ARIZONA DEPARTMENT OF TRANSPORTATION
INTERMODAL TRANSPORTATION DIVISION
ENGINEERING CONSULTANTS SECTION
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Arizona Governor's Award for Quality
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Engineering Consultants Section

INFORMATION BULLETIN 98-20

TO: Consultants

FROM: Engineering Consultants Section Ron

SUBJECT: Contracts Subject to Cost Accounting Standards (CAS) [Refer to Code of Federal Regulations Title 48, Chapter 1—Federal Acquisition Regulations (FAR), 31.201-2(a)(3) and (b)]

This Information Bulletin supplements recently issued Information Bulletin 98-16, and deals with Cost Accounting Standards, if applicable, (Title 48 CFR, Chapter 1, Part 30 and Chapter 99).

This applies to architectural and engineering (A-E) contracts whenever cost analysis is performed in the determination, negotiation, or allowance of costs in the pricing of contracts, subcontracts, and modifications to contracts and subcontracts.

Please ensure that your Chief Financial Officer is aware of this Information Bulletin.

If you have any questions regarding this bulletin, please call (602) 255-7525.

attachment

.ccounting Standards apply to all contracts and subcontracts except for the following: Contracts or subcontracts under $500,000.

- Contracts or subcontracts performed by small businesses.
- Firm-fixed-price (Lump sum) contracts and subcontracts awarded without submission of any cost data.

For all 19 Cost Accounting Standards to apply a consultant must have either:

1. Received a single CAS-covered contract award of $25 million or more; or
2. Received $25 million or more in net CAS-covered contracts during its preceding fiscal year, of which, at least one contract exceeded $1 million.

As a practical matter, Prime Consultants that have been awarded contracts greater than $499,999 are subject to modified CAS coverage. On-Call contracts whose maximum potential value will most likely exceed $499,999 are also subject to modified CAS coverage. Subconsultants (not certified as small businesses) are subject to modified CAS coverage if subcontracts exceed $499,999.

Modified CAS coverage requires the following four Cost Accounting Standards be implemented:

- 9904.401—Consistency in Estimating, Accumulating, and Reporting Costs.
- 9904.402—Consistency in Allocating Costs Incurred for the Same Purpose.
- 9904.405—Accounting for Unallowable Costs.
- 9904-406—Cost Accounting Period.

An overview of these four standards is presented below. (Acknowledgement is given to the Defense Contract Audit Agency for information presented in the overviews.):

- <u>9904.401—Consistency in Estimating, Accumulating, and Reporting Costs</u>.
  The purposes of this standard are:
  1. To achieve consistency in the cost accounting practices used by a consultant in estimating costs included in its *Derivation of Cost Proposal* with those practices used in accumulating and reporting costs during contract performance.

  The consistency requirement between estimating and accumulating costs is a two-part requirement:
  1. The consultant's practices used to estimate costs in pricing proposals must be consistent with practices used in accumulating actual costs.
  2. The consultant's practices used in accumulating costs must be consistent with practices used to estimate costs in pricing the related proposal.

Noncompliance with this standard can exist because a consultant fails to estimate its costs in accordance with its established or disclosed accounting practices.

A contractor can accumulate costs in more detail that the costs are proposed as long as the costs are homogeneous and if comparisons between actual costs and proposed costs are possible.

- 9904.402—Consistency in Allocating Costs Incurred for the Same Purpose.
  The purpose of this standard is to ensure that each type of cost is allocated only once and on only one basis to any contract or other cost objective. All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only. For example, if a consultant charged all the travel for government contracts direct and all travel for its commercial customers indirect, the government would be paying 100% of its travel costs, plus a portion of the commercial customers' travel (the indirect cost rate).

- 9904.405—Accounting for Unallowable Costs.
  The consultant must identify and exclude expressly unallowable costs from any billing, claim, or proposal applicable to a government contract. The detail and depth of records required as backup support for unallowable costs shall be adequate to establish and maintain visibility. Acceptable practices to provide visibility include:
  1. Segregation of unallowable costs in separate accounts maintained for this purpose in the regular accounting system,
  2. Development and maintenance of separate accounting records or workpapers, or
  3. Use of less formal cost accounting techniques that establishes and maintains adequate cost identification to permit audit verification.

  An expressly unallowable cost is that which is specifically named and stated to be unallowable by law, regulation, or contract. This includes unallowable directly associated costs. A directly associated cost is any cost which is generated solely as a result of another cost and which would not have been incurred otherwise.

- 9904-406—Cost Accounting Period.
  The cost accounting period used by a consultant must be either:
  1. Its fiscal year, or
  2. A fixed annual period other than its fiscal year if agreed to by the government.

  All indirect cost rates must be based on this annual period, consistently applied. Costs of an indirect function which exist for only a part of a cost accounting period may be allocated to cost objectives of that same part of the period, subject to special requirements.

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Consultants and Subconsultants are responsible for CAS compliance where applicable. If a determination is made that either full or modified CAS coverage applies, and ADOT has not been made aware of such, please notify:

Robert J. Gillespie, Audit Manager
Arizona Department of Transportation
Office of Audit & Analysis, Mail Drop 158A, Room 105
205 South 17th Avenue
Phoenix, AZ 85007

or alternatively:
by FAX: (602) 255-7730
or by e-mail: rgillespie@dot.state.az.us