

# UNIT 33: ACCOUNTING AND ESTIMATING SYSTEMS

October 2003

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**Overall Duty** Consider the adequacy of a firm's accounting and estimating systems in making contracting decisions.

**Overall Conditions** Given acquisition planning and a solicitation that will require the firm to provide accurate, complete, and current accounting information for contract pricing, cost-reimbursement, or progress payments.

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**Overall Standard** Take measures to protect the Government's interest when a firm's accounting or estimating system is not adequate for contract pricing, cost-reimbursement, or progress payments.

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## Part A: Accounting Systems

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**Sub-Duty** Consider the adequacy of a firm's accounting system in making contracting decisions.

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**Sub-Duty Standard** Take measures to protect the Government's interest when a firm's accounting system is not adequate for contract pricing, cost-reimbursement, or progress payments.

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## Part B: Cost Estimating Systems

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**Sub-Duty** Consider the adequacy of a firm's estimating system in making contracting decisions.

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**Sub-Duty Standard** Take measures to protect the Government's interest when a firm's estimating system is not adequate for contract pricing.

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## Policies

<i>FAR</i>	<i>Agency Suppl.</i>	<i>Subject</i>
9.109-4(a) 9.105-1(b) (2)(i)(B)		Preaward survey accounting system review.
15.404-2		Information to support proposal analysis.
15.404-1(c)		Cost analysis.
15.406-2		Certificate of Current Cost or Pricing Data.
15.407-5		Estimating systems.
16.205-3(b)		Fixed-price contract with prospective price redetermination requirement for an adequate accounting system.
16.206-3(b)		Fixed-ceiling-price contract with retroactive price redetermination requirement for an adequate accounting system.
16.301-3(a)		Cost-reimbursement contract requirement for an adequate accounting system.
16.403-1(c)		Fixed-price incentive (firm target) contract requirement for an adequate accounting system.
16.403-2(c)		Fixed-price incentive (successive targets) contract requirement for an adequate accounting system.
32.503-3		Initiation of progress payments and review of accounting system.
52.214-26		Audit and records – sealed bidding.
52.215-2		Audit and records – negotiation.
52.232-16(f)		Control of costs and property.

## Other KSAs

1. Knowledge of accounting principles and practices.
2. Ability to conscientiously evaluate information related to a firm's accounting and estimating systems.
3. Ability to solve practical problems related to a firm's accounting and estimating systems.
4. Ability to communicate orally and in writing concerning accounting and estimating system issues.
5. Ability to identify accounting and estimating system problems and use sound judgment in resolving them.

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6. Ability to maintain the honesty and integrity of the acquisition process.

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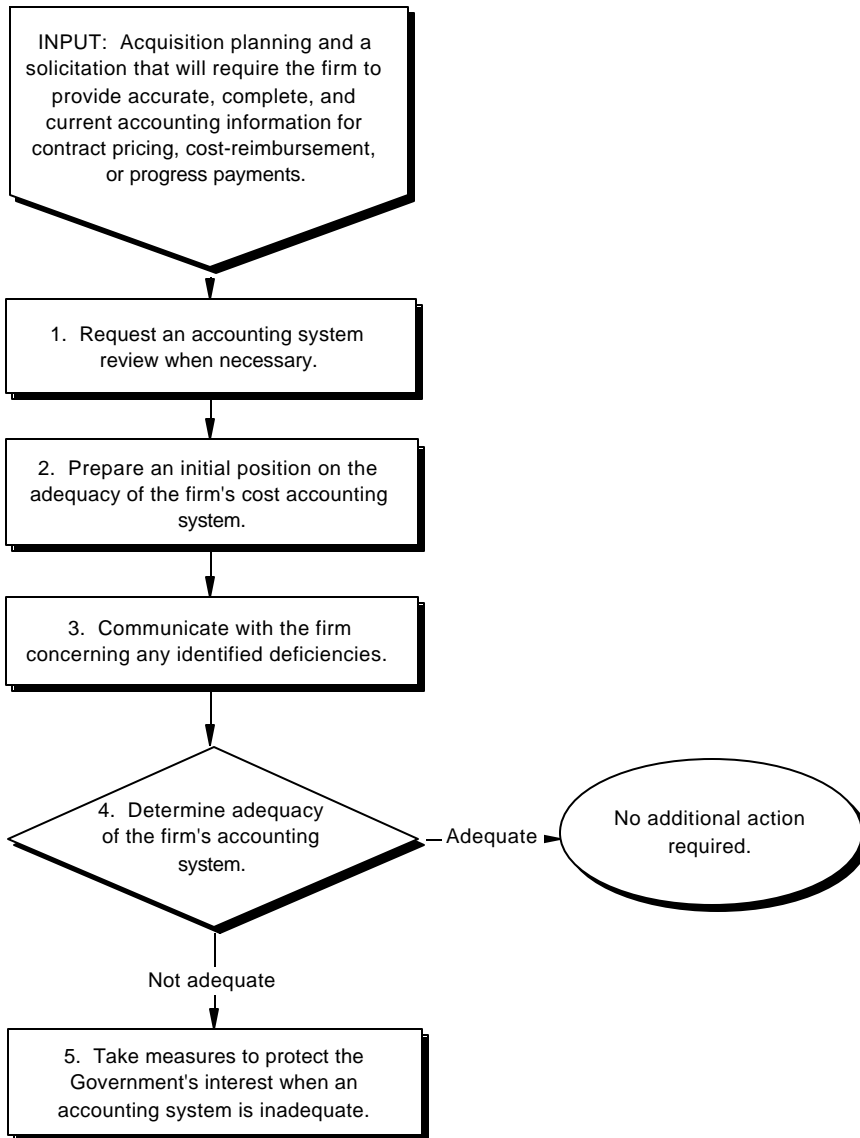
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**Other Policies and References (Annotate As Necessary):**

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## Part A: Accounting Systems

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## Part A: Accounting Systems

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### Tasks

### Related Standards

Tasks	Related Standards
1. Request an accounting system review when necessary.	<p>An accounting system review may be requested as part of a pre-award survey, cost audit, or field pricing support. When determining the need for an accounting system review, consider the following:</p> <ul style="list-style-type: none"><li>• A firm must have an adequate accounting system before:<ul style="list-style-type: none"><li>- It can be awarded a:<ul style="list-style-type: none"><li>▪ Fixed-price contract with prospective price redetermination;</li><li>▪ Fixed-ceiling-price contracts with retroactive price redetermination;</li><li>▪ Fixed-price incentive (firm target) contract;</li><li>▪ Fixed-price incentive (successive targets);</li></ul>or</li><li>▪ Cost-reimbursement contract.</li></ul></li><li>- Initiation of progress payments.</li></ul> <li>• Do not request a review if adequate accounting system information is available from a recent preaward survey or cost audit. Do not use a report for a purpose other than the purpose for which it was intended.</li>

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## Part A: Accounting Systems

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### Tasks

### Related Standards

<p>2. Prepare an initial position on the adequacy of the firm's cost accounting system.</p>	<p>Before taking any action related to the adequacy of the contractor's accounting system, review the available information and ask any questions necessary to assure understanding of the position taken by the auditor, the Administrative Contracting Officer (ACO) (if one is assigned), and any other experts involved in reviewing the accounting system. Consider:</p> <ul style="list-style-type: none"><li>• Facts found during the accounting system review;</li><li>• Missing or insufficiently documented findings;</li><li>• Apparent fallacies (quantitative or logical); and</li><li>• Inconsistencies between the findings and other available information.</li></ul> <p>Based on the available information, establish an initial judgment on the adequacy of the system as the basis for discussions with the contractor. That position will depend on the reason for the review.</p> <ul style="list-style-type: none"><li>• If the system review was part of a proposal analysis, the position may be that the proposal is not adequate for negotiation.</li><li>• If the review was part of a preaward survey, the position may be that the contractor is not responsible or that the accounting system is not acceptable for the proposed contract type.</li><li>• If the review involved the use of progress payments based on cost, your position may be that the system is not adequate to support progress payments.</li></ul>
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## Part A: Accounting Systems

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<b>Tasks</b>	<b>Related Standards</b>
<p>3. Communicate with the firm concerning any identified deficiencies.</p>          <p>4. Determine adequacy of the firm's accounting system.</p>	<p>Communications may be either oral or written. Request the cognizant auditor and or ACO to participate whenever merited by the magnitude or complexity of the issues. During these communications:</p> <ul style="list-style-type: none"> <li>• Review each identified deficiency.</li> <li>• Request representatives of the firm to:           <ul style="list-style-type: none"> <li>- Describe the firm’s position on each identified deficiency;</li> <li>- Provide relevant facts relating to any disagreement with the Government findings; and</li> <li>- Describe any plans for correcting identified deficiencies.</li> </ul> </li> <li>• Reach agreement with the firm on resolving identified deficiencies (if possible).</li> <li>• Summarize differences relating to any identified deficiencies that were not resolved.</li> </ul> <p>The accounting system may be found:</p> <ul style="list-style-type: none"> <li>• Adequate;</li> <li>• Adequate with exceptions covered by a corrective action plan; or</li> <li>• Inadequate.</li> </ul> <p>In making the determination:</p> <ul style="list-style-type: none"> <li>• Place heavy reliance on the recommendation of the cognizant auditor and the ACO (if one is assigned);</li> <li>• Consider the affect that identified deficiencies are expected to have on contract cost estimating, accounting, and management; and</li> <li>• Consider plans of the firm to correct the identified deficiency.</li> </ul>



# UNIT 33: ACCOUNTING AND ESTIMATING SYSTEMS

## Part A: Accounting Systems

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### Tasks

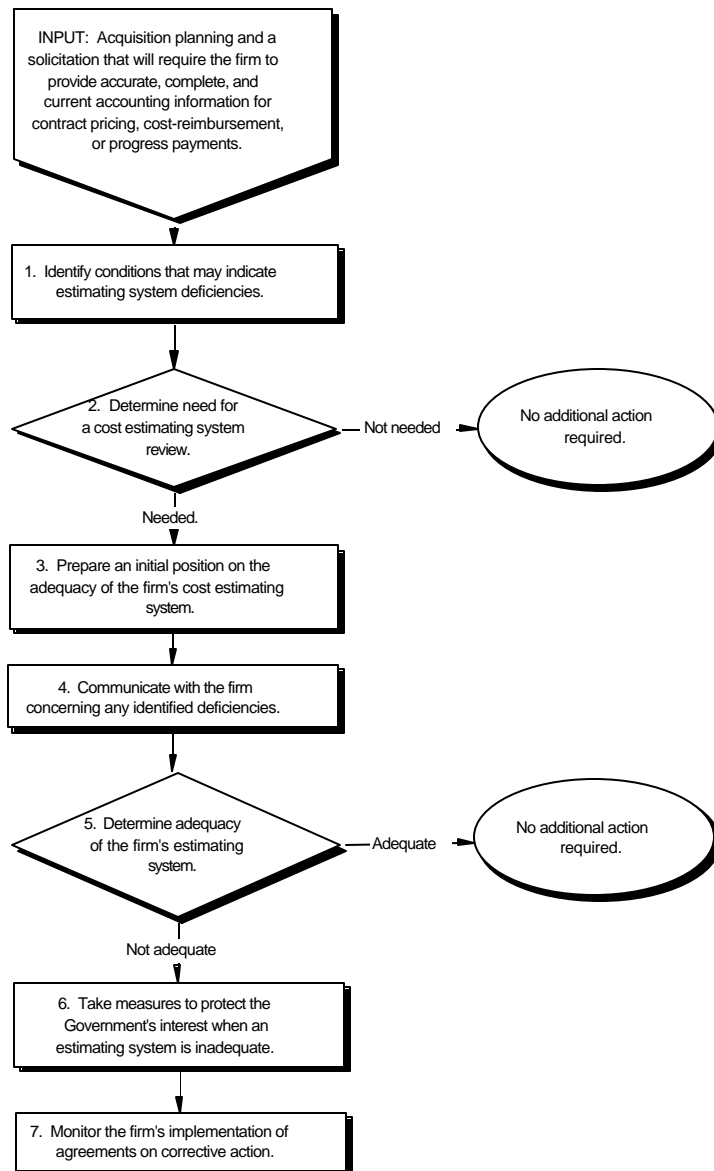
### Related Standards

<p>5. Take measures to protect the Government's interest when an accounting system is inadequate.</p>	<p>If the firm's accounting system is not adequate, take appropriate action to protect the Government's interests. If the review was requested to determine if the cost accounting system was adequate to support:</p> <ul style="list-style-type: none"><li>• Cost analysis, use price analysis exclusively to determine price reasonableness. If the price cannot be determined reasonable using price analysis consider other sources or consult management for other alternatives.</li><li>• Award and administration of contract type that requires an adequate accounting system, alternatives include:<ul style="list-style-type: none"><li>- Eliminating the firm from consideration because it is not responsible;</li><li>- Withholding award until the contractor agrees to remedy any identified deficiencies; or</li><li>- Using a different contract type.</li></ul></li><li>• Progress payments based on cost, alternatives include:<ul style="list-style-type: none"><li>- Refusing to initiate progress payments based on cost until the accounting system is made acceptable;</li><li>- If the Government is already making progress payments based on cost, reducing or suspending progress payments until the accounting system is made acceptable; or</li><li>- Using performance-based payments instead of progress payments based on cost.</li></ul></li></ul>
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# UNIT 33: ACCOUNTING AND ESTIMATING SYSTEMS

## Part B: Estimating Systems

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# UNIT 33: ACCOUNTING AND ESTIMATING SYSTEMS

## Part B: Estimating Systems

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### Tasks

### Related Standards

<p>1. Identify conditions that may indicate estimating system deficiencies.</p>	<p>The following conditions may indicate potentially significant estimating deficiencies and excessive costs to the Government:</p> <ul style="list-style-type: none"><li>• Failure to ensure that historical data on the same or similar work is available to and utilized by cost estimators where appropriate.</li><li>• Continuing failure to analyze material costs or failure to perform subcontractor cost reviews as required.</li><li>• Consistent absence of analytical support for significant proposed costs.</li><li>• Excessive reliance on individual personal judgment where historical experience or commonly used standards are available.</li><li>• Recurring significant defective pricing findings within the same cost element(s).</li><li>• Failure to integrate relevant parts of other management systems (e.g., production or cost accounting) with the estimating system.</li><li>• Failure to provide established policies, procedures, and practices to persons responsible for preparing and supporting estimates.</li><li>• Management information that does not match the proposal data.</li><li>• Standards for labor and material costs that are not current.</li><li>• Changes in make-or-buy decisions that are not disclosed.</li><li>• Inappropriate or misleading sampling techniques are used in cost estimating.</li></ul>
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## Part B: Estimating Systems

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Tasks	Related Standards
<p>2. Determine need for a cost estimating system review.</p>	<p>Consider the need for a cost estimating system review as part of a:</p> <ul style="list-style-type: none"> <li>• Regular program for reviewing selected contractor's estimating systems or methods in order to:               <ul style="list-style-type: none"> <li>- Reduce the scope of reviews to be performed on individual proposals;</li> <li>- Expedite the negotiations process; and</li> <li>- Increase the reliability of proposals.</li> </ul> </li> <li>• Contractually mandated estimating system review. An agency may authorize or require Contracting Officers to establish and monitor a contractually mandated program of periodic estimating system reviews.</li> <li>• Proposal analysis field pricing support. Auditors requested to provide field pricing support must report any estimating system deficiencies identified during the audit.</li> </ul>
<p>3. Prepare an initial position on the adequacy of the firm's cost estimating system.</p>	<p>Consider any factors identified by the review that affect estimate development such as:</p> <ul style="list-style-type: none"> <li>• The source of data for estimates and the procedures for ensuring the data are accurate, complete, and current;</li> <li>• The documentation developed and maintained in support of the estimate;</li> <li>• The assignment of responsibilities for originating, reviewing, and approving estimates;</li> <li>• The procedures followed for developing estimates for direct and indirect cost elements;</li> <li>• The extent of coordination and communication between organizational elements responsible for the estimate; and</li> <li>• Management support, including estimate approval, establishment of controls, and training programs.</li> </ul>

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Tasks	Related Standards
<p>4. Communicate with the firm concerning any identified deficiencies.</p>	<p>Communications may be either oral or written. Request the Government auditor to participate whenever merited by the magnitude or complexity of the issues. During these communications:</p> <ul style="list-style-type: none"> <li>• Review each identified deficiency.</li> <li>• Request representatives of the firm to:               <ul style="list-style-type: none"> <li>- Describe the firm's position on each identified deficiency;</li> <li>- Provide relevant facts relating to any disagreement with the Government findings; and</li> <li>- Describe any plans for correcting identified deficiencies.</li> </ul> </li> <li>• Reach agreement with the firm on resolving identified deficiencies (if possible).</li> <li>• Summarize differences relating to any identified deficiencies that were not resolved.</li> </ul>
<p>5. Determine adequacy of the firm's estimating system.</p>	<p>The accounting system may be found:</p> <ul style="list-style-type: none"> <li>• Adequate;</li> <li>• Adequate with exceptions covered by a corrective action plan; or</li> <li>• Inadequate.</li> </ul> <p>In making the determination:</p> <ul style="list-style-type: none"> <li>• Place heavy reliance on the recommendation of the cognizant auditor;</li> <li>• Consider the affect that identified deficiencies are expected to have on contract cost estimating; and</li> <li>• Consider plans of the firm to correct the identified deficiency.</li> </ul>

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## Part B: Estimating Systems

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Tasks	Related Standards
<p>6. Take measures to protect the Government's interest when an estimating system is inadequate.</p>	<p>Consider the following alternatives:</p> <ul style="list-style-type: none"> <li>• Allow additional time for proposal preparation/revision.</li> <li>• Consider changing the contract type.</li> <li>• Perform additional cost analysis on cost areas affected by the identified deficiencies.</li> <li>• Segregate suspected cost elements into a cost-reimbursement line item.</li> <li>• Reduce the fee/profit objective.</li> <li>• Insert a reopener clause covering the suspected cost elements.</li> </ul>
<p>7. Monitor the firm's implementation of agreements on corrective action.</p>	<p>The cognizant auditor and ACO are primarily responsible for monitoring a firm's progress in correcting deficiencies. Should the contractor fail to make adequate progress in correcting deficiencies, several options are available:</p> <ul style="list-style-type: none"> <li>• Highlighting the deficiencies in audit and pricing reports;</li> <li>• Elevating the matter to higher-level contracting management;</li> <li>• Reducing or suspending progress payments until identified deficiencies are corrected; or</li> <li>• Recommending that Contracting Officers not award contracts until identified deficiencies are corrected.</li> </ul>