



Twenty Questions Quiz Answers

1. **What is the FAR?** The FAR refers to Federal Acquisition Regulations and represents the rules for government contractors.
2. **Who is DCAA and why do I care?** DCAA stands for Defense Contract Audit Agency. DCAA reviews the accounting practices and accounting of government contractors, including prime contractors and subcontractors. Even if the only federal contracts that your company has are Fixed Price contracts, you must have a DCAA compliant accounting system that would support Cost Type contracts. Cost Type contracts include both Cost Plus and Time and Materials Contracts. Common activities for DCAA are accounting system reviews (to make sure that the company can meet requirements of federal contracting rules), pre-award surveys, financial capabilities reviews (to make sure that the contractor has the financial strength and backing to perform on a contract), floor checks (timesheet audits conducted in person by a DCAA auditor) and incurred costs audits (where contractors have submitted detail of their actual indirect rates for a fiscal year compared.)
3. **Who is my contracting officer?** An Authorizing Contract Officer (ACO) is the representative assigned by the government to be your company's representative for all prime contracts. The Contracting Officer is listed on your contract, and is the individual that signs the contract on behalf of the federal government. Some of your interaction may include people that work for the contracting officer, such as Contract Administrators or Contracting Specialists. The Contracting Officers Technical Representative (COTR) is responsible for making sure that the work is performed as agreed. However, it is best not to rely on the COTR for information regarding the administration of the contract such as funding, modifications, period of performance end dates and task or delivery orders, since only the Contracting Officer can approve those changes.
4. **How do I calculate indirect rates?**
 - a. Indirect rates are computed based on a relationship between a final cost objective (such as a contract) and the costs to support that relationship. A good source for these calculations is at www.dcaa.mil in a downloadable document called DCAA Information for Contractors.
 - b. There are several ways to compute indirect rates, based on company structure and strategy. Examples common methods are:
 - i. Fringe
 1. Fringe Pool costs are comprised of payroll taxes, leave, group benefits, 401K, etc.
 2. Fringe Calculation: Fringe Benefits Costs divided by Total Productive Labor (usually 2080 per year less allowances for leave)
 - ii. Overhead
 1. Support costs for direct employees
 2. Overhead Calculation: Indirect Labor plus Fringe applied to indirect labor plus indirect non-labor divided by Direct Labor charged to final cost objectives (includes contracts, bid and proposal costs, etc.)
 - iii. General and Administrative (G&A)

1. Corporate costs for running the business that would occur regardless of the contract base.
 2. G&A Calculation: G&A Labor plus Fringe on G&A Labor plus G&A non-labor, plus B&P and IR&D costs with fringe and overhead applied divided by Total Cost input, which is generally direct labor plus overhead plus any other direct costs such as direct travel, direct material, etc.
- iv. Special Notes:
 - v. Company Site Overhead includes the cost of facilities allocations; Customer Site Overhead applies when the facilities are provided by the customer; business strategy and structure will affect how the overhead pools are set up. Small companies frequently just use a combined overhead rate until they have a large enough business base between company site and customer site to split the two pools, where it could give them an advantage in bidding.
 - vi. Some companies do not bid a separate rate for fringe; their fringe rate is included in the overhead rate.
 - vii. Companies may use subcontractor or material handling in some cases. Using subcontractor or material handling generally will cause your G&A rate to go up, since subcontracts and materials will no longer be in the base (denominator) for G&A.

5. Why do I have pools anyway?

- a. To forecast competitive rates
- b. To bid multi-year contracts
- c. Consistency of indirect pools and indirect rate estimates is important, since rates used to bid a contract today may not apply until contract awards in the following years, and the rates used will apply through the entire contract period.
- d. Small companies should consider what their estimated costs will be including growth, bidding where you expect to be instead of just estimating from current costs. Otherwise, you don't have room to provide more infrastructure as you grow.

6. How to classify direct and indirect expenses?

- a. Direct costs are the costs to perform a contract, usually included in the proposal. Examples would be Direct Labor, Direct Travel, Direct Materials, etc.
- b. Indirect Costs are costs to support a contract, but that cannot be specifically identified to a contract. Examples would be the costs related to the support of direct employees related to payroll and benefits, the cost of their office space, management, training, etc.

7. What is a cost pool and what is a service center?

- a. A cost pool is a group of similar costs that increase or decrease related to another factor. Cost pools are allocated to contracts and other final cost objectives.
- b. A service center is very similar to a cost pool, except that instead of being allocated on a cost basis, the base may be headcount, square footage or another basis. For example, a Facilities service center would combine Rent, Utilities, Telephone and other expense for a given company location. Then, the allocation would be charged to Overhead for the office space occupied by employees working on direct contracts, and to G&A for the office space occupied by employees that are "corporate."

8. What is a final cost objective? What is an intermediate cost objective?

- a. Final Cost Objective is an accounting term meaning the end result of the activity, and generally applies to a Contract, Bid and Proposal effort, or Internal Research and Development effort.
- b. An intermediate cost objective includes costs which are allocated to other benefitting organizations and activities, such as Fringe costs applied to direct labor.

9. **What is Unallowable Cost?** Unallowable costs are costs that a company may incur, (including those which may be deductible for tax purposes) that are not to be included in the costs that are billed to the federal government. By “not included”, this means that the costs cannot be included when estimating costs and indirect rates for proposals, as well as when computing a billing that applies to work on a government contract. Unallowable costs are defined in Federal Acquisition Regulations under Far Part 31, subpart 14. Examples of unallowable costs are interest expense, alcoholic beverages, entertainment, lobbying, penalties, image advertising, etc.
10. **What is Job cost accounting?** Job Cost Accounting means that costs are collected by job, and usually that related indirect costs are applied to that job as a percentage. Construction firms use Job Cost accounting when building a house to identify all the costs that went into that house. Even if you only have Time & Materials or Fixed Price contracts, you want to have job cost accounting to track the costs spent for each job, and to show the profit by job after including overhead and G&A costs.
11. **What does General ledger control mean?** A general ledger summarizes transactions by General Ledger Accounts, such as Cash, Accounts Receivable, Depreciation expense, Professional Fees to give some examples. Accounts are usually assigned Account numbers which identify the type of account, such as Asset, Liability, Expense, etc.; for example, Current Assets would include Cash, Accounts Receivable, Employee Advances. Account groups, account numbers and sub-account numbers break down the accounts to the level for tracking. General Ledger control means that costs are organized by account and that each transaction processed is classified by account.
12. **What is timekeeping? What are the basic timesheet rules for paper timesheets?** Timekeeping is having each employee complete a timesheet that shows hours worked by charge number each day. Basic timesheet rules for paper timesheets are that timesheets are completed in ink, changes are initialed by employee and approver, with an explanation for the change, and timesheets are signed by employee at the end of the period and approved by the supervisor. Timesheet changes and corrections to a prior timesheet period should be processed using a correcting timesheet, that references the original timesheet and includes explanation for the change, and that is signed by the employee and the approver.
13. **What should I do if I need to use consultants instead of employees to work a contract?** If you are using consultants, make sure that you have a consulting agreement that covers their effort. Usually, consultants should send invoices with their hours documented by date and including a brief explanation, with the program manager approving their invoices. Consultants receive a 1099 for taxes at the end of the year, instead of a W-2. It is not a good practice to just have the consultant complete a company timesheet and be paid on the same cycle as payroll; there may be issues from the IRS related to whether the consultant is an independent contractor – ask your CPA for guidance.
14. **What is the Service Contract Act (SCA)?** The Service Contract Act sets minimum pay rates for non-exempt employees on some kinds of contracts. The minimum pay rates are identified by labor categories and work locations. Besides the minimum pay rate, employees must receive fringe benefits or a cash equivalent which is specified in a Wage Determination associated with the contract. Employees who have worked on the same contract but for different employers are called “incumbent employees” and keep their service dates for the purpose of computing leave and some benefits. It is critical to understand the rules for SCA Contracts and be compliant in terms of classifying the employees and paying the correct wages and benefits, and be able to prove that the information is correct during Department of Labor and other audits.

15. **What is Bid and Proposal (B&P) cost?** Bid and Proposal costs are the costs to prepare contract proposals in response to a Request for Proposal (RFP.) Bid and Proposal cost rolls into the G&A pool. Finance employees usually charge to G&A labor and not to a specific B&P task unless you want to track total costs, since doing proposal work is part of their financial job. Direct employees who are pulled from contract work to proposal work should charge to a B&P number, and the overhead that is associated with their labor should follow their labor cost.
16. **What is Internal Research and Development (IR&D)?** Internal Research and Development costs are costs related to improvements in services and products currently under contract but which are not included in the scope of work for the contract. If a company's research and development activity is related to a commercial product or a prototype that could become a product, this cost should be identified as product development.
17. **What is contract value?** Contract Value is the value of a contract award or task order. However, contract value may be split out by contract or option years. In tracking contracts, it's most important to track the authorized contract value and funding, which is the \$50K contract work you are currently working on instead of the \$3Million in total contract value, which is the total award amount but may not be fully exercised or funded. In tracking contract backlog, which helps contractors identify how much work coverage they have for their existing staff, it's important to track funded backlog as well as the total backlog.
18. **Why do they call it fee?** Generally, fee is the same thing as profit. For Fixed Price contracts, the fee or profit is built into the total contract value, and for Time and Materials contracts, the fee or profit is built into the billing rate. For Cost Plus contracts, the fee calculation may be a percentage of the total costs, or based on delivery of hours (fee per hour) or be an Award Fee, which is usually billed as a base fee and then periodic award fees based on performance; these are not the only types of contracts, just given here for example.
19. **What is meant by Cost and Funding Limitations?** Most prime contracts and some subcontracts will specify a limitation of funding and require a notification at 75% to 85% of that funding total, specified in the contract.
20. **What is a wrap rate?** There are many ways to identify total rates per hour for bidding and billing contracts. Common terminology included direct cost plus burdens (indirect rate applications), which is direct cost with fringe, overhead and G&A included, but not fee; this may also be called "fully burdened cost." Direct cost plus fringe, overhead and G&A with fee added, is usually called the "wrap rate" or "fully burdened cost with fee." Be sure to confirm the definition with other team mates and customers to make sure you are computing it the correct way based on an agreed definition.

DISCLAIMER: Information presented above is for guidance purposes and should not be taken as specific advice from Solvability. It is critical to review your own business strategies and policies, the type of work you do, the locations of that work, and your plans for growth, in determining the policies you follow for proposals and cost tracking. Be sure to consult with experienced advisors to help you make decisions on the methods that best apply to your situation.