



## **NDIA Wants ASBCA to Reconsider CAS 418 Decision**

The National Defense Industrial Association has filed a brief on behalf of AM General LLC that the ASBCA reconsider its February 2006 decision which concluded that AM violated CAS 418 by including within an overhead pool the costs for a commercial vehicle painting facility.

AM General produces both Army and commercial utility vehicles, and this specific overhead pool is allocated to both types of vehicles. The Board concluded that inclusion of the commercial painting facility costs in the overhead pool did not benefit Government contracts, and consequently the “homogeneous” pool requirements of CAS 418-50(b) were not met.

NDIA argues that the Board ignored a fundamental concept of “homogeneous”, in that CAS 418 never intended for each element of cost/activity in a pool to directly benefit every activity/contract in the allocation base. “There is no requirement in CAS 418 or elsewhere in the regulation that every element of cost included in the pool must benefit every activity included in the allocation base”, the brief states.

The NDIA states that the Government did not clearly establish a valid noncompliance with CAS 418, as it relates to the “homogenous” cost requirement. To establish that a pool is not homogeneous, the government should have proved that activities in the pool do not have a similar relationship to the allocation base, and that a different allocation of

costs would have a materially different result. The briefing states, “if the cost of all painting equipment is included in the indirect cost pool, and the number of units painted is in the base, then the pool is homogeneous, unless the facts establish that there is a significant difference in the painting processes”.

The NDIA concludes that the Government did not adequately address the materiality issue in its decision. Speaking to the “materiality” requirement of the CAS 418 test for homogeneity, the brief states without such a criterion, Government contractors would be required to establish “dozens” of indirect cost pools.

## **Earned Value Management Criteria Implemented in FAR**

Federal Acquisition Circular (FAC) 2005-11 was issued on July 5, 2006, and incorporates guidance on how federal procurement agencies should implement Earned Value Management systems



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(EVMS) provisions for oversight of major acquisitions. This change incorporates the thrust of an earlier OMB Circular A-11 (Part 7) requiring the use of an EVMS on high risk, developmental type programs.

The final FAR rule does not specify a government-wide contract award value which would trigger the EVMS requirement, but the new rule does estimate that “most contracts” exceeding an estimated cost of \$20 million will precipitate the need for such a monitoring system.

Although the FAR councils indicated that agencies should use the EVMS requirement for developmental type projects, the EVMS provision still allows agencies to mandate these reporting systems for other types of programs.

The FAR provision recognizes the difficulty that some small businesses may endure when responding to a solicitation with an EVMS requirement. The new rule states that those companies will not be excluded from submitting a bid for such a solicitation, as long as the bidder can demonstrate

compliance via another acceptable management system that is already in place, or submits a EVMS implementation plan with its bid.

### **Cost Accounting Systems: Issues Important to Auditors**

Over the past several months, DCAA auditors have, for the first time, audited cost accounting systems of several of our newer clients. Precipitating those audits was the FAR Part 9 requirement for the contractor to demonstrate that an adequate job cost segregation system was in place prior to a contract award.

Following are a few repetitive areas of potential risk upon which the auditors focused:

- Ability to monitor cost type contracts to Limitation of Funds or Cost contract clauses
- Clear evidence of company's ability to identify unallowable costs at transaction detail level
- Documented projected provisional billing indirect rates
- Written policies and procedures (even for smallest of companies) for functions listed in DCAA's pre-award accounting system audit program
- Adequate chart of accounts, clearly defining individual direct cost elements, and groupings of indirect cost accounts by cost center

Government contractors should be thoroughly prepared to show-case their cost accounting systems, particularly those features identified above. In preparing for this type of audit, the contractor should review the DCAA audit program referenced above; this program can be found at the DCAA website, [www.dcaa.mil](http://www.dcaa.mil).

### **Training Opportunities**

#### **FAR Part 31 Cost Principles Training Course** *Beason & Nalley, Inc.*

**Date:** Aug. 22, 2006

**Course Lecturer:**  
Darryl Walker

**Course Format:**  
Classroom, with lecture and interactive discussion

**Course Length:**  
One day, 8:30 AM – 4:30 PM

**CPE Hours:** 8 hours

**For more information and registration,** go to [www.beasonnalley.com/default.asp?ID=261](http://www.beasonnalley.com/default.asp?ID=261) or contact Beason & Nalley at 256.533.1720.

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#### **Government Contract Accounting Systems Compliance** *Presented by Federal Publications Seminars*

**Dates:**  
Nov. 1-2, 2006, Washington DC  
Dec. 6-7, 2006, Las Vegas, NV

**Course Instructors:**  
Darryl Walker and Scott Butler

**For more information,** go to [www.fedpubseminars.com](http://www.fedpubseminars.com), and click on the Government Contracts tab or call Beason & Nalley.

Beason & Nalley, Inc. will develop and provide specialized Government contracts compliance training for client/contractor audiences. Topics on which we can provide training include estimating systems, FAR Part 31 Cost Principles, TINA and defective pricing, cost accounting system requirements, and basics of Cost Accounting Standards, just to name a few. If you have an interest in training, with educational needs specific to your company, please contact Ms. Sandra Baker at [sbaker@beasonnalley.com](mailto:sbaker@beasonnalley.com), or at 256-533-1720.

### **Future Newsletter Editions**

Beason & Nalley welcomes any feedback from the readers of this newsletter. We appreciate any suggestions that you may have as to future content, presentation and format, or interesting developments in the procurement community that would be of interest to our readers. Please provide any feedback or suggestions via our email address at [dwalker@beasonnalley.com](mailto:dwalker@beasonnalley.com).

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Beason & Nalley, Inc. is an accounting firm with a focus on serving government contractors. With this focus, we go well beyond the bounds of what one would normally consider to be "typical" accounting services. We provide services such as Deltek GCS and Deltek Costpoint consulting, Outsourced Accounting, Government Contract Services, and more. Our goal is to provide the business owner with options for their financially related administrative needs. Our service list is comprehensive. Contact us:

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