



INCURRED COST PROPOSALS:

10 THINGS I HATE ABOUT YOU

The late 90's rom com "*10 Things I Hate About You*" did a lot of great things:

- Provided the platform for the venerable Heath Ledger's coming out party
- Introduced the world to Julia Stiles
- Reminded us the kid from Third Rock from the Sun was, in fact, still here on Earth; and
- Made over \$50M at the box office

But as the law of unintended consequences often works, it also inspired a poorly titled blog article by a government contract consultant about Incurred Cost Proposals. With all apologies to the awful heading, the Incurred Cost Proposal does evoke some very specific emotion from those tasked with preparing, auditing, re-auditing, reading, reviewing, negotiating, or most importantly - signing them. They are a necessary evil for most services-based or R&D U.S. Government contractors. While the purpose of the Incurred Cost Proposal has simple enough merit - to settle indirect costs under cost-type contracts between contractors and the U.S. Government - the evolution of the Incurred Cost Proposal has caused pain easily on par with that of Ms. Stiles' loss of her Australian beau. And while Ms. Stiles was capable of some beautiful poetry to express her torment, I am not so skilled in that trade and Mr. Incurred Cost Proposal you will simply get an unpoetic list of 10 Things I Hate About You:

1. **The ICE Model** – Using a model that every time you open it tells you “An error has occurred” is not a confidence inspiring event for a document that is supposed to be current, accurate, and complete.
2. **Your Name** – Why did the FAR give you one name, the “Indirect Cost Rate Proposal”, but the industry and DCAA give you so many others? The Incurred Cost Proposal, the Incurred Cost Submission, the Indirect Cost Submission, The Indirect Cost Proposal, the ICS, the ICE Model, etc. We are happy to call them anything the government desires - just don't call them delinquent (<http://www.dcaa.mil/mmr/16-PPD-004.pdf>).
3. **Audits Focused on Direct Costs** – While I also hate that audits are untimely, I think I more dislike that the current audit environment is focused on direct costs. We had a recent experience where not a single indirect cost was sampled. For an “Indirect Cost Rate Proposal” audit, it's a little odd that the indirect cost rate received so little attention. And, of course, forget the fact that all the direct costs have been submitted for government review already on each and every monthly invoice. This trend has found its way into the T&M labor costs specifically through MRDs, such as (<http://www.dcaa.mil/mmr/14-PPD-008.pdf>), which have cost enormous sums of questioned costs to contractors who don't have labor qualification support in the way of resumes over 5 years ago



4. **Unallowable cost sampling** – What would this list be without mentioning unallowable costs. It must be done. But it sure is tedious. Now if we could just get to an agreement on which costs are expressly unallowable (<http://www.dcaa.mil/mmr/14-PAC-022.pdf>)
5. **Schedule J Subcontract Information** – How much more information on my supply chain can I provide? Every new iteration of the ICE Model asks for more. It is becoming easier to acquire a subcontractor than monitor and report on them.
6. **Inconsistent Application of the DCAA Adequacy Checklist** – The concept is great, however the execution lacks some consistency. We’re even okay with the annual updating of the checklist to provide even greater comfort that our submissions are in fine shape for an audit. What we do hate is the inconsistent application of what meets adequacy within the checklist. DCAA is provided great liberty to accept or not accept certain elements of adequacy for purposes of commencing with an audit. Some consistency would be nice. And, worst of all, the off-checklist item that leads to inadequacy determination takes the prize for most frustrating element of the process. I don’t see anywhere on the checklist that requires a Corporate Home Office Incurred Cost Proposal submission (see # 8 below)
7. **When Total Cost Absorption reconciliation doesn’t work** – Okay, not everything about the Indirect Cost Rate Proposal is a procedural flaw of our friends at the Government. Few accounting frustrations rival completing your proposal and performing the total cost reconciliation only to see that something isn’t working. You can always diagnose them, but not without a strong cup of coffee
8. **Corporate Home Office “Incurred Cost Proposals”** – If you have a corporate home office you may have been asked for one of these. Or maybe you haven’t. It’s impossible to tell since the request for these is not consistent across DCAA offices. In the event you are unfamiliar with what they are, they are a summary of those corporate home office costs allocated to the G&A pools of cost accounting segments. They’re easy to hate since all of this information is already included in the segment-level indirect cost rate proposal. It’s duplicative and with all the work done to be compliant, duplication of effort is not something we like to deal with (or clients like to pay for). However, it has been our experience that if you don’t submit it, you risk being deemed inadequate – even though this isn’t on the adequacy checklist, see # 6 above. They are a particular quagmire for entities with overseas parents where certification of G&A costs for U.S. Government accounting is an unfamiliar task
9. **Executive Compensation** – Figuring out the award dates of contracts in the middle of the year, determining which agencies each contract belongs to, then evaluating which employees the executive compensation applies to. Determining executive compensation limits in the current environment is a game of labyrinth. Then once you figure the rubix cube out, you have to get an Advance Agreement with your customer to use blended rates in order to comply (<http://www.dcaa.mil/mmr/16-PSP-005.pdf>). Then once you have the maximum allowable amount determined, you need to evaluate if the labor costs beneath that are “reasonable” through market data searches, surveying, and a host of similar corroborative evidence.



10. **IR&D and B&P costs** – These are everyone’s favorite bouncing ball. They’re in the overhead base, but also the G&A pool. This topic dominates almost all new contractors’ first FAR lesson. And when they’re not specifically identified in the project ledger they can become quite tricky. Forget if you’re a major contractor with heavy IR&D expenses and have to now both report on them and have a “technical inter-change” with your customer on what you are doing with your “independent” research and development efforts; or risk them being deemed unallowable (<https://www.fws.gov/policy/library/2016/2016-02669.pdf>)

Roses are red, violets are blue, contractors just can’t wait for Indirect Cost Rate Proposal season to be through...

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