



U.S. SMALL BUSINESS ADMINISTRATION

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VETERANS BUSINESS OUTREACH CENTERS

Managing Cost Structure after the “WIN”

January 23, 2024

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Tom Marcinko is a Principal Consultant in Aronson LLC's Government Contract Services Group. He is responsible for providing clients with a broad variety of both pre and post award support. Mr. Marcinko has over 25 years of government contracts experience. His experience includes proposal development, contract & subcontract administration, FAR compliance, small business programs, and Government audits.

Tom is a frequent guest speaker for associations and industry groups and presented numerous training classes on a variety of subjects including several courses in the fundamentals of government contracting for the University of Virginia's government contracting certificate program. Tom is also a regular contributor of written articles for the NCMA Contract Management magazine, the Professional Services Council Service Contract magazine and other trade publications.

Tom earned his Bachelor of Science Degree in Accounting from the University of Central Florida and his law degree from the University of Florida. He is a member of the Florida Bar and actively participates in the National Contract Management Association (NCMA).



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Tram Vo

Senior Manager, Government Contracting, Aprio LLP

Tram Vo is a Senior Manager in Aprio LLP's Government Contracting Services Group with 20 years of experience and knowledge of Federal Acquisition Regulations (FAR). Tram began her career with the Defense Contract Audit Agency (DCAA) working with contractors on Incurred Cost Submission audits, Forward Pricing Proposals, Defective Pricing, Cost Accounting Standard Review, Floor checks, and more.

She also has experience with both small and large contractors and understands the critical compliance issues and needs of each. She has extensive experience with monthly accounting & billings, provisional bill rates, adequate accounting systems, estimating systems, and contract administration.



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Introduction

Truism No. 1

Cost type contracts are substantially more challenging to manage than their Fixed Price or T&M counterparts



Truism No. 2

Many Government contractors are unaware of Truism No. 1

Introduction

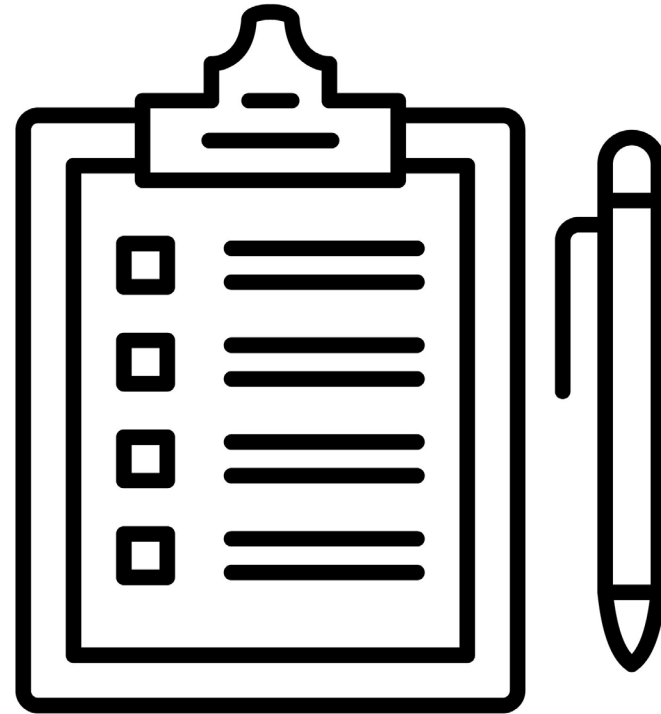
Poorly managed cost-type contracts can result in:

- Incurring a loss
- Poor cash flow
- Inaccurate cost reporting
- Inadequate accounting system
- False Claims Act violations



Discussion Agenda

- Cost Reimbursement Contracts
- What are costs?
- How are costs invoiced?
 - Direct versus Indirect Costs
- Practical Tips
- Conclusion



Cost Type Contracts



Cost Sharing

Cost

Cost Plus Incentive Fee (CPIF)

Cost Plus Award Fee (CPAF)

Cost Plus Fixed Fee (CPFF)

Cost Type Contracts

Application (FAR 16.301-2)

Cost reimbursement contracts are suitable when

- Requirements cannot be defined sufficiently to support fixed-price work
- Performance uncertainties do not permit the development of an accurate estimate

What are Costs?

Definition:

- Cost reimbursement contracts provide for payment of **allowable incurred** costs, to the extent **prescribed in the contract** (FAR 16.301-1)

What are Costs?

Allowable Cost and Payment Clause (52.216-7):

The Government will make payments to the contractor in amounts determined to be **allowable** by the **Contracting Officer** in accordance with **FAR Subpart 31.2** and the **terms of the contract**.

FAR Subpart 31.2, Contracts with Commercial Organizations: Total Costs are the sum of **allowable direct** and **indirect** costs properly **allocated** to the contract.

What are Costs?

Costs are allocable as

- Direct costs if incurred specifically for a contract.
- Indirect costs if they benefit numerous contracts or are necessary for the overall operation of the business.

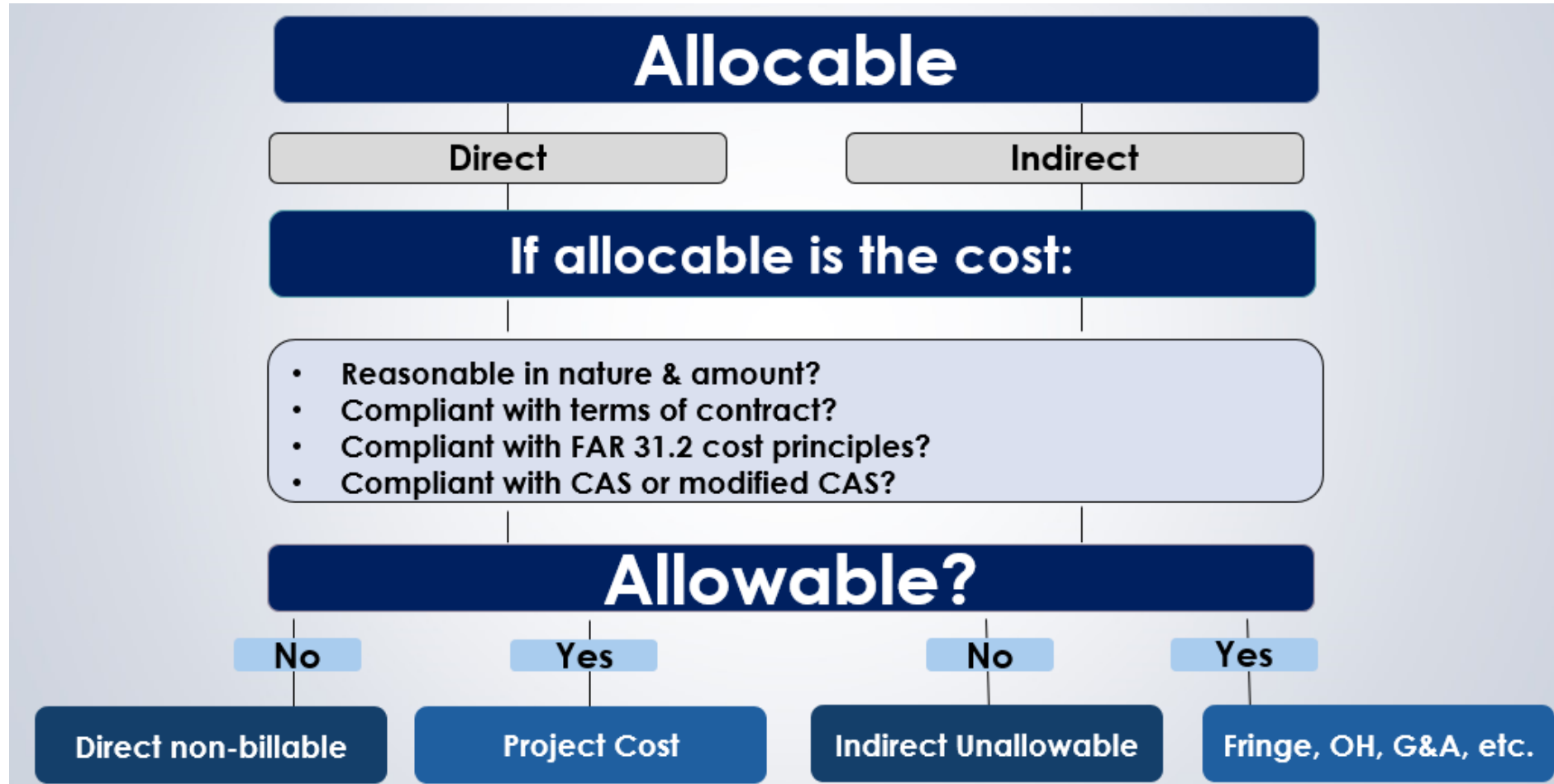
What are Costs?

Allocable costs are allowable if they are;

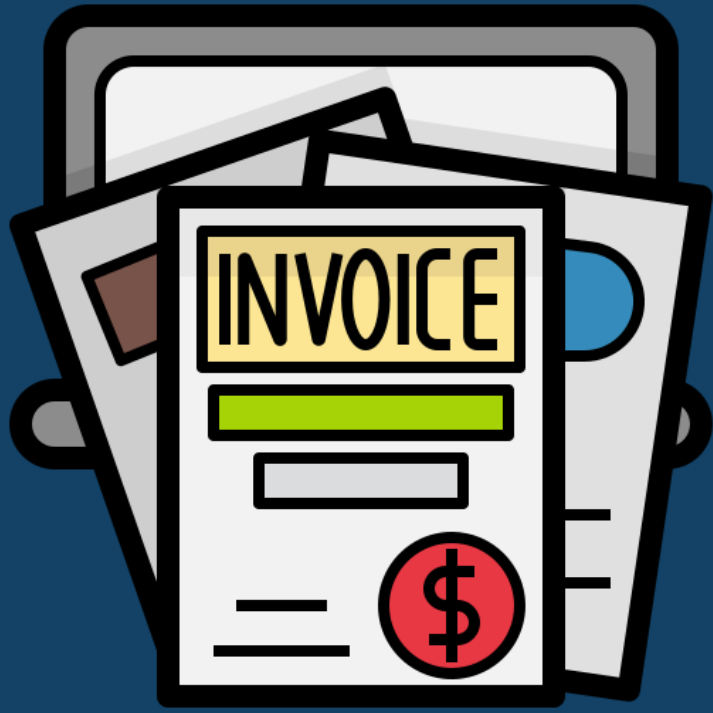
- Reasonable
- Compliant with CAS or Modified CAS
- Compliant with the terms of the contract
 - Training
 - Travel
 - Subcontracts
 - Indirect Rate Ceilings
- Compliant with the FAR 31.2 cost principles



What are Costs



How are Costs Invoiced?



Allowable Cost and Payment Clause (52.216-7)

Contractors may submit to the Government, no more than once every two weeks, an invoice in such form and detail as may be required by the Contracting Officer supported by a statement of the claimed allowable costs

How are Costs Invoiced?



How are Direct Costs Reimbursed?

Allowable Cost and Payment Clause (52.216-7)

- Costs are defined as those recorded costs that, as of the invoice submission the contractor has **paid** i.e. incurred costs (**Paid to Cost Rule**)

Incurred A Cost → Paid for Product/Service → Reasonable, Allowable & Allocable → Invoice for Reimbursement

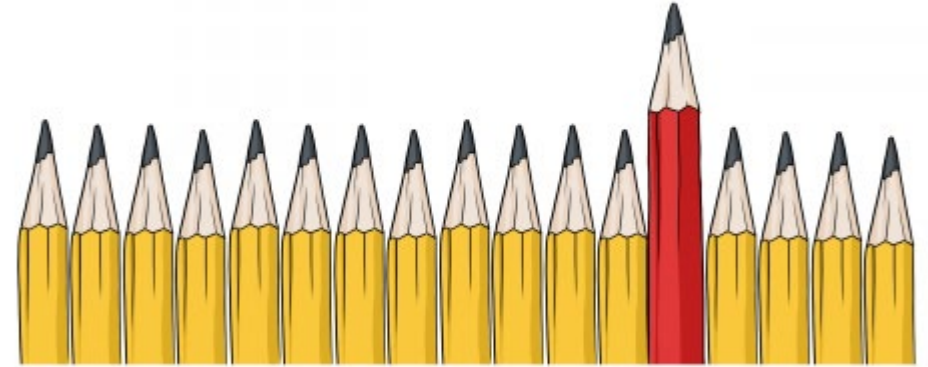
- “Contractor Paid” means by cash, check, or other form of actual payment for items or services purchased directly for the contract

Invoicing Tip: *Always best to generate an invoice from the system rather than externally creating an invoice and recording it into the system.*

How are Direct Costs Reimbursed?

Exceptions to the paid to cost rule are

- Payroll
- Travel
- Indirect Rates
- Costs incurred but not yet paid for supplies and services purchased directly for the contract provided that the payments will be made per the payment terms of the subcontract **and** ordinarily within 30 days of submission of the prime contract invoice.



How are Indirect Costs Reimbursed?

Allowable Cost and Payment Clause (52.216-7)

Contractor indirect costs shall be reimbursed at “**billing rates**” established by the Contracting Officer subject to adjustment when the final rates are established. The billing rates shall be;

- The anticipated final rates
 - Update indirect rates annually
- May be revised by mutual agreement, at either party’s request to prevent substantial over or under-payment

How are Indirect Costs Reimbursed?



How are Indirect Costs Reimbursed?

How are Indirect Rates “Trued Up”

- Contractor must submit a final indirect cost rate proposal (i.e. Incurred Cost Submission) to the Contracting Officer and audit agency within 6 months of the end of each fiscal year.
- The ICS is audited
- Final Indirect Rates are established
- “True Up” invoice submitted (or refund as required)

Managing a Cost Reimbursement Contract

Accounting System

- Requirement: The contractor's accounting system is adequate for determining costs applicable to the contract
- You can't manage what you can't measure, (& forecast!)



Managing a Cost Reimbursement Contract

SF 1408 Review

- GAAP Compliant
- Segregation of direct costs from indirect costs
- Allocation of indirect costs to intermediate and final cost objectives
- A timekeeping and labor distribution system
- Exclusion of unallowable costs from contract billings
- Written policies and procedures

Managing a Cost Reimbursement Contract

Direct Costs

Responsibility: Manage what you can control

- Project Team manages direct costs
- Establish budget by cost element by time period (proposal?)
- Establish a management reserve
- Track costs on an accrual basis
- Establish Program Control position
- Take action and communicate

Managing a Cost Reimbursement Contract

Indirect Costs

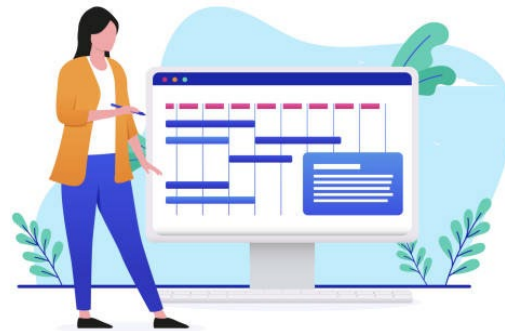
Responsibility: Back-office function but who?

- Monitor actual rates compared to billing rates monthly
- Manage the indirect expenses
- Under runs = added investment in infrastructure or more profit on FP/LH or more work on Cost Reimbursement
- Overruns = decrease indirect costs or less profit on FP/LH or less work on Cost Reimbursement
- Request adjustment if actuals materially deviate from the billing rates
- Cash flow / False Claims Act

Managing a Cost Reimbursement Contract

Indirect Costs

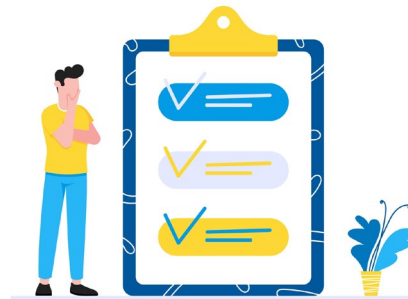
- Project Managers react to indirect costs
- Manage contract to actual indirect rates, not provisional billing rates (even if CO will not change provisional billing rate)



Managing a Cost Reimbursement Contract

Role of Invoices

- Invoice on a cash basis at provisional indirect rates; manage on an accrual basis at actual indirect rates
- Invoices are a tool for collecting cash, not a tool for project management



Managing a Cost Reimbursement Contract

How to Protect Yourself

- Limitation of Funds (52.232-22)
- Limitation of Costs (52.232-20)
- Contractor agrees to perform up to the point at which the total amount due to the contractor approximates but does not exceed the contract funding.
- Contractor will notify the CO in writing whenever the costs it expects to incur within the next 60 days when added to the costs already incurred will exceed 75% of the funded amount.

Managing a Cost Reimbursement Contract

How to Protect Yourself



- The notice shall include the amount of additional funds required in order to continue performance through the contract period.
- Costs in excess of the funded amount will not be reimbursed unless the notices required by this clause are provided

Conclusion

Managing Cost type contracts is a sophisticated undertaking

- Must understand what a “cost” is
- Must have an adequate accounting system
- Must establish both direct and indirect budgets and actively manage them
- Must manage on an accrual basis
- Must manage with actual not billing rates
- Must communicate internally and with customers

"ARMING VETS TO WIN"

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to WIN!**

Questions/Open Discussion

Apply at NationalVIP.org

Thank you!



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