Agenda

• Introduction to the Cost Accounting Standards ("CAS")
  • Overview/Fundamental Requirements
  • Applicability
  • Standards

• CAS Disclosure Statements and Best Practices

• Managing CAS Noncompliances and Cost Impact Assessments

• Recent Developments
Overview

• CAS (48 C.F.R. Pt. 99): establishes cost accounting standards for determining the cost of "final cost objectives"
  • Governs the measurement, assignment and allocation of costs
  • Part of allowability
    • Including compliance with generally accepted accounting principles
    • Separate from cost principles

• Allocation of Costs
  • Cost allocation means "to assign an item of cost, or a group of items of cost, to one or more cost objectives"
  • CAS Preference for direct allocation
  • Fundamental Requirement: costs are allocated on causal or beneficial basis
Overview (cont.)

• Application
  • Requires "triggering" covered contract - $7.5M
  • Then applies to all contracts in excess of $750K unless an exemption applies

• Exemptions include:
  • Competitive firm, fixed price
  • Commercial Items
  • Small Business Exempt

• Effect
  • Consistent application of compliant accounting practices
  • Price reductions for noncompliance; permits recovery under fixed-price contracts
Fundamental Requirements

- Disclose practices (when applicable)
- Follow consistently established cost accounting practices
  - Not just disclosed practices
  - May change prospectively or retroactively within same fiscal year with Administrative Contracting Officer ("ACO") approval
  - Cost impact/price adjustment liability
- Comply with CAS in effect or as later modified (as applicable)
  - Type of CAS coverage
CAS Applicability

• Full v. modified CAS coverage
  • Full
    • Single CAS-covered contract award of $50M or more during prior period; or
    • Business unit received $50M or more in net CAS-covered prime and subcontract awards during prior period
  • Modified
    • CAS-covered contract award greater than $7.5M (trigger), but less than $50M in prior period; and
    • Business unit received less than $50M in CAS-covered awards during prior period
CAS Applicability (cont.)

- Full v. modified coverage (cont.)
  - **Full**
    - Comply with all 19 Cost Accounting Standards
    - DS required
  - **Modified**
    - Comply with CAS 401, 402, 405 and 406
    - May require filing of DS
- **Note:** Some CAS requirements incorporated through cost principles
Figure 8.1.1
CAS Coverage and Disclosure Statement Determination

CAS Exemptions – 48 CFR 9903.201-1(b)

START

Does contract/subcontract meet one of the listed CAS exemptions?

Yes

Negotiated Government contract/subcontract for less than the Truth in Negotiation Act (TINA) Threshold

Sealed bid contract

Contract/subcontract with foreign governments, their agents, or instrumentalities. Exemption does not extend to contract/subcontract with foreign concern which is subject to CAS 401/402.

Firm-fixed-price contract/subcontract awarded on the basis of adequate price competition without submission of certified cost or pricing data

Subcontract under the NATO IFM Ship Program to be performed outside of the United States by a foreign concern

Firm-fixed-price, fixed-price with EPA (except for adjustment based on actual costs), T&M and labor hours contract/subcontract for the acquisition of commercial items

Contract/subcontract price is set by law or regulation

Contract/subcontract with a small business

No

Contract or subcontract is exempt from CAS

Is current award $7.5 Million or more, or is the business unit currently performing a CAS-covered contract or subcontract valued at $7.5 million or more?

Yes

Award is CAS Covered

Is the current award $50 million or more?

Yes

Did the business unit receive $50 million or more in net CAS-covered awards in the preceding cost accounting period?

No

Has the business unit received a single CAS-covered contract/subcontract of $50 million or more during the current cost accounting period?

Yes

Contract/subcontract is subject to full CAS coverage (all 19 Standards)

Business Unit Disclosure Statement required.

No

Did the company together with its segments receive $50 million in net CAS-covered awards during the preceding cost accounting period?

Yes

Are the segment CAS-covered awards during the prior cost accounting period less than $10 million and less than 30% of total segment sales?

No

Disclosure Statement is not required

DCAA Contract Audit Manual
CAS Standards

• CAS provides 18 standards covering various practices
  • CAS 401 through 420 (no 416 and no 419)

• We have categorized into four types for discussion:
  • Consistency
  • Allocation
  • Compensation
  • Tangible Assets / Capital

• Based on "segments"

• Generally contractors have wide discretion to determine their cost accounting practices

• Government has burden of establishing any noncompliance
CAS - Consistency Standards*

- CAS 401 - Consistency in Estimating, Accumulating and Reporting Costs
- CAS 402 - Consistency in Allocating Costs Incurred for the Same Purpose
- CAS 405 - Accounting for Unallowable Costs
- CAS 406 - Cost Accounting Period

*These are the four standards that apply under modified CAS
CAS - Allocation Standards

- CAS 403 - Allocation of Home Office Expenses to Segments
- CAS 410 - Allocation of Business Unit G&A to Final Cost Objectives
- CAS 418 - Allocation of Direct and Indirect Costs
- CAS 420 - Accounting for IR&D/B&P Costs
CAS - Compensation Standards

- CAS 408 - Accounting for the Cost of Compensated Personal Absence
- CAS 415 - Accounting for the Cost of Deferred Compensation
- CAS 412 - Compensation and Measurement of Pension Costs
- CAS 413 - Adjustment and Allocation of Pension Costs
CAS - Tangible Assets and Capital Standards

- CAS 404 - Capitalization of Tangible Capital Assets
- CAS 407 - Use of Standard Costs for Direct Material and Direct Labor
- CAS 409 - Depreciation of Tangible Capital Assets
- CAS 411 - Account for Acquisition Costs of Material
- CAS 414 - Cost of Money as an Element of the Cost of Facilities Capital
- CAS 416 - Accounting for Insurance Costs
- CAS 417 - Cost of Money as an Element of the Cost of Capital Assets Under Construction
CAS Disclosure Statements

• What is it?
  • A written summary of a contractor’s cost accounting practices set forth at 48 C.F.R. 9903.202-9
  • Standard form submitted for segments and home office units
  • DS Form, CASB DS-1

• Who must file?
  • Business unit receiving award of $50M or more
  • Company, together with segments, receiving net awards in prior year of $50M or more
  • Segments of the company allocating costs greater than TINA threshold, unless exempted or low amount of CAS business
  • Home office allocating material amount of costs to disclosing segments
CAS Disclosure Statements (cont.)

• Issues
  • Deviations from disclosed practices potential noncompliance
  • Lack of "adequate" DS may preclude contract award
  • Level of detail in continuation sheets
  • Frequency of amendments
  • Government views everything in DS as cost accounting practice
  • Subcontractor DS
CAS Disclosure Statements - Best Practices

• Best Practices for Developing and Submitting Disclosure Statements
  • Disclosure statement should contain a contractor’s methods or techniques for allocating, assigning, and measuring costs
  • Appropriate level of detail
    • Lesser details – greater flexibility, but more potential for disagreement/confusion
    • Greater details – less flexibility, but potentially less government disagreement/confusion
  • DCAA likely to view anything contained in a DS as an accounting “method or technique”
  • Be wary of DCAA demands for revisions or resubmissions
CAS Noncompliances

• FAR § 52.230-3(a)(4): permits the government to adjust a contract price if CAS noncompliance results in “any aggregate increased costs paid” by the government

• CAS may provide the government with an alternative argument for recovery
  • Permits the government to "re-open" fixed price contracts, so often attempt to assert CAS noncompliance in addition to unallowable costs
  • Any finding of unallowable costs may also result in noncompliance with CAS 405
Managing CAS Noncompliances

- Managing Noncompliances Combining Cost Impacts/Offsets
  - Offsetting increased costs with decreased costs from different/multiple changes or noncompliances
  - CAS and relevant contract clauses silent
  - FAR 30.606 prohibits offsetting, unless only combining increased costs
- Offset prohibitions permit “cherry picking” and potential government windfall
    - For agreements executed after Apr. 8, 2005, FAR 30.606 validly disallows such offsets
    - FAR 30.606 does not allow the government to double-recover for costs added to flexibly priced contracts and subtracted from fixed-price contracts
Managing CAS Noncompliances (cont.)

• Cost Impact Proposals
  • Show estimated increased or decreased costs
    • For each affected CAS-covered contract and subcontract
    • By contract type
    • By agency
  • Requires knowing what contracts were CAS covered and the basis of the pricing
    • Best practice is to maintain a current list of contracts that are subject to full or modified CAS coverage or exempt from CAS
Managing CAS Noncompliances (cont.)

• Two Types of Cost Impact Proposals
  • General Dollar Magnitude (“GDM”)
    • Should contain, at a minimum:
      • Estimate of the aggregate impact on CAS-covered contracts by contract type and by various departments/agencies
    • May use a variety of methods to determine the increase/decrease
      • Representative sample of affected CAS-covered contracts/subcontracts
      • Change in indirect rates multiplied by total estimated base
      • Any other method that provides a reasonable approximation of the total increase/decrease in cost for all affected contracts and subcontracts
Managing CAS Noncompliances (cont.)

• Two Types of Cost Impact Proposals (cont.)
  • Detailed Cost Impact (“DCI”)
    • Should contain data at the contract/subcontract level, including:
      • Fixed price
      • Target/estimated cost
      • Accumulated cost to date
      • Estimate to complete
      • Target profit or fee
      • Sharing ratio
      • Ceiling price
      • Period of performance
      • Profit or fee impact
      • Total increased/(decreased) cost to the government
Updates - NDAA FY 2017 Section 820

• There has been little activity in the last five years from the existing CASB which has prompted some of the changes addressed in Section 820
  • Adjusts the CAS Board's duties to ensure the CAS rely, to the maximum extent practicable, on GAAP
  • Requires the CAS Board to review disputes regarding the standards and consider whether greater clarity in the standards would avoid such disputes
  • Increases the value of contracts for which a CAS waiver may be granted to $100,000,000
  • Revises DCAA acceptance of commercial audit findings
Updates - The Defense CAS Board

• The DOD CASB
  • Designated as an independent Board, 7 Members
  • The DOD CFO, after consultation with the DOD CASB, is to prescribe rules and procedures
  • Exclusive authority, with respect to DOD, to implement CAS to achieve uniformity and consistency
  • Authority to make recommendations to the CASB regarding changes
  • DOD CASB does not have authority to promulgate new standards

• Issues:
  • Potential for conflict when it comes to implementation
  • Effect unclear
Updates - Materiality

• COs abuse discretion when they fail to analyze the materiality of the cost impacts at issue in accordance with CAS 305, Materiality

• Materiality under CAS 305 is mandatory, but COs possess a great deal of discretion to consider the criteria where appropriate, and no one criterion is necessarily determinative

Raytheon Co., Space & Airborne Sys's, ASBCA No. 58068, 16-1 BCA ¶ 36,484
Updates - Not All Financial Accounting Issues Are CAS Governed

- Contractor classified a building lease as an operating lease.
- Government failed to state a claim for a CAS 404 noncompliance because CAS 404, by its plain language, applies only to tangible capital assets and leases are intangible assets.
- Also found that CAS Board intended to allow contractor to determine whether a lease should be treated as a capital lease or an operating lease.

*Exelis, Inc.*, ASBCA No. 60131, 16-1 BCA ¶ 36,485
Thank you

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