



# THOUGHT LEADERSHIP

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## SERIES

# Common Preparation Pitfalls with the Final Indirect Cost Rate Proposal

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The requirement to submit a final indirect cost rate proposal, more commonly referred to as the “Incurred Cost Proposal or Incurred Cost Submission (ICS) is contained in FAR clause 52.216-7(d)(2)(i) – Allowable Cost and Payment, which states, “The contractor shall submit an adequate final indirect cost rate proposal to the contracting officer (or cognizant federal agency official) and auditor within the 6-month period following the expiration of each of its fiscal years.” Are you ready? Capital Edge has identified the major preparation pitfalls contractors face when developing their annual Incurred Cost Submission (ICS).

## Getting a late start.

Depending on the size of the organization, incurred cost submissions may take a long time to prepare. If the submission is drafted in-house, the finance or accounting staff responsible with preparation have other daily and monthly responsibilities which require their attention in addition to this submission. Plan ahead and get an early start! Extra preparation time means more time to research issues or resolve challenges which may arise. Remember, the ICS requires input from various groups within an organization and is not a “pure” accounting and finance responsibility.

## Using a format which does not reflect the FAR requirements or auditor expectations.

FAR 52.216-7(d)(2)(iii) specifically identifies all the information required. In addition, DCAA regularly updates their Incurred Cost Electronic (ICE) Model, as well as the Adequacy Checklist, and these items should be reviewed as part of the preparation

process to ensure the submission will meet auditor expectations. Keep in mind that utilizing the “ICE” model is not required, but the content of the individual schedules are required by 52.216-7. The ICE model has a number of limitations related to the number of intermediate and final overhead pools that the model can support, so it is imperative that you understand whether your business may be too complex for ICE. We don’t like the model, but it may work well for you.

## Not having current and accurate contract briefs.

Contract briefs identify items such as contract type, indirect rate caps, funding ceilings, or other contractual limitations that need to be accounted for in the submission. Briefs should be updated as contract modifications are issued which change funding, add CLINs, modify contract terms and conditions, etc.

## Inaccurate identification of contract types.

Many contractors struggle with having full, accurate, and complete contract lists with accurate contract types. Contracts may be entered into the accounting system and identified with a contract type other than what the contract specifies due to accounting system limitations or unique contract requirements. Not having an accurate identification of contract type for each contract or task can cause numerous challenges when preparing the ICS, including the misidentification of contracts in the actual submission.



# Common Preparation Pitfalls with the Final Indirect Cost Rate Proposal *(cont.)*

## **Incorrect contract billings.**

Contractors sometimes realize that a contract or task has been billed incorrectly. For example, when a cost-reimbursable contract is billed as a time-and-material contract, or cost reimbursement CLINs within FFP contracts are not appropriately identified. These types of errors cause major headaches when preparing the ICS and can lead to large over/under billings and/or additional audits. Properly identifying the contract type in a contract billing brief, contracts list, and the accounting system is essential. Most important, getting an early start provides adequate time to resolve these issues rather than trying to make these decisions at the last minute.

## **Identifying and removing unallowable costs.**

Unallowable costs need to be excluded from claimed costs in the ICS and that is, in fact, the intent of the certification ensuring you have excluded all expressly unallowable costs. Explanatory notes should be utilized to reference the specific FAR clause which is applicable (31.205 – Selected Costs) and special care should be given to review accounts considered high-risk for inclusion of expressly unallowable costs that would be subject to Penalties under the provisions of FAR 42.709 Penalties for Unallowable Cost.

## **Involving key players too late in the process.**

To provide timely information required for submission, it is important to involve key players early in the preparation process. For example, contracts/subcontracts personnel are routinely tasked with providing information on subcontract agreements very late in the preparation process, which oftentimes leaves contractors scrambling to finalize the proposal.

## **Performing a thorough review.**

Each ICS should receive a thorough review ideally by individuals not directly involved in the detailed

preparation. This review should include checking all formulas, links, ensuring the costs captured reconcile to the trial balance, and that the final submission complies with DCAA's adequacy checklist.

## **Maintaining supporting documentation and work papers.**

Preparation of the Incurred Cost Submission often requires input from various personnel across a wide range of functional areas. Employee turnover and the lapse of time between submission and audit can often lead to gaps in information and historical knowledge required to support claimed costs during an audit. Whenever possible, we recommend creating a repository for work papers and supporting documentation to memorialize knowledge gained during preparation of the submission and to assist in meeting the requirements of FAR 31.201-2(d) Determining Allowability.

For many contractors, the deadline for the next Incurred Cost Proposal is June 30th. We recommend getting started soon, to be sure that you have adequate time to prepare the submission. We offer a wealth of resources to support contractors with preparation and review of their ICS. Whether your organization is large, small, or somewhere in between, we can help take the stress out of this requirement.



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