rates (e.g., “ICS True-up”).

WHAT DCAA LOOKS FOR...

- ▶ An adequate incurred cost submission: use of the ICE Model (or similar format) containing all of the required schedules.
- ▶ Schedule N is signed by an authorized party (usually CFO or above).
- ▶ A contractor's submission of all claimed costs incurred for cost type and/or T&M reimbursable government contracts, including adjustments and explanatory notes.
- ▶ Identification of unallowable costs (voluntary deletions) and expressly unallowable costs with notes accompanying adjustments.
- ▶ Identification, by contract, of awards containing FAR 52.242-3 - Penalties for Unallowable Costs (penalty clause).
- ▶ If costs are reasonable, allocable, and allowable in accordance with GAAP, CAS, FAR, and contract provisions.

WHAT DCAA LOOKS FOR...(CONT.)

- ▶ Certain “trigger” accounts that may contain unallowable costs. The process for identifying accounts with a higher probability of being selected for testing consists of, but is not limited to:
 - If there have been any changes to the indirect cost rate structure between the last audited fiscal year and the year in review. Both direct and indirect costs will be evaluated
 - The results of performing a comparative analysis between the CFY and prior fiscal year pool expenses and direct costs
 - New accounts
 - Prior years incurred cost audit or other audit findings
 - Audit Leads
 - Fraud Risk Indicators
 - Audit history/experience with the government contractor
 - Auditor judgment

PREPARATION TECHNIQUES AND BEST PRACTICES

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



PREPARATION TECHNIQUES

Use of DCAA ICE Model

- ▶ The purpose of the DCAA ICE Model is to assist contractors in meeting its requirement for submitting an adequate final indirect cost rate proposal as required by FAR 52.216-7(d).
- ▶ The ICE Model schedules present the minimum information needed to begin an audit and can be obtained at: http://www.dcaa.mil/ice_model.html.
- ▶ The required content of the proposal and the supporting data will vary depending on the size of the firm, complexity of the accounting system, and type of business. Verify that the latest model is being used or downloaded.
- ▶ Use of the Model is preferred, although not mandatory, as long as the submission includes the required schedules and support.
- ▶ The company name and fiscal period should be included on all schedules submitted.
- ▶ A separate schedule needs to be prepared for each final and intermediate indirect expense pool. If pool costs are accumulated by department, departmental expenses should be identified within each pool.
- ▶ DCAA prefers that contractors include an index, similar to that used in the model, and note if certain schedules are not applicable.
- ▶ Contractors are encouraged to submit their proposal in electronic format.

REQUIRED VS. SUPPLEMENTAL

▶ Required Schedules

- To be completed and provided to DCAA at the time of submission, if applicable.
- Some schedules, while identified as required, do not have to be completed if the schedule does not apply to the company (i.e., Capital Cost of Money, Intermediate Schedules).

▶ Supplemental Schedules

- Additional schedules which are not required to be provided at the time of submission for the determination of an adequate submission; however, may be required during the audit process.
- Can be requested to be provided at the entrance conference to help determine audit risk, preliminary and field audit steps.
- Federal contractors should consider completing and including the supplemental schedules at the time of submission to decrease delays in facilitating the audit.

REQUIRED SCHEDULES

- ▶ Per FAR 52.216-7(d)(2)(iii) An adequate indirect cost rate proposal shall include the following data unless otherwise specified by the cognizant Federal agency official:

Indirect Cost Pools

- Schedule A - Summary of all Claimed Indirect Expense Rates
- Schedule B - General and Administrative (G&A) Expenses (final)
- Schedule C - Overhead Expenses (final)
- Schedule D - Intermediate/Occupancy Expenses (e.g., Facilities, Homogeneous Service Centers, Home Office)
- Schedule E - Claimed Allocation Bases by element of cost used to distribute indirect costs
- Fringe* - Schedule of Fringe Benefit Expenses
- Schedule F - Facilities Capital Cost of Money Factors Computation

*Although not individually listed as a required schedule for adequacy, a separate schedule for these expenses are normally created. An alternative is to include the fringe expenses on Schedule D-x.

REQUIRED SCHEDULES (CONT.)

Contract Costs

- Schedule G - Reconciliation of Books of Account and Claimed Direct Costs by Major Cost Element
- Schedule H - Schedule of Direct Costs by Contract/Subcontract and Indirect Expense Applied at Claimed Rates (as well as a subsidiary schedule of Government Participation percentages in each of the allocation base amounts)
- Schedule I - Cumulative Direct and Indirect Costs Claimed and Billed by Contract and Subcontract
- Schedule J - Subcontract Information
- Schedule K - Summary of Time-and-Materials and Labor-Hours contract, including labor categories, labor rates, hours, direct materials, other direct costs, and indirect expenses applied at claimed rates

Other Schedules

- Schedule L - Reconciliation of Total Payroll per IRS Form 941 to Total Labor Distribution Costs
- Schedule M - Listing of Decisions/Agreements/Approvals and Description of Accounting/Organizational Changes
- Schedule N - Certificate of Final Indirect Costs
- Schedule O - Contract Closing Information for Contracts Completed in this Fiscal Year

KEY SCHEDULES

Schedule B

- ▶ G&A costs broken down by account name and number (before intermediate allocations)
- ▶ Any intermediate allocation amounts from Service Center, Home Office, Fringe, etc.
- ▶ B&P costs broken out separately into Labor, Fringe, Overhead, and ODC's
- ▶ Total expense pool amount
- ▶ All unallowable costs should be deducted out in the adjustments column in the schedule

Schedule B is linked to the following schedules:

- Sched D (x), Intermediate Allocations
- Sched E, Bases
- Sched H, Contract Costs
- Summary Sch H
- Sched P, IR&D/B&P

[ICE MANUAL](#)

Enter Company Name Here
Enter Company Location Here

General and Administrative (G&A) Expenses (Final Indirect Cost Pool)
General and Administrative (G&A) Expenses
Fiscal Year End - mm/dd/yyyy

SCHEDULE B
ICE (version 2.0.1g)

RECHECK FORMULAS AND LINKS AFTER COMPLETING SCHEDULE

ACCOUNT NUMBER	DESCRIPTION	Acct Balances Amount	TOTAL PER G/L, F/S & TRIAL BAL.	ADJUSTMENT	CLAIMED	NOTES	Reference
Insert rows as needed here, then copy data (Account Number, Desc, Amount by Dept) from accounting records. Delete this textbox.		-	-	-	-		
SUBTOTAL		-	-	-	-		
Intermediate Allocations:							
SUBTOTAL		-	-	-	-		
	IR & D Mat'l, Trvl, ODC (Sum SCH H)	-	-	-	-		SUM SCHED H
	IR & D Labor (Sum SCH H)	-	-	-	-		SUM SCHED H
	IR & D Overhead (Sum SCH H & SCH E)	-	-	-	-	1	SUM SCHED H SCHED E
	B & P Mat'l, Trvl, ODC (Sum SCH H)	-	-	-	-		SUM SCHED H
	B & P Labor (Sum SCH H)	-	-	-	-		SUM SCHED H
	B & P Overhead (Sum SCH H & SCH E)	-	-	-	-	1	SUM SCHED H SCHED E
TOTAL G & A EXPENSE POOL		-	-	-	-		

KEY SCHEDULES (CONT.)

Schedule C

- ▶ Schedule of Overhead claimed expenses by element of cost as identified in accounting records for each final indirect cost pool
- ▶ Calculates overhead expenses, those costs that are closely associated with contract performance
 - Support functions for direct labor, subcontractors, etc.
- ▶ Schedule includes details of costs by account name and number (before intermediate allocations)
 - One schedule per O/H Pool (e.g., Manufacturing, Engineering, Onsite, Offsite, FCCOM)
 - Any intermediate allocation amounts from Service Center, Fringe, etc.

Schedule C is linked to the following schedules:
Schedule D(x)

SCHEDULE C (1)
ICE (version 2.0.1e)

Enter Company Name Here
Enter Company Location Here

Overhead Expenses (final indirect cost pool)

Overhead
Fiscal Year End - mm/dd/yyyy

[ICE MANUAL](#)

RECHECK FORMULAS AND LINKS AFTER COMPLETING SCHEDULE

ACCOUNT NUMBER	DESCRIPTION	Acct Balances Amount	TOTAL PER G/L & TRIAL BAL/FS	ADJUSTMENTS	CLAIMED	Notes	Ref.
Insert rows as needed here, then copy data (Account Number, Desc, Amount by Dept) from accounting records. Delete this textbox.			-		-		
			-		-		
			-		-		
	Subtotal	-	-	-	-		
	Intermed Pool-1	-	-	-	-		
ADD: Fringe Allocation			-	-	-		Sched D (1) Fringe
	Total Overhead Pool		-	-	-		

KEY SCHEDULES (CONT.)

Schedule D

- ▶ Intermediate pools, containing costs not specifically associated with any one pool
- ▶ Types of intermediate pools include:
 - Home Office expenses*
 - Service Centers
 - Fringe Benefits

This Schedule does not contain any links to other schedules.

[ICE MANUAL](#)

Enter Company Name Here
Enter Company Location Here

SCHEDULE D (1)
ICE (version 2.0.1e)

Intermediate Indirect Cost Pool
Intermed Pool-1 (Intermed. Pool)
Fiscal Year End - mm/dd/yyyy
IMPORT DATA FROM ACCOUNTING RECORDS

RECHECK FORMULAS AND LINKS AFTER COMPLETING SCHEDULE

ACCOUNT NUMBER	DESCRIPTION	PER G/L & TRIAL BAL/F!	ADJUSTMENT	CLAIMED	NOTES	REFERENCE
Insert rows as needed here, then copy data (Account Number, Desc, Amount) from accounting records. Delete this textbox.				-	1	
				-		
Total				-		
ADD: Fringe Allocation				-		
Total W / Alloc.				-		TO Fringe Sched A

Allocation of Expenses Based on
Square Feet Utilized (Preparation Note 4 & Sample Note 2)

	Base (i.e. Sq. Ft.)	% of Total	Adjustments	Claimed Expense Allocation	Allocation of Amts per G/L		See Preparation Note 4
G & A						2	TO Sched B
Amount		0.00%		-	-		TO Sched C (1)
O/H - OH							TO Sched C (6)
Amount		0.00%		-	-		TO Sched A
O/H - F_Pool-6							
Amount		0.00%		-	-		

*Home Office allocations generally require a separate ICS to be formally prepared and submitted.

KEY SCHEDULES (CONT.)

Schedule D

- ▶ Missing allocation tables on both Fringe and Intermediate allocation schedules. The allocation table must include:
- Allocation base by recipient (i.e., direct labor, overhead, G&A, subcontract costs);
 - The percentage of the total base for each recipient; and
 - The total dollars allocated to each recipient.

ABC, LLC Anywhere, VA						FRINGE																															
FRINGE FISCAL YEAR ENDED 12/31/2014																																					
FRINGE BENEFITS POOL																																					
Account	Account Name	Year to Date			Notes	Ref.																															
		Per G/L	Adjustments	Claimed Amount																																	
4510	Health and Life Insurance	550,000	-	550,000																																	
4520	401(k) Contributions	158,000	-	158,000																																	
4530	Payroll Taxes	37,500	-	37,500																																	
4540	Holiday Leave	34,654	-	34,654																																	
4550	Disability Leave	32,675	-	32,675																																	
Total Pool		812,829	-	812,829																																	
Total Base		3,678,302	-	3,678,302																																	
Fringe Rate				22.10%																																	
<table border="1"> <thead> <tr> <th></th> <th>Fringe Allocated</th> <th>Labor Dollars</th> <th>% of Total</th> <th>Fringe Allocated</th> <th></th> </tr> </thead> <tbody> <tr> <td>Direct Labor</td> <td>2,998,724</td> <td>81.52%</td> <td>\$ 662,656</td> <td>To Sch. H</td> </tr> <tr> <td>Overhead Labor</td> <td>257,036</td> <td>6.99%</td> <td>\$ 56,800</td> <td>To Sch. C</td> </tr> <tr> <td>G&A Labor</td> <td>275,675</td> <td>7.49%</td> <td>\$ 60,918</td> <td>To Sch. B</td> </tr> <tr> <td>Technology Service Center Labor</td> <td>146,867</td> <td>3.99%</td> <td>\$ 32,455</td> <td>To Sch. D</td> </tr> <tr> <td>Total Labor</td> <td>3,678,302</td> <td>100%</td> <td>812,829</td> <td></td> </tr> </tbody> </table>								Fringe Allocated	Labor Dollars	% of Total	Fringe Allocated		Direct Labor	2,998,724	81.52%	\$ 662,656	To Sch. H	Overhead Labor	257,036	6.99%	\$ 56,800	To Sch. C	G&A Labor	275,675	7.49%	\$ 60,918	To Sch. B	Technology Service Center Labor	146,867	3.99%	\$ 32,455	To Sch. D	Total Labor	3,678,302	100%	812,829	
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Total Labor	3,678,302	100%	812,829																																		

KEY SCHEDULES (CONT.)

Schedule E

► Calculates the allocation bases for all final indirect pools

Schedule E is linked to the following schedules:

- Summary Sched H
- Sched H, Contract Costs
- Schedule C(x), Overhead
- Schedule B, G&A

[ICE MANUAL](#)

RECHECK FORMULAS AND LINKS AFTER COMPLETING SCHEDULE

Enter Company Name Here
Enter Company Location Here
Claimed Allocation Bases by element of cost used to distribute indirect costs
Fiscal Year End - mm/dd/yyyy

SCHEDULE E
ICE (version 2.0.1e)

Fringe Pool	PER G/L, F/S & TRIAL BAL/FS	PER G/L ADJUSTMENTS	CLAIMED	Notes	Ref.
Fringe Pool	\$ -	\$ -	\$ -		Fringe
Fringe Base:					
G&A Labor	\$ -		\$ -		Fringe
Direct Labor	-		-		"
Indirect Labor (Overhead Pools)	-		-		"
Indirect Labor (Intermediate Pools)	-		-		"
Total Fringe Base	\$ -	\$ -	\$ -		
Fringe Rate	0.00%		0.00%		

Fringe Base* - Straight time direct and indirect labor dollars.

G&A Pool	PER G/L, F/S & TRIAL BAL/FS	PER G/L ADJUSTMENTS	CLAIMED	Notes	Ref.
G & A Base:					
Contract Labor			\$ -		Summary Sched H
Contract Travel			-		"
Contract Material			-		"
Other Direct Costs			-		"
Subcontracts			-		"
Subtotal = DIRECT COSTS			\$ -		
General Ledger Overhead (before adjustments)			-		Sched C (x)
Less: IR&D/B&P O/H transferred to G & A pool.			-		SCHED B
IR &D O/H (at G/L rate)			-		"
B&P O/H (at G/L rate)			-		"
Less: Material related costs to arrive at Value Added base.			-		
Direct Material			-		
Subcontracts			-		
Other Misc Adjustments to G&A Base (provide detailed support)			-		
G&A Base - Value Added (excludes IR&D/B&P and COM)			\$ -		
G&A Rate	0.00%		0.00%		

KEY SCHEDULES (CONT.)

Schedule E

- ▶ Costs in each base should be broken down and by line item and entered as a link to other inputs in the ICS, such as schedules H or otherwise
- ▶ Schedule A should reference base amounts included on Schedule E
- ▶ Adjustments should be thoroughly explained via footnotes
- ▶ No information should be hardcoded
- ▶ Allocation bases for intermediate pools are sometimes incorporated as well*
- ▶ Example allocations bases include:
 - G&A: Total Cost Input (TCI) or Value Added (TCI less direct subcontracts and direct materials)
 - Subcontracts and Material Handling (SM&H): direct subcontracts and direct materials
 - Overhead: direct labor, and fringe, plus B&P/IR&D labor and B&P/IR&D fringe
 - Fringe: total labor, FTE, headcount
 - Facilities: square footage or headcount

*The intermediate allocation bases will also need to be included on Schedule D

KEY SCHEDULES (CONT.)

Schedule E

- ▶ Explanation of all allocation bases must be included and match its description.

ABC, LLC Anywhere, VA					SCHEDULE E
CLAIMED ALLOCATION BASES BY COST ELEMENT OF COST USED TO DISTRIBUTE INDIRECT COSTS FISCAL YEAR ENDED 12/31/14					
DESCRIPTION	Allowable Costs	Unallowable Costs	Total	NOTES	
Fringe Pool:					
	\$ 765,398	-	\$ 765,398	Sch. Fringe	
Fringe Base:					
Total Labor Dollars	\$ 6,754,398	\$ -	\$ 6,754,398	Sch. E-1	
Fringe Cost Base is total labor dollars for all full and part-time employees.					
G&A Pool:					
	\$ 987,543	\$ -	\$ 987,543	Sch. B	
G&A Base:					
Contract Direct Costs					
Labor	\$ 777,568		\$ 777,568	Sch. H	
Fringe	136,353		136,353	Sch. H	
ODCs	4,743,088		4,743,088	Sch. H	
Materials & Subcontracts	126,582		126,582	Sch. H	
Indirect Expenses	159,868		159,868	Sch. H	
Total Direct Costs	\$ 5,943,459	-	\$ 5,943,459		
Overhead Before Adjustments	\$ 140,785		\$ 140,785	Sch. C	
Value Add Base	\$ 6,084,244	-	\$ 6,084,244	Sch. B	
G&A Base is total direct and indirect costs, except G&A, material and subcontract costs (value-added cost input).					

KEY SCHEDULES (CONT.)

Schedule F

Facilities Capital Cost of Money (FCCM)

- Costs associated with facilities capital used to perform a contract
- Cost of money rate is the arithmetic mean of the interest rates (most recent) specified by the Secretary of the Treasury (CAS 414)
- Applies the cost of money to the capital used, as long as it is allocated correctly and is allowable

Schedule F is linked to the following schedules:
 Schedule F-1, Net Book value of Assets
 Summary Schedule H, Contract Costs
 Schedule E, Bases
[ICE MANUAL](#)

Enter Company Name Here
 Enter Company Location Here

**FACILITIES CAPITAL
 COST OF MONEY FACTORS COMPUTATION**

Fiscal Year End - mm/dd/yyyy

SCHEDULE F
 ICE (version 2.0.1e)

Computing COM Rate:			
Treasury	Rate	Mos.	COM Rate
Jan - Jun		6.00	0.000%
Jul - Dec		6.00	0.000%
			0.000%

Months percentage added for demonstration purposes - adjust as needed

RECHECK FORMULAS AND LINKS AFTER COMPLETING SCHEDULE

		NBV Sched F-1			BASES Sched E				
Company 1		1. Applicable	2. Accumulation	3. Allocation of	4. Total Net	5. COM for Cost	6. Allocation	7. Facilities	
Cost Accounting Period 20xx		Cost of Money	& Distribution of	Undistributed	Book Value	Accounting	Base For	Capital COM	
		Rate	NBV	(Basis Of Allocation)	(Column 2+3)	(Column 1*4)	In units	(Column 5/6)	
		0.00%					of measure		
Business Unit Facilities Capital	Recorded								
	Leased Property								
	Corporate/Group								
	Total								
	Undistributed								
	Distributed								
Overhead Pools	Unused							0.00000	
	Unused							0.00000	
	LESS: COM on IR&D/B&P Labor:								
	Unused							0.00000	
	Unused							0.00000	
	Subtotal								
G&A Expense Pools	G & A								
	ADD: COM on IR&D/B&P Labor								
	Subtotal:							0.00000	
TOTAL									

Sum Sched H

KEY SCHEDULES (CONT.)

Schedule H

- ▶ Project status reports or detailed project ledgers are traditionally used to compile direct costs for each contract
- ▶ Indirect rates (as calculated in Schedule A) are applied to the direct contract costs to determine the total indirect expenses for each contract
- ▶ Only Flexibly Priced Federal awards are required to be separately identified on Schedule H (at billing level), commercial or other non-Federal contracts can be aggregated as one line item
- ▶ Best Practices:
 - Include federal agency/customer name, by award
 - Differentiate between claimed and unclaimed (non-billable) direct costs by cost element and applied indirect costs
 - Include a column which totals both claimed and unclaimed amounts, by cost element
 - Reconcile total costs incurred on Schedule H to Trial balance or detailed General Ledger
 - Include attributes of clients accounting structure (i.e., project codes) into schedule to allow for simple edits
 - Calculate indirect rate caps on this schedule for greatest efficiency and easy linkage to Schedule I
 - Use commercial 'plug' to save time, if appropriate

KEY SCHEDULES (CONT.)

Schedule H

- ▶ Prime/Sub Contract numbers must be included on the Schedule H and be consistent across Schedules H, I, J, and K.
- ▶ Prepared at the billing level
- ▶ Best Practice: Include customer name/federal agency, by award.

ABC, LLC. Anywhere, VA FISCAL YEAR ENDED 12/31/14 SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT AND INDIRECT EXPENSE APPLIED AT CLAIMED RATES																		SCHEDULE H	
Award Type	Customer Name	Project No.	Project Name	Contract No.	Subcontract No.	Direct Labor	Travel	ODCs	Total Direct Costs - Value Add	Materials	Subcontracts	Sch. A 20.56% Allowable Fringe	Sch. A 15.45% Allowable Overhead	Value Add Direct Costs Plus Fringe & OH	Sch. A 8.35% G&A	Total M&S	Sch. A 4.56% M&S Handling	Grand Total	
COST TYPE																			
CPAF	(Agency)	100	ABC	ABC-123-000		3,255	5,554	6,644	15,453	-	-	669	606	16,729	1,397	-	-	18,125	
CPFF	(Agency)	101	DEF	ABC-234-000	STU	4,523	4,344	55,533	64,400	4,663,000	344,422	930	842	66,172	24,592	5,007,422	228,338	5,326,525	
COST TYPE TOTAL						7,778	9,898	62,177	79,853	4,663,000	344,422	1,599	1,449	82,901	25,988	5,007,422	228,338	5,344,650	
T&M	(Agency)	200	GHI	CDE-456-000	VWX	345,435	43,533	6,332	395,300	-	553,322	71,021	64,343	530,664	46,417	553,322	25,231	1,155,635	
T&M TOTAL						345,435	43,533	6,332	395,300	-	553,322	71,021	64,343	530,664	46,417	553,322	25,231	1,155,635	
Fixed Price	(Agency)	300	JKL	EFG-678-000		15,345	2,567	664	18,576	55,633	-	3,155	2,858	24,589	2,265	55,633	2,537	85,024	
FIXED PRICE TOTAL						15,345	2,567	664	18,576	55,633	-	3,155	2,858	24,589	2,265	55,633	2,537	85,024	
COMMERCIAL		500	MNO	HIJ-932-029		125,555	13,000	1,409	139,964	-	-	25,814	23,387	189,165	15,795	-	-	204,960	
IR&D/B&P		900	PQR			34,229	986	283	35,498	-	-	7,037	6,376	48,911	-	-	-	48,911	
GRAND TOTAL						528,342	69,984	70,865	669,191	4,718,633	897,744	108,627	98,412	876,230	90,466	5,616,377	256,107	6,839,180	
												Sch. C		Sch. B		Sch. C-1			
												5,616,377 Sch. E- Mat. & Sub Handling							

KEY SCHEDULES (CONT.)

Schedules B through E to H

- ▶ Pool and Base amounts on Schedules B through E must tie to Schedule H.

ABC, LLC Anywhere, VA				
CONTRACTOR SITE OVERHEAD FISCAL YEAR ENDED 12/31/2014				
OVERHEAD POOL				
Account	Account Name	Year to Date Per G/L	Adjustments	Claimed Amount
7000	Overhead Labor	53,892	-	53,892
7010	Labor Non Allowable	2,494	-	2,494
7020	Travel	14,632	-	14,632
7030	Professional Fees	17,932	-	17,932
	Subtotal Overhead Pool	88,950	-	88,950
Intermediate Allocation				
	Tech Svc Center Allocation	9,462	-	9,462
	Total Overhead Pool	98,412	-	98,412
	BASE TOTAL	636,900	-	636,900
	Overhead Rate			15.45%

Schedule C

ABC, LLC. Anywhere, VA FISCAL YEAR ENDED 12/31/14 SCHEDULE OF DIRECT COSTS BY CONTRACT/SUBCONTRACT AND INDIRECT EXPENSE APPLIED AT CLAIMED RATES							
Award Type	Customer Name	Allowable Overhead	Direct Costs Plus Fringe & OH	G&A	Total M&S	M&S Handling	Grand Total
		Sch. A 15.45%		Sch. A 8.35%		Sch. A 4.56%	
COST TYPE							
CPAF	(Agency)	606	16,729	1,397	-	-	18,125
CPFF	(Agency)	842	66,172	24,592	5,007,422	228,338	5,326,525
COST TYPE TOTAL		1,449	82,901	25,988	5,007,422	228,338	5,344,650
T&M	(Agency)	64,343	530,664	46,417	553,322	25,231	1,155,635
T&M TOTAL		64,343	530,664	46,417	553,322	25,231	1,155,635
Fixed Price	(Agency)	2,858	24,589	2,265	55,633	2,537	85,024
FIXED PRICE TOTAL		2,858	24,589	2,265	55,633	2,537	85,024
COMMERCIAL		23,387	189,165	15,795	-	-	204,960
IR&D/B&P		6,376	48,911	-	-	-	48,911
GRAND TOTAL		98,412	876,230	90,466	5,616,377	256,107	6,839,180
		Sch. C		Sch. B		Sch. C-1	

SCHEDULE H

A

B

KEY SCHEDULES (CONT.)

Schedule K

- ▶ Details are in the same level used for billing.
- ▶ All contracts identified as T&M on Schedule H are reported on Schedule K.
- ▶ ODCs and Travel costs tie to Schedule H.

SCHEDULE K			
ABC, LLC			
Anywhere, VA			
SUMMARY OF HOURS/AMOUNTS ON T&M/LABOR HOURS CONTRACTS			
FISCAL YEAR ENDED 12/31/2014			
	Contract No.	120-434	
	Task:	A123	
Contractor Labor Category	Rate	Hrs	Amount
<u>LABOR</u>			
Labor- Category I	54.09	45.00	\$ 2,434
Labor- Category II	79.54	132.00	\$ 10,499
Labor Support I	66.56	35.00	\$ 2,330
Labor Support IV	71.87	67.50	\$ 4,851
			20,114
<u>OTHER COSTS</u>			
Material Costs			-
Material Overhead			-
Other Direct Costs			740
Travel Costs			20,654
			21,394
G&A Rate	16.54%	Sch A	6,865
		Sub-total	28,259
		Total	\$ 48,374
		Task Ceiling	\$ 50,000

Same level detail as used for billing

Must Match Sch H

KEY SCHEDULES (CONT.)

Schedule I

- ▶ Current year claimed costs are linked from Schedule H (cost reimbursement) and Schedule K (time and materials) and added to prior year settled/claimed costs
- ▶ Billed costs are determined from the final invoice of the Contractor's fiscal year and should be the cumulative billing figure for the award
- ▶ Intent of Schedule I is to calculate the total over or (under) billing on all Federal awards
- ▶ Other considerations:
 - 'Contract Limitations, Rebates, Credits' column should be used for adjustments to claimed costs such as:
 - ✓ Excess costs above contract ceiling rates/amounts,
 - ✓ Unallowable costs per contract terms,
 - ✓ Cost incurrence outside of the period of performance,
 - 'Net Cumulative Settled or Claimed' column should not exceed the total contract ceiling
 - Indicate whether awards are 'physically complete' and reported on Schedule O
 - Cumulative Billings should identify Fee amounts, where appropriate, and not include these amounts 'Over/Under Billing' column

KEY SCHEDULES (CONT.)

Schedule I

- ▶ Fiscal Year current dollars should reconcile to Sch. K for T&M contracts and Sch. H for cost type contracts.
- ▶ Contracts identified as physically complete are reported on Schedule O.
- ▶ Contracts subject to penalty provision are identified.
- ▶ Prior FYEs' costs should be carried forward from and reconcile to prior FYE ICS'.
- ▶ Cumulative billed costs should exclude fee amounts for cost-type contracts.
- ▶ Inclusion of contract limitations to prevent overstating claimed costs.

ABC, LLC Anywhere, VA														SCHEDULE I	
SCHEDULE OF CUMULATIVE DIRECT AND INDIRECT COSTS															
CLAIMED AND BILLED COST / FLEXIBLY PRICED AND TIME AND MATERIAL CONTRACTS															
FISCAL YEAR ENDED 12/31/2014															
CONTRACT TYPE	CONTRACT NO.	Subcontract No.	Order No.	Subject to Penalty Clause	Prior Years Settled Total	FYE 12/31/10	FYE 12/31/12	FYE 12/31/13	FYE 12/31/14	Total Cumulative Settled or Claimed	Less: Contract Limitations, Rebates & Credits	Net Cumulative Settled or Claimed	Cumulative Costs Billed AMOUNT (LESS FEE)	OVER (UNDER) BILLED	Physically Complete
SCH H															
Cost Type Contracts															
CPFF	ABC-123	007643	345	N	-	56,744	55,673	556,778	123,400	792,595	0	792,595	792,600	5	YES
CPFF	DEF-456		347	Y	-	-	635,422	876,662	454,688	1,966,772	0	1,966,772	1,966,772	-	NO
CPFF	GHI-789	007645	586	Y	-	-	8,765,422	5,533,322	6,677,888	20,976,632	0	20,976,632	20,977,600	968	YES
CPFF	JKL-654		647	N	-	600,703	2,333,400	4,455,673	557,774	7,947,550	0	7,947,550	7,947,500	(50)	YES
CPFF	MNO-321	007647	737	Y	-	4,556,555	6,664,334	5,666,633	637,655	17,525,177	0	17,525,177	17,525,177	-	NO
Subtotal CPFF Contracts					\$ -	\$ 5,214,002	\$ 18,454,251	\$ 17,089,068	\$ 8,451,405	\$ 49,208,726	\$ -	\$ 49,208,726	\$ 49,209,649	\$ 923	
SCH K															
Time & Material Contracts															
T&M	PQRS		227	N	-	45,622	5,552	224	4,442	55,840	0	55,840	55,840	-	YES
T&M	TUVW		619	N	-	-	5,443	555	33,345	39,343	0	39,343	39,343	-	NO
Subtotal T&M Contracts					\$ -	\$ 45,622	\$ 10,995	\$ 779	\$ 37,787	\$ 95,183	\$ -	\$ 95,183	\$ 95,183	\$ -	

KEY SCHEDULES (CONT.)

Schedule J

- ▶ Period of Performance and Subcontract Numbers must be included.
- ▶ Inclusion of all subcontracts awarded to flexibly-priced contracts (detailed out).
- ▶ Best Practice: Lump fixed-price and commercial awards and tie to schedule H.
- ▶ Total subcontracts presented on Schedule J must tie to Schedule H.

ABC, LLC Anywhere, VA										SCHEDULE J
SUBCONTRACT INFORMATION FISCAL YEAR ENDED 12/31/14										
<u>SUBCONTRACT NO.</u>	<u>PRIME CONTRACT NO.</u>	<u>Project Code</u>	<u>NAME AND ADDRESS</u>	<u>POINT OF CONTACT</u>	<u>VALUE</u>	<u>START DATE</u>	<u>END DATE</u>	<u>2014 TOTAL COSTS INCURRED</u>	<u>AWARD TYPE</u>	
Cost-type subcontracts issued under flexibly priced prime contracts – Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>										
654-777-765-000	ABC-1213	123	Name and Address	POC Name Address Phone Number	\$ 16,750	Jan/23/2010	Jan/22/2016	\$ 6,753	CPFF	
763-654-879-001	STU-5055	124	Name and Address	POC Name Address Phone Number	\$ 78,150	Jul/23/2012	Oct/22/2017	\$ 76,321	CPFF	
764-888-653-007	EDG-4987	125	Name and Address	POC Name Address Phone Number	\$ 236,000	Mar/15/2011	Mar/14/2019	\$ 98,765	CPFF	
T&M/LH subcontracts issued under flexibly priced prime contracts – Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										
283-458-298-294	MRY-8392	293	Name and Address	POC Name Address Phone Number	\$ 15,000	Apr/06/2012	Dec/31/2018	\$ 45,500	T&M	
Incentive subcontracts under flexibly priced prime contracts: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										
Subcontract orders based on cost issued under IDIQ prime contracts: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										
Subcontract orders based on cost issued under IDIQ prime contracts: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										
Inter-divisional/intercompany and FFP effort issued under flexibly priced prime contracts: Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>										
Total Subcontract Costs Reported on Schedule J								\$ 227,339		
Total FFP Subcontract Costs Presented on Schedule H								181,839		
Total Commercial Subcontract Costs Presented on Schedule H								715,905		
Total								\$ 1,125,083	Sch H	
Recon								\$ 1,125,083	Sch H	
								\$ -		

KEY SCHEDULES (CONT.)

Schedule L

- ▶ Reconciliation of Total Payroll to Total Labor Distribution
 - Ties total labor expense to IRS Form 941's
 - Payroll information should be entered directly from Form 941
 - Labor distribution information is entered using links from schedule H (for direct labor) and schedules B, C, and D (indirect labor expenses)
 - Total 941 amount needs to reconcile to the labor totals from the rest of the ICS

Schedule O

- ▶ Contract Closing Information
 - Use only for contracts 'physically' completed the fiscal year of ICS
 - Includes the following information on each closed contract, broken out by contract type:
 - Contract Number
 - Performance Period
 - Whether or not it is ready to close
 - Contract ceiling amount
 - Contract fee
 - Level of Effort cumulative hours, actual and required

KEY SCHEDULES (CONT.)

Schedule L

Schedule L is linked to the following schedules:

- [Schedule C, Overhead](#)
- [Schedule B, G&A](#)
- [Schedule D, Occupancy](#)
- [Schedule H, Claimed Allocation Bases](#)
- [ICE MANUAL](#)

SCHEDULE L
ICE (version 2.0.1e)
RECHECK FORMULAS!

Enter Company Name Here
 Enter Company Location Here

Reconciliation of Total Payroll per IRS form 941 to Total Labor Costs Distribution

Fiscal Year End - mm/dd/yyyy

NOTE: Hidden rows have been inserted that will allow for automatic adjustment of the column totals when additional rows are inserted
 NOTE: Links not established for indirect costs because they have to be linked to account numbers inserted by contractor.

Acct No.	Description	General Ledger	Reference
	Direct Labor	-	Summary SCHED H
	General & Administrative:		SCHED B
	Salaries	-	link from Schedule B
	Holiday Wages	-	
	Vacation Wages	-	
	Sick Leave	-	
	Personal Absence	-	
	Overhead Pools (incl Fringe):		SCHED C (x)
	Wages	-	link from Schedule C
	Holiday Wages	-	
	Vacation	-	
	Sick Leave	-	
	Severance Pay (in full)	-	
	Intermediate Pools:		SCHED D (x)
	Occupancy Wages	-	link from schedule D
	Overtime Premium (in ODCs)	-	
	Overtime Premium	-	
	Other Adjustment to arrive at Total Payroll Distributed (Provide detailed support)	-	
	TOTAL LABOR DISTRIBUTION	-	
		<u>PER IRS FORM 941</u>	
	1ST QTR.		
	2ND QTR.		
	3rd QTR.		
	4th QTR.		
	Plus: Current Year Accrual		
	Minus: Prior Year Accrual		
	Other Adjustments		
	TOTAL PAYROLL	-	

KEY SCHEDULES (CONT.)

Schedule L

- ▶ Salary and Wages reported on Schedule L must reconcile to corresponding pools.
- ▶ Acceptable variance regarded as “immaterial” varies depending on auditor judgment.

ABC, LLC Anywhere, VA			Schedule L
Reconciliation of Total Payroll per IRS to Total Labor Costs Distribution FISCAL YEAR ENDED 12/31/14			
Acct No.	Description	General Ledger	Reference
	Direct Labor	528,342	Sch H
	General & Administrative:		
8000	Labor	265,766	Sch B
	Fringe:		
4100	Health and Life Insurance	550,000	Sch Fringe
4200	401(k) Contributions	158,000	Sch Fringe
4300	Payroll Taxes	37,500	Sch Fringe
4400	Holiday Leave	34,654	Sch Fringe
4500	Disability Leave	32,675	Sch Fringe
	Total	1,606,937	
		PER IRS FORM 941	
	1ST QTR.	450,890	
	2ND QTR	325,966	
	3rd QTR.	276,989	
	4th QTR.	350,987	
	Plus: Current Year Accrual	156,777	
	Minus: Prior Year Accrual	38,997	
	Other Adjustments: Medical FSA	5,654	
	TOTAL PAYROLL	1,606,260	
	Variance	677	0.04% (variance % of total payroll costs)

KEY SCHEDULES (CONT.)

Schedule O

This Schedule does not contain any links to other schedules.

MANUAL ENTRIES

[ICE MANUAL](#)

SCHEDULE O
ICE (version 2.0.1e)

Enter Company Name Here
Enter Company Location Here

Schedule of Contract Closing Information
for those Contracts which Work Effort was Completed During
Fiscal Year End - mm/dd/yyyy

<u>Contract No.</u>	<u>Order No.</u>	<u>Performance Period</u>		<u>Ready To Close(1)</u>	<u>Contract Ceiling</u>		<u>(if applicable) Level of Effort Cumulative Hours</u>		<u>Notes</u>
		<u>From</u>	<u>To</u>		<u>Amount</u>	<u>(2) Fee(3)</u>	<u>Required</u>	<u>Actual</u>	

Cost Type:

Time & Material

KEY SCHEDULES (CONT.)

Schedule O

- ▶ Contracts identified as physically complete on Schedule I are reported on Schedule O (and vice versa, should reconcile).
- ▶ Schedule O should contain LOE information, period of performance and ceiling information, where applicable.

SCHEDULE O										
ABC, LLC Anywhere, VA										
SCHEDULE OF CONTRACT CLOSING INFORMATION FOR THOSE CONTRACTS WHICH WORK EFFORT WAS COMPLETED DURING FISCAL YEAR FISCAL YEAR ENDED 12/31/2014										
Contract Type	Order No	Contract No.	Performance Period		Ready to Close	Contract Ceiling(Value)	Fees	Level of Effort - Cumulative Hours		Notes
			From	To				Required	Actual	
CPFF	7643	ABC-123-456	Feb/12/2010	Oct/16/2014	YES	800,600	875,000	N/A	N/A	[1]
T&M	8645	DEF-789-101	Mar/20/2012	Oct/01/2014	YES	20,980,000	-	167,235	167,235	
T&M	8646	GHI-112-131	Jun/15/2010	May/31/2014	YES	7,955,500	-	64,832	64,899	

Notes:
[1] Level of Effort does not apply to these contracts.

SUPPLEMENTAL SCHEDULES

- ▶ Below is a list of supplemental schedules:

Supplemental Schedules

- Supplemental A - Comparative Analysis of Indirect Expense Pools Detailed by Account with Prior Year and Budgetary Data
- Supplemental B - General Organization and Executive Compensation Information
- Supplemental C - Identification of Prime Contracts Under Which the Contractor Performs as a Subcontractor
- Supplemental D - Description of Accounting System
- Supplemental E - Procedures for Identifying and Excluding Unallowable Costs from the Costs Claimed and Billed
- Supplemental F - Certified Financial Statements and Other Financial Data
- Supplemental G - Management Letter from Outside Certified Public Accountants (CPAs) Concerning any Internal Control Weaknesses
- Supplemental H - Actions that have been and/or will be implemented to correct the weaknesses described in the Management Letter

SUPPLEMENTAL SCHEDULES (CONT.)

- ▶ Below is a list of supplemental schedules:

Supplemental Schedules

- Supplemental I - List of all internal audit reports issued since the last disclosure of internal audit reports to the Government
- Supplemental J - Annual internal audit plan of scheduled audits to be performed in the fiscal year when the final indirect cost rate submission is made
- Supplemental K - Federal and State Income Tax Returns
- Supplemental L - Securities and Exchange Commission 10-K Annual Report
- Supplemental M - Minutes from Board of Directors (or Trustees) meetings
- Supplemental N - Listing of delay claims and termination claims submitted which contain costs relating to the subject fiscal year
- Supplemental O - Contract Briefings; which generally includes a synopsis of all pertinent contract provisions

TOTAL COST RECONCILIATION

- ▶ Purpose is to ensure total costs per the trial balance reconcile to total cost claimed

Reconciliation of Total Costs per ICS to TB ICS FY 2016			
Reconciliation of Total Costs per ICS to TB			
	Amount	Reference	Notes
Total Costs per ICS:			
Total Claimed Costs	11,743,498	Sch H	
Unbillable Direct Costs	314,811	Sch H	
G&A Adjustments	(6,080,424)	Sch B	
Total Costs per ICS	<u>5,977,885</u>		
Costs per TB:			
Costs per TB	<u>5,977,885</u>	TB to ICS	
Variance	<u><u>-</u></u>		
<u>NOTES:</u>			

TRIAL BALANCE TO ICS RECONCILIATION

- ▶ Purpose is to ensure total costs per the trial balance reconcile to direct and indirect schedules before adjustments and intermediate allocations

Trial Balance			Fringe (Full)	Fringe (Limited)	Fringe (Other)	Fringe (SCA)	Schedule B	Schedule C	Schedule H			
Account Number	Account Description	Balance	Fringe	Fringe	Fringe	Fringe	G&A	Overhead	Direct Costs	Total	Variance	Notes
0400-000-00	PTO EXPENSE	-	-	-	-	-	-	-	-	-	-	-
0400-039-00	PTO EXPENSE	94,697.01	94,697	-	-	-	-	-	-	94,697	-	-
0400-040-00	PTO EXPENSE	33,807.09	-	33,807	-	-	-	-	-	33,807	-	-
0400-042-00	PTO EXPENSE	55,338.17	-	-	-	55,338	-	-	-	55,338	-	-
0425-042-00	VISION INSURANCE	43.40	-	-	-	43	-	-	-	43	-	-
0427-039-00	BENEFIT ADMIN FEES	301.85	302	-	-	-	-	-	-	302	-	-
0427-040-00	BENEFIT ADMIN FEES	13.00	-	13	-	-	-	-	-	13	-	-
0427-042-00	BENEFIT ADMIN FEES	112.29	-	-	-	112	-	-	-	112	-	-
0500-301-00	OVERHEAD LABOR - DIV 1	1,009.47	-	-	-	-	-	1,009	-	1,009	-	-
0521-001-00	BUSINESS INSURANCE	40,657.03	-	-	-	-	-	40,657	-	40,657	-	-
0523-000-00	OFFICE SUPPLIES	3,368.83	-	-	-	-	-	3,369	-	3,369	-	-
0523-301-00	OTHER FACILITIES COST	7,013.00	-	-	-	-	-	7,013	-	7,013	-	-
0524-000-00	POSTAGE AND DELIVERY	655.13	-	-	-	-	-	655	-	655	-	-
0525-000-00	UTILITIES	47.05	-	-	-	-	-	47	-	47	-	-
0580-301-00	SC ALLOCATION IN - DIV 1	1,058.31	-	-	-	-	-	1,058	-	1,058	-	-
0700-001-00	G&A LABOR	95,565.71	-	-	-	-	95,566	-	-	95,566	-	-
0702-001-00	CONSULTANTS	5,802.50	-	-	-	-	5,803	-	-	5,803	-	-
0921-001-00	INTEREST INCOME	(8.97)	-	-	-	-	(9)	-	-	(9)	-	-
0922-001-00	CFSS ALLOCATION - UNALLOW	6,698.41	-	-	-	-	6,698	-	-	6,698	-	-
SFX ACCT 39	DIRECT LABOR - FULL	1,043,747.18	-	-	-	-	-	-	1,044,349	1,044,349	601	1
SFX ACCT 40	DIRECT LABOR-LIMITED	625,133.30	-	-	-	-	-	-	625,223	625,223	89	2
SFX ACCT 41	DIRECT LABOR-OTHER	1,523.04	-	-	-	-	-	-	1,523	1,523	-	-
SFX ACCT 56	UNBILLABLE COSTS	10,163.24	-	-	-	-	-	-	10,163	10,163	-	-
SFX ACCT 39	DIRECT LABOR -FULL	601.36	-	-	-	-	-	-	-	-	(601)	1
SFX ACCT 40	DIRECT LABOR-LIMITED	89.47	-	-	-	-	-	-	-	-	(89)	2
SFX ACCT 44	NAVAR ODC'S	65,273.59	-	-	-	-	-	-	-	-	(65,274)	4
		<u>5,977,885.05</u>	<u>538,450</u>	<u>142,208</u>	<u>-</u>	<u>700,714</u>	<u>(4,491,633)</u>	<u>98,553</u>	<u>8,989,592</u>	<u>5,977,885</u>	<u>(0)</u>	

DCAA INCURRED COST SUBMISSION ADEQUACY CHECKLIST

- ▶ Best Practice: Use the DCAA Incurred Cost Submission Adequacy Checklist as an basis for internally reviewing the submission prior to forwarding it to the Contracting Officer and auditor. It can be found at: http://www.dcaa.mil/Guide_for_Determining_Adequacy_of_Contractor_Incurred_Cost_Proposal.pdf

DEFENSE CONTRACT AUDIT AGENCY				
GUIDE FOR DETERMINING ADEQUACY OF CONTRACTOR INCURRED COST PROPOSAL				
Sch	Final Indirect Cost Rate Proposal	Received Y/N/NA	Adequate Y/N	Comments
B	General & Administrative (G&A) Expenses (Final Indirect Cost Pool)			
	<ul style="list-style-type: none"> Ensure identification of unallowable costs by using an adjustment column or specific account for unallowable costs. 			
	<ul style="list-style-type: none"> Verify the contractor included explanatory notes for any adjustments from expenses booked per G/L to claimed costs. 			
	<ul style="list-style-type: none"> Trace intermediate allocations to source schedules (e.g., Schedule B intermediate allocation amounts to Schedule D allocations). 			
	<ul style="list-style-type: none"> Determine if claimed IR&D/B&P is fully burdened. (The proper calculation of IR&D/B&P is an audit step. For the adequacy determination, verify that these costs have applicable fringe and overheads applied.) 			

KEY TAKEAWAYS

- ▶ Purpose is to establish final annual indirect cost rates and determine over/under
 - Required to submit within 6-months of each of its fiscal year end (FAR 52.216-7)
- ▶ Schedules B, E, and H are where the most common errors occur
- ▶ Scrub unallowable activity from high risk accounts (“trigger accounts”)
 - Ensure proper documentation is maintained for costs incurred!
 - Leverage Salary Surveys to the maximum extent practicable
- ▶ Ensure unallowable overhead expenses are included in the G&A base
- ▶ Perform reconciliations and check your work!
- ▶ 2018 Report to Congress Coming Soon!

AUDIT TRENDS

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



UNALLOWABLE COSTS

- ▶ Review submission for proper exclusion of unallowable expenses in accordance with the cost principles found at FAR Part 31 (46 cost principles)

- ▶ Types of Unallowable costs:
 - Expressly unallowable costs (7 of 46; i.e., Alcohol)
 - Costs with limitations
 - Mutually agreed to be unallowable costs (i.e. per contract terms)
 - Directly associated costs

- ▶ If a cost is not specifically identified in FAR Part 31, could still be unallowable if it doesn't meet the allowability criteria:
 - Reasonable?
 - Allocable?
 - Complies with contract terms?
 - GAAP/CAS compliant?
 - Adequately Supported?

- ▶ Following penalties (FAR 42.709-1) may apply for including unallowable costs in billings, claims, or proposals:
 - Disallowance of cost plus the amount equal to disallowance
 - Interest on the paid portion, if any, of the disallowance
 - If the indirect cost was determined to be unallowable for that contractor prior to the submission of Incurred Cost Proposal, the penalty is 2x the disallowed amount.

- ▶ The unallowable costs do not have to have been paid in order to assess a penalty

AUDIT TRENDS

- ▶ Consultants
 - Standardize documentation required from consultants (e.g., consulting agreements, sufficient detail for invoices)
 - Market analysis of billing rates should help support agreements
 - Substance of the documentation is key to supporting cost incurred

- ▶ Executive Compensation
 - Ensure your HR Department has a standard processes for developing “compensation bands” (Written Compensation Plan/Policy)
 - Utilize salary surveys to the maximum extent practicable (e.g., Towers Watson, ERI, Mercer, Radford)
 - Approximately \$540,000, for FY19, based on applied escalation factors from the Bureau of Labor Statistics (BLS)^{1,2}

- ▶ Bonuses
 - Documented bonus plan establishing parameters (e.g., who is eligible, timing of payouts, and how bonuses are calculated)
 - Employment agreements outlining potential compensation

Notes:

1. Section 702 of the Bipartisan Budget Act of 2013 (BBA; Pub. L. 113-67, December 26, 2013) established a \$487,000 cap on the reimbursement of compensation costs for contractor employees, adjusted annually to reflect the change in the Employment Cost Index for all workers as calculated by the Bureau of Labor Statistics (BLS)
2. Current FY Cap Amount = Prior FY Cap Amount x Change in Employment Cost Index for all workers [i.e., BLS Table 4. Compensation (Not Seasonally Adjusted) Employment Cost Index for total compensation, for civilian workers, by occupational group and industry. (Twelve Months Ended September 30)]

AUDIT TRENDS, CONT.

- ▶ Medium and small contractors will receive more attention from DCAA
- ▶ Quicker contract close outs
 - Contracting officers can avoid negotiations and go straight to closing out contracts using rates established by DCAA
- ▶ Continued use of multi-year audits (less favorable for Contractors)
- ▶ Commercially Accepted Standards for Risk and Materiality
 - Provide for both qualitative and quantitative considerations
 - Auditors encouraged to discuss quantitative and qualitative materiality considerations with contracting officers or other government customers
- ▶ Statute of Limitations (6 years per FAR 33.206(b))
 - DCMA may establish rates with the option of a unilateral cost decrement (FAR 42.703-2(c)(1) & 42.705(c)(1))
 - The current rate, updated in 2016, is 16.4 percent

2017 REPORT TO CONGRESS

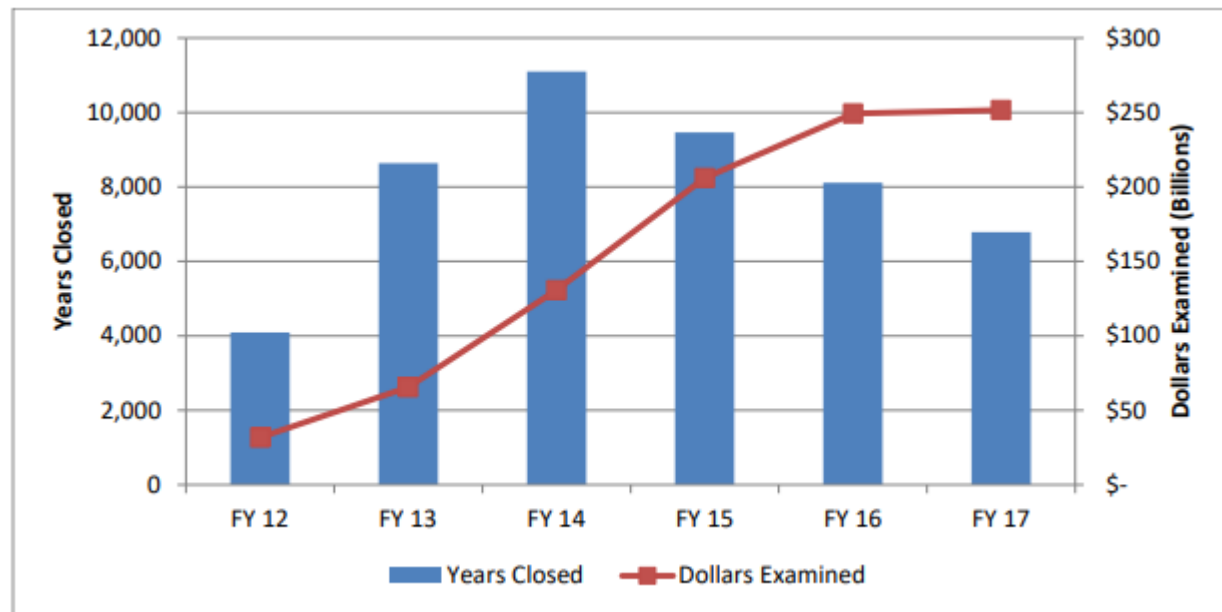
- ▶ Incurred cost audits continued to be a top priority, reducing the backlog to an average age of 14.3 months
 - DCAA expects to be fully compliant with Congress's NDAA mandate that audit backlog inventory must not exceed one year
- ▶ Examined nearly \$281B in defense contractor costs across 3,581 audit reports

	Reports	Dollars Examined
Forward Pricing	761	\$51.4
Incurred Cost	1,527	\$226.1
Special Audits	936	\$3.4
Other Audits	357	\$0.9
Total	3,581	\$281

- ▶ Currently taking DCAA 143 days from the time an ICS audit starts to the time the audit report is issued

2017 REPORT TO CONGRESS

- ▶ Major contractors made up a significant proportion of examined. 6,786 incurred cost years were closed.



- ▶ Only 2,860 incurred cost audits in backlog at the close of 2017
- ▶ Goal is to eliminate ICS backlog by FY2020 but on track for GFY 2018



QUESTIONS?

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