NEW DEVELOPMENTS

New FAR Changes

The Government has issued two sets of changes to the Federal Acquisition Regulation in the form of Federal Acquisition Circulars 97-16 and 97-17.

♦ FAC 97-16

The changes, effective March 27, eliminate the paid cost rule, promotes performance based payments and amends the Small Business Demonstration (SBCD) program.

Elimination of “Paid Cost” Rule. The change amends FAR Part 32, “Contract Financing” to eliminate the requirement that large prime contractors pay subcontractor costs – even if they have been incurred – before billing the government for these costs. Previously only small contractors were permitted to bill the government for subcontractor costs incurred but not yet paid. As of March 27, the CO has the discretion to allow the rule while for all solicitations issued after May 25 the rule is mandatory. Though further guidance on what is meant by “incurred” is likely to be issued, the rule currently considers cost to be incurred when payment to the subcontractor is made in accordance with terms and conditions of the subcontract or invoice and ordinarily prior to submission of the contractor’s next payment request to the Government.

Performance Based Payment Rules. The FAC makes other changes to FAR Part 32 intended to promote the use of performance based payments as the “preferred” means of contract performance. (Performance based payments are triggered by specific contract events such as set milestones or defined performance events). Significant changes include:

  a. COs should choose performance-based rather than cost based payments unless it is “impractical”
  b. The amount paid should not exceed what “reasonably could be expected to incur to achieve the payment event.”
  c. Permits the CO to use the performance-based model for research and development contracts and in contracts awarded through competitive negotiations.
  d. Increasing – from $1 million to $2 million – the minimum dollar threshold for providing contract financing under FAR Part 32.
  e. Permits prime contractors who receive cost based progress reports to use either performance based payments or commercial financing payments with their subcontractors.
  f. Eliminates CO review of quarterly statements under price revision or price re-determinable contracts.

Small Business Competitive Demonstration (SBCD) Program. The FAR creates an interim rule that advises COs to use either the SBA’s 8(a) program or the newer Historically Underutilized Business Zone (HUBZone) Program for acquisitions of $25,000 or less in one of the four designated industry groups that will not be set aside for the SBA’s emerging small business concerns program. The four industry groups are construction, architecture and engineering services, refuse systems and related services and non-nuclear ship repair. Also the FAC specifies the SBCD policies and procedures do not apply to the Federal Supply Schedule program.

♦ FAC 97-17

Effective April 25, the rule addresses multiple award contracts and how to determine price reasonableness of proposed commercial items.

Multiple Award Contracts. The changes are a result of increased use of multiple award contracts and several recent allegations that award of task or delivery orders under them are not fair. Incorporating with little change an earlier proposed rule, the new rule provides certain assurances to contractors where the government must now order a stated minimum quantity of supplies or services specified in the contract which is to be greater than a mere “nominal” quantity but not greater than the government is “fairly certain to order.” The contract may also specify the minimum or maximum quantities the government may order under each task or delivery order and the maximum the government may order over a specified period of time. Also an ombudsman contact
will be specified in the contract to make it easier for contractors to pursue assertions that task or delivery order awards were made without a fair opportunity for competition (protests over task awards are usually not permitted).

*Price Reasonableness.* Finalizing an interim rule in effect since September 1999, the FAC explains the circumstances under which COs should require offerors of exempt commercial items to provide information “other than cost or pricing data.” For example, FAR 15.403-1 is amended to clarify the CO is responsible for obtaining adequate information to evaluate price reasonableness but no more than is necessary. If the CO cannot obtain adequate information from sources other than the offeror, the CO must require submission of information other than cost or pricing data from the offeror that is adequate for the CO to determine the price is reasonable. The information must include, at a minimum, appropriate prices at which the same or similar items were sold previously. If further information is needed to conduct further price analysis, the “preferred” techniques are (1) comparison of proposed prices received and (2) comparison of previously proposed prices and previous contract prices for the same or similar items. The CO must limit requests for data to the same or similar items during a relevant time period and the scope of the request must be for information that is in the form regularly maintained by the contractor. The FAR also states that offerors who fail to comply will be ineligible for award.

**DCAA Guidance Stresses Financial Capability Reviews**

(Editor’s Note. The following indicates most contractors are likely to undergo a financial capability review in the future by the Defense Contract Audit Agency. Recent hiring throughout the agency and increased training in conducting financial capability reviews support this contention.)

An April 27 Memorandum for Regional Directors stressed that financial capability risk assessments are not being performed enough. The prescribed frequency is a normal update each year at both major and non-major contractors where field visits were made during the year or when a visit was not made, the assessment should be made in connection with the next regular scheduled audit.

To meet this schedule the guidance states a baseline audit assessing the financial status of contractors should be made within the next year or if there is audit inactivity, it should be made during the next visit. Unless a prior assessment was made in the previous year with no indicators of financial risk, a “detailed risk assessment” should be made in accordance with DCAA's Contract Audit Manual Chapter 14-304. CAM 14-305 specifies such an assessment will include (1) a calculation and analysis of key financial ratios and a comparison to average industry ratios (2) calculation of the “failure predictor model” (e.g. the so-called “Z-Score” model discussed in CAM 14-304) (3) evaluating financial statement statistics for indicators of financial distress (4) consideration of adequacy of contractors’ internal controls related to financial planning and monitoring and (5) other indicators that raise questions of financial distress.

If a detailed financial capability risk assessment was performed last year or one is performed this year where no financial distress is found then a “modified financial capability risk assessment” is to be performed either this year or next year, respectively. The modified assessment consists of the analyses of key ratios and analyses of any significant events (e.g. loan or other large debt defaults, legal proceedings, strikes, unpaid taxes, large terminations for default, etc.) which would impact its financial status. The modified assessment is to be conducted for two years after a clean assessment at which point the 3-year pattern of a detailed and two modified assessment will be repeated.

**DCAA Guidance on New CAS Threshold**

DCAA recently issued a training package addressing recent changes to applicability and thresholds of cost accounting standards in the form of a question and answer handout. As we have reported the new rule changes effective April 2 are:

- Increase the threshold for full CAS coverage and disclosure statement from the current $25 million to $50 million
- Adds a new exemption from CAS for contracts less than $7.5 million provided the business unit is not currently performing any CAS-covered contracts greater than $7.5 million.
- Replaces the current exemption for firm fixed price (FFP) contracts awarded without any cost data with an exemption for FFP awards based on adequate price competition without cost or pricing data.

We selected a few of the Q&As we believe are likely to help clarify some questions:

Q. Does a FFP proposal containing no cost data but not meeting the FAR 15-4031(c) definition of price competition qualify for CAS coverage?
A. Yes, since it is not based on price competition even though no cost or pricing data is submitted. Before, the absence of cost or pricing data would have qualified for the exemption.

Q. Before April 2 all new CAS awards were subject to modified CAS so after April 2 will new awards also be subject to modified CAS coverage?

A. It depends on whether the contractor is currently performing a CAS-covered contract of $7.5 million or greater. If yes, new awards would be subject to modified coverage; if not, new awards are exempt until a CAS-covered contract of at least $7.5 million is awarded.

Q. How are current contracts affected?

A. There is no effect on current contracts. If a contract is currently subject to either full or modified CAS coverage, the status continues which will often result in a mix of contracts that are fully, modified or non-CAS covered.

**CAS Board Drops Controversial Cost Accounting Practice Change Proposal**

The Cost Accounting Standards Board unexpectedly and abruptly ended a six year effort to amend the CAS’s definition of a “cost accounting practice” and “change to a cost accounting practice.” They also agreed not to pursue alternative coverage, leaving the current definitions in place.

The current definitions limit cost accounting practice changes to alternatives in any disclosed or established accounting method or techniques to allocate cost to cost objectives, assign cost to cost accounting periods or measure cost. In contrast to the now-abandoned proposal, the current definitions do not recognize as cost accounting practices changed events that merely alter the flow of costs among cost objectives including pool split-outs, pool combinations, and functional transfers.

The recent proposals that were abandoned had expanded greatly the types of contractor activities, such as restructuring, that would be considered a change to an accounting practice and, in turn, would trigger the cost impact process.

**Proposed FAR Rule Will Streamline Cost Impact Process**

When contractors want to make an accounting practice change the government wants to make sure it does not pay increased costs. The cost accounting standards prescribe an often onerous cost impact process to demonstrate costs are not increased and even non-CAS covered contracts must sometimes, informally, follow similar steps. A proposed government-wide rule seeks to lessen the requirement to submit cost impact estimates or contract price adjustments for cost type contracts by using a three-step sequence of submissions where settlement is encouraged at the lowest step possible:

1. an initial evaluation to determine materiality of the changes
2. if the cost is material, a general dollar magnitude (GDM) proposal reflecting the minimum data needed to resolve the cost impact
3. if the GDM proposal is insufficient a detailed cost impact proposal.

For resolving the cost impact the rule will:

- Require the “cognizant federal agency official” (CFAO) to invite COs to participate in negotiation of their respective contracts if the impact is over $100,000 (currently $10,000).
- Allow the CFAO to use an alternative method rather than adjusting all affected contracts as long as the government does not pay in the aggregate more than it would have paid without the accounting change.
- The proposed procedure would apply to voluntary changes, mandatory changes or CAS noncompliances. The current rule is intended to be a more simple version of a proposed change being put forth by the Cost Accounting Standards Board.

**DCAA Seeks Data on Use of Parametrics on Proposals**

(Editor's Note. The following indicates the government's interest in using this estimating tool for pricing proposals and it may be worth your review for future pricing efforts.)

DCAA is asking its offices to report on progress they are experiencing in contractor’s use of parametric cost estimating techniques (Parametrics). Parametrics involves statistical analysis and manipulation of historical data to reflect current quantity requirements, often using computer models. For example, previous raw material requirements can be expressed on a price-per-pound basis to project current proposal amounts. When parametric estimates are properly validated, for example, voluminous bills of material and “grass roots” engineering estimates requiring extensive audits can be eliminated.

DOD has been promoting use of parametrics the last few years because of their potential to reduce proposal preparation and evaluation, negotiation and cost and
cycle time. The results of its pilot program on these techniques are cited as evidence these benefits are being realized citing examples where proposal preparation, evaluation and negotiation costs have been reduced 50%-80% and estimating accuracy has been improved. The program results also demonstrate that when parametrics is used properly, it complies with all government accounting requirements in FAR, the Truth in Negotiations Act and the Cost Accounting Standards.

BRIEFLY...

Government Sets New Executive Compensation Cap

The new benchmark amount for determining allowable contractor executive compensation costs incurred after January 1, 2000 is $353,010. The cap applies to covered contracts awarded by defense and civilian agencies and is a result of the government's approach of setting a benchmark compensation amounts each year based on the median amount of compensation for senior executives of publicly-owned corporations with annual sales in excess of $50 million. The “compensation” subject to the cap includes total amount of wages, salary, bonuses, deferred compensation and employer contributions to defined-contribution pension plans of the contractor's fiscal year (whether paid, earned or otherwise accrued). The cap for FYs 1998 and 1999 was $340,650 and $342,986, respectively.

Weather-Related Leave is Allowable

DCAA advised its auditors that contractors’ costs of administrative leave incurred due to weather-related closures are generally allowable if they are paid in accordance with the contractor's established practices. They are considered a fringe benefit and the disclosed or established cost accounting practice is considered part of its paid absences practices.

Army Rule Requires Service Contractors to Provide Labor Hour Data

The Army issued an interim rule in March requiring service contractors to provide certain labor hour and indirect rate data along with requests for billing. For all new Army contracts or contract modifications of older contracts exceeding $100,000 contractors are being asked to submit data that identifies, itemizes and reports their direct labor hours as well as a composite indirect labor rate for the Army to estimate indirect hours. Congress has mandated the data as a means for DOD to track head count of contractor employees to determine if the government is merely replacing federal employees with contractor employees.

The Army will secure a Web site. The Army insists the reporting requirements does not violate performance based contracting since reported labor hours are not being provided as a basis to getting paid. (Editor's Note. Many of our clients have expressed the concern that this data can be used to negotiate lower prices on future contracts. We have not been able to obtain an assurance this data will not be used for procurement purposes.)

Industry Pushes for T&M/Labor Hour Contracts for Commercial Items

The highly influential Council of Defense and Space Industry Association has been pressing the FAR Council to revise FAR Part 12 to permit use of time and material/ labor hour contracts for the purchase of commercial services when those types of contracts are customary commercial practices. Currently FAR Part 12 precludes the use of such contracts which states only firm fixed price contracts or fixed price contracts with price adjustments may be used for acquiring commercial items.

Proposed Rule States CO Not Required to Discuss Everything that Can be Improved

In response to considerable uncertainty over how specific the government must be in pointing out weaknesses during competitive negotiations with potential contractors, a proposed government-wide rule published in the April 3 issue of the Federal Registrar clarifies that a CO is not required to discuss every area in which a proposal could be improved. The proposed rule would revise FAR 15.306(d) that currently requires contracting officers to discuss with each offeror being considered for award “significant weaknesses, deficiencies and adverse past performance information that the offeror has not yet had an opportunity to respond.” The proposed rule would encourage COs to discuss other aspects of a proposal that could be altered to improve offerors’ chances of winning an award such as cost, price, technical approach, past performance and terms and conditions. However, the rule would add a CO “is not required to discuss every area where the proposal could be improved” leaving the scope of such discussions to the discretion of the CO.
DCMC Changes Name

In efforts to streamline the Defense Logistics Agency, the Defense Contract Management Command (DCMC) has been carved out of the DLA, put under the Under Secretary of Defense for Acquisition, Technology and Logistics and renamed the Defense Contract Management Agency (DCMA). Since its inception in 1991, DCMC has carried out the Defense Department's contract administration services functions which replaced separate entities in the military services. The functions of the new named DCMA will continue.

DOD Revises Mentor-Protégé Program

An interim rule effective February 10, 2000 has extended the mentor-protégé program until September 30, 2005. The rules also changed the way mentor firms can obtain reimbursement for their costs. For agreements entered into on or after October 1, 1999, DOD will reimburse only through a separately priced contract line item in a DOD contract or in unusual circumstances, as a separate contract. Previously, reimbursement could be obtained through inclusion of the costs either in the mentor's indirect cost pool(s) or through a cooperative or other agreement entered into between DOD and the contractor but that has been discontinued in the new contracts. The new rule also requires that both the mentor and protégé firms submit progress reports: mentors semiannually and protégé firms annually by October 31 each year. The protégé will indicate if it agrees or disagrees with the mentor report and will provide data on employment, annual revenue and annual participation in the program. Additional information can be obtained by calling 703-602-0326.

CASES/DECISIONS

Court Clarifies “Research” for Receiving R&D Tax Credit

(Editor's Note. Contractor's who are reimbursed for research and development costs, either as direct contract payment or part of their indirect cost rates, have been concerned whether these expenditures apply for the R&D tax credit. The following case clarifies that such costs do qualify.)

Under the IRS code, a company cannot include as “qualified research” those activities that are “funded”, where “funded” depends on whether the company had “substantial rights” in the research - in other words, if a contractor conducts research for a government agency and the contractor retains no substantial rights in the research, the cost cannot qualify for the R&D tax credit. A lower Court ruled the contractor was not entitled to the R&D credit because the government had unlimited rights to use the contractor's technical data and computer software and to disclose it to other parties.

The Appeals Court overruled the lower court stating though the contractor did not have “exclusive” rights it still had “substantial rights”. The fact others (e.g. government) may have rights does not mean the contractor loses its rights, citing examples where the contractor may still make or use the same or similar products in its own business (Lockheed Martin Corp. v. US, WI. 486216).

Settlement Agreement Not Admitting Labor Violation Can’t Justify a Default Termination

(Editor's Note. The following demonstrates the need to carefully word settlement agreements.)

The government terminated a construction contract for default citing violations of the Davis-Bacon Act and Contract Work Hours and Safety Standards Act for its rationale. The Department of Labor (DOL) alleged in a letter to the contractor it underpaid its employees after which the contractor requested a hearing. On the second day, the parties settled the case, where the agreement stated DOL's position the contractor violated its labor provisions and also stated the contractor's denial of the violation. The government claimed its termination was proper while the contractor stated the validity of a default termination depended on whether there was an “adjudication” of whether the labor provisions were violated.

The government contended there was such an adjudication because (1) DOL's letter revealed violations (2) the settlement constituted an adjudication and (3) the contractor's acceptance showed further proof of it. The Court rejected all three points stating (1) the letter stated a hearing would determine the issues (2) the contractor admitted no violations and the agreement stated no violations had occurred and (3) acceptance of the agreement not only represented acceptance of DOL's position but also the contractor's rejection of DOL's position (Herman B. Taylor Const. Co. v. GSA 203 F.3d 808).

CO May Reject Use of Key Personnel in Lieu of Corporate Experience

(Editor's Note. Many contractors lacking corporate experience often point to key personnel, experienced subcontractors and joint venture partners to augment perceptions of little experience. Though
these are often successful, the following illustrates that evaluations of experience is still largely left to the discretion of the source selection personnel.)

An offeror bid on a RFP where “corporate experience” of at least two years was one of the four technical evaluation factors. The bidder, who incorporated in 1997, did not identify any specific contracts it performed and, instead, stated it had assembled an experienced team to perform on the contract where each individual listed had over 20 years experience. The agency downgraded the proposal due to lack of corporate experience resulting in a loss of award and the offeror protested asserting it was improperly downgraded and should have been given credit for the experience of its key personnel. The Comp. Gen. rejected the protest noting that even though an agency may properly consider the experience of key personnel there is no “legal requirement” to do so (The Project Management Group, Inc., Comp Gen Dec. B-284445).

**Bids in Unopened Bid Box Constitutes Defective Pricing**

The Truth in Negotiations Act requires that when cost or pricing data is submitted, it must be current or the resulting award can be considered “defectively priced” and the government is entitled to a reduction in the fixed contract price. An Appeals Board found the failure to disclose final supplier quotations contained in its lock box constituted defective pricing and ordered the contractor to pay $487,000 plus interest (Aerojet Solid Propulsion Co. ASBCA No. 44568).

**Mistakes Require Clarification Even Under Solicitations Without Discussion**

(Editor's Note. The following is one of the many cases that will need to be decided to clarify recent rule changes to limits and scope of “discussions” under different solicitation circumstances.)

The contractor bid on a contract that was characterized as a negotiated award without discussions. One of the evaluation factors for past performance was a safety rating to be provided by an insurance company. Though the contractor insisted it provided the insurance information the Army was unable to locate it and as a result, the contractor received a zero out of a possible 20 points and lost the contract to another bidder whose price was 20% higher. The contractor argued the 20 point loss caused it to lose the contract and stated the Army had an obligation to inquire about the missing information. The Army stated it had no duty to inquire about the missing information because the solicitation stated the award would be made without discussion and if it sought clarification it would have been required to hold discussions with all offerors.

The Court rejected the Government’s argument and ordered the Army to vacate the award and re-evaluate the contractor’s proposal. The Court stated the omission was a clerical error and the Army had the duty to inquire about the mistake. By stating the negotiated award was to be made without discussion was akin to a sealed bid which in FAR 14.406-1 requires the CO to call attention to a suspected mistake. The Court added even under negotiated contracts the government still has a duty to seek verification of a proposal (e.g. FAR 15.306(d) provides that negotiations are exchanges that allow the offeror to revise its proposal). The Court also rejected the Army’s contention it would have been required to hold discussions with all bidders. It concluded the “discussions” precluded by the solicitation referred to “bargaining” that required extensive “give and take” while the information is really “clarification” which is quite limited (Griffey’s Landscape Maintenance, LLC v. US 2000 WL 303038).

**Rejection of Improperly Formatted Claims**

Two recent cases address proper formatting of a claim.

The GSA Appeals Board rejected as a proper claim a contractor’s letter identifying several complaints against the Government and demanding the work be “repriced.” The Board ruled the letter did not qualify as a claim under the CDA because it failed to request a “sum certain” (e.g. a monetary demand) (The Writing Co. V. Department of the Treasury, GSBCA 15097).

In another case, the Court rejected a claim under the Contracts Dispute Act (CDA) requesting payment for extra work that was submitted using a SF 1411. The Court stated the SF 1411 “is incompatible with the unequivocal content inherent in a CDA certification” that uses such words as “I certify” and “to the best of my knowledge”. Instead the SF 1411 reflects more tentative language such as “reflects our best estimate and or actual costs” and also does not imply government liability that a claim asserts (ScanTech Security L.P. v. United States, Fed. Cl. No. 97-601C).

**VECPs Not A CDA Claim**

(Editor’s Note. Though the government has been encouraging increased use of value engineering change proposals (VECP) to lower costs, the following indicates whether decisions to not accept them are appealable.)

The contract included the VECP clause (FAR 52.248-1)
providing for sharing of savings resulting from value engineering changes. The contractor submitted several recommendations that would result in savings totaling $260,000 and the CO orally rejected all of them. The contractor submitted a claim to the CO under the Contract Disputes Act to recover its share of cost savings and when the CO denied the claim, the contractor appealed. The Government claimed the VECP clause provided the CO’s decision to reject a VECP “shall be final” and “not subject to litigation” under the CDA. The Court agreed with the Government finding that unless the CO acted contrary to law or abused their discretion a VECP is not subject to appeal (RCS Enterprises, In., US 2000 WL 490770).

SMALL/NEW CONTRACTORS

Allocating Home Office Costs

Our consulting practice has seen a significant increase in engagements helping clients prepare corporate and intermediate home office allocations. The reasons are that (1) many prior stand-alone companies have merged with other companies (2) changes in tax and financial reporting have created the need to adopt different methods of allocating home office costs for government cost and pricing purposes than those used for financial and/or tax reporting and (3) the realization there are many acceptable ways to allocate such costs has generated interest in getting a “second opinion” on the best method to meet cost recover strategies.

Home office costs usually refer to those costs accumulated at the firm’s headquarters while intermediate home office costs usually refer to costs accumulated by an entity below the home office which are, in turn, allocated to two or more other business units. We will refer to both as home office costs and the rules applicable to one are generally applicable to the other. Once assigned to a business unit, those home office costs usually become part of that business’s G&A costs. The business units are not necessarily legal entities but are usually referred to in government parlance as “business segments” defined as “one of two or more divisions, product departments, plants or other subdivisions” that report to either a home office or intermediate home office.

The rules covering home office allocations allow a wide range of choices. Cost Accounting Standard 403 establishes three methods in descending order of preference: (1) direct assignment of costs to a specific business unit (2) assignment to more than one business unit but not all which often uses a “surrogate” technique where similar type costs (e.g. human relations, photocopying, computer, engineering, accounting) are pooled and allocated to business units on an appropriate base (e.g. headcount, copy output, checks written, etc.) and (3) “residual” costs where remaining costs are allocated to all business units on a base representing total activity of the corporation (or when residual costs exceed a certain amount, using a three factor formula – average of revenue, payroll and net assets).

Even among CAS covered contractors, the same costs can and often are allocated using different methods. For example, many home office costs such as human resources, engineering, accounting, data processing, etc. may be allocated to one “benefiting” business, assigned to several but not all business units or included in a corporate residual pool allocated to all businesses.

For non-CAS covered or modified CAS covered contractors, which is likely to increase because of higher thresholds for CAS coverage, the choices are even greater. Except for the need to follow general cost allocation rules – distinguishing direct and indirect costs and for indirect costs, distinguishing costs that benefit one, several or all contracts - the rules and actual approved practices allow for great latitude. For example:

1. Both high and low levels of direct allocations are generally tolerated if the rationale is reasonable.
2. Surrogate techniques often allow for accumulation of different types of costs in one pool allocated on one base (headcount is quite common) even when more precise measures may exit.
3. More bases for “residual” costs are tolerated such as cost of sales, direct labor, revenue or other bases that can be shown to represent total activity.

Auditor’s Guidance

In our experience, especially for non-CAS covered contractors, we find very few challenges by government auditors to the methods selected and none as long as the rationale is reasonable and no obvious inequitable allocations appear. Auditors are told to use CAS 403 as a standard for CAS covered contractors and as a guide for non-CAS and modified CAS-covered contractors.

Most audit effort we encounter focuses on ensuring (1) the method of accumulating data for the bases used to allocate the second category of costs are sound and complete and (2) unallowable costs are screened. Feeling inhibited because the home office does not screen
unallowables, we find many contractors reluctant to even develop a corporate allocation for fear of auditors “running wild” at corporate headquarters. This fear is generally exaggerated – auditors are usually patient with inexperienced home offices and “do not nail” contractors as long as some effort is spent to identify and exclude obvious unallowables (e.g. interest, bad debts, advertising, acquisition/divestment related costs, etc.) and find less obvious instances such as excess travel costs. Strong internal controls over timekeeping is usually not required as long as a disproportionate amount of corporate labor costs are not assigned to government cost type contracts or included in forward pricing rates.

Conclusion

The wide latitude of acceptable allocation methods provides a great deal of opportunity to match the level of corporate cost allocations to a business unit’s strategic pricing objectives. High dollar allocations can be designed to maximize recovery on government contracts while low dollar allocations can be developed if business units pursue opportunities in highly competitive environments. Several allocations using different acceptable methodologies should be developed and a sensitivity analysis conducted to select the best methods that will meet both current and future company objectives.

QUESTIONS & ANSWERS

Q. Where can I find some training courses on costing and pricing as well as contracting with the Federal government?

A. Several organizations and even universities provide seminars. Some of the ones we have attended are at Federal Publications (888)494-3696 and the National Contract Management Association’s training seminars at (800)344-8096. Each seminar is for 2-4 days at a cost ranging from about $700-$1,000 per attendee (plus travel and accommodations) and is usually offered once in the East and once in the West Coast. I’d suggest calling to receive their list and schedule of seminars.

Q. We are primarily an engineering company but are preparing to bid on several solicitations that will require significantly more subcontracting and material purchasing than normal. We are considering use of a subcontract/material handling rate to be able to charge the government a small handling fee. What do we have to do to obtain approval for this?

A. If you are CAS covered, the government wants to make sure your change will not result in increased costs on your contracts so you should notify them of the accounting change and be prepared to show if there is a significant impact on your cost reimbursable contracts. If you are not CAS covered, there is no requirement to obtain government approval or show there is no cost impact on your contracts.

By the way, your approach of initiating a subcontract/material handling rate will generally raise less red flags than more radical changes (like changing from a direct labor base to a total cost input base) and they are more easily defended (e.g. want to more closely align handling-related costs to the activity that generates the cost).