

DCAA Scrutinizes CAS Cost Impact Proposals

Written by Nick Sanders

Wednesday, 22 October 2014 00:00

We have long thought that preparing a compliant cost impact proposal is one of the toughest assignments in the field of government contract cost accounting. Generally, a CAS-covered contractor prepares a cost impact proposal when it (1) makes a change from one (compliant) cost accounting practice to another (compliant) cost accounting practice, or (2) has been caught using a cost accounting practice that is not compliant with one of the applicable Cost Accounting Standards, or (3) has been caught using a cost accounting practice that is inconsistent with its established and/or disclosed cost accounting practices.

There are rules governing cost impacts to be found in the CAS regulations themselves. There are rules governing cost impacts to be found in FAR Part 30. There are rules governing cost impacts to be found in one or more of the CAS clauses in a contract. Hopefully, all those rules and regulations and requirements line up nicely so that compliance with one set of rules means compliance with all the sets of rules. But navigating the process is tricky and not for the inexperienced.

The process is made more challenging by the fact that there are actually two types of cost impact analyses: the Gross Dollar Magnitude (GDM) analysis and the Detailed Cost Impact (DCI) analysis. A contractor generates the GDM analysis and submits it to the cognizant Administrative Contracting Officer with the fervent hope that it will suffice. If it suffices, then great. If not, then the contractor has to prepare the DCI analysis, which is not a lot of fun. While the GDM analysis is high-level and generally utilizes backlog as the basis for calculating the cost impacts, the DCI analysis is a contract-by-contract, EAC-by-EAC grind.

Guess which one the DCAA auditors like to see?

Anyway, regardless of one's feelings about generating CAS cost impact analyses, the fact of the matter is that DCAA has just issued a [MRD](#) that is designed to help auditors evaluate the adequacy of the contractor's submission.

Basically, the cost impact analysis is a proposal that is being submitted to the ACO. We know DCAA already has a Proposal Adequacy Checklist (which was enshrined in the DFARS). Now DCAA wants to apply that same philosophy to CAS cost impacts. Which is nice, we suppose.

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The MRD reported that it is deploying a Cost Impact Adequacy Tool to aid auditors in evaluating the adequacy of those cost impact analyses. The MRD stated:

Adequate cost impact proposals are essential to efficient use of audit resources. Prompt adequacy evaluations facilitate the Government's timely recovery of cost impacts. ... The Cost Impact Adequacy Tool lists adequacy criteria, and the regulatory basis, to consider during the proposal assessment. Expand or curtail the adequacy criteria, as necessary, based on the specific circumstances. Audit teams should use judgment and consider whether inadequacies will have a material effect on the proposed cost impact.

We noted that the guidance does not distinguish between a GDM and DCI impact analysis. We hope that the Adequacy Tool makes that distinction. But we don't know whether it does or not, because the DCAA has not yet made that Tool available to the general public. At the moment, the Adequacy Tool is only available to DCAA auditors.

Because why would DCAA want contractors to know how its cost impact analyses will be evaluated? Heck, that might actually reduce the number of cost impact analyses that DCAA would have to reject as being inadequate!

What happens when DCAA rejects those cost impact analyses as being inadequate?

According to the MRD:

Return proposals that are inadequate for audit to the contractor through the CFAO (Cognizant Federal Agency Official), describing the specific deficiencies. Even if the proposal is not adequate in all respects, the auditor may, at the CFAO's request, audit and report on the inadequate cost impact proposal to the extent possible. The CFAO could request a non-audit service such as a rough order magnitude (ROM) estimate of the cost impact.

So much fail right there.

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First, let's be clear that it is the ACO who has the authority to accept, or reject, a contractor's cost impact analysis. This is yet another example of the DCAA usurping authority rightly due to the ACO. Second, about those ROMs. We've discussed them before, a [time or two](#). Based on published court decisions and DOD IG reports, they have not been touted as being models of accuracy. In the Pratt & Whitney CAS dispute, the DCAA ROM was more than [cut in half](#) over the span of an eighteen month period.

Finally, let's discuss the Statute of Limitations associated with the Contracts Dispute Act (CDA). Case after case has ruled that the government cannot toll the Statute of Limitations by asserting the contractor's cost impact analysis was inadequate or inaccurate. That nasty ole six year clock keeps ticking, ticking, ticking away ... regardless of what DCAA may assert regarding the adequacy of the analysis. It would seem that DCAA's propensity to declare anything inadequate for any reason may lead to more missed CDA deadlines, which is very likely the reason for emphasizing the use of auditor judgment to perform audits regardless of minor imperfections in the contractor's submission.

This is a tough area. It requires a lot of knowledge and some creativity to successfully navigate. Those statements apply to both the contractor and to the auditors. It is also an area in which many complex and costly disputes arise, which is a sad truth that emerges when one or both parties lack the necessary skill sets to successfully navigate the complex process.