

Planning for CAS Compliance

Written by Nick Sanders

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Recently a potential client lost out on a large opportunity—did not make the shortlist—because it could not certify that its cost accounting practices were compliant with CAS. It could not certify that it had submitted, or would submit, a CASB Disclosure Statement. It could not accept the CAS contract clauses that require consistency in cost accounting practices.

It couldn't accept the CAS requirements because it had not done any of the required planning.

It lost out on a large potential opportunity because it had not committed to CAS compliance. Instead, the company was waiting to see if the contract award would be forthcoming before making the required investments of time and effort and money. The contract didn't arrive and thus the CAS compliance project was put on hold.

Bummer for them.

Bummer for us.

But the thing is, if you are waiting for an incipient contract award to start your CAS compliance efforts, you've really waited far too long. Planning for CAS compliance requires at least a year's worth of runway; sometimes as many as two or three years' worth of runway.

Fundamentally, the problem is CAS 401. CAS 401 requires that the cost accounting practices use to prepare cost estimates must be consistent with those to be used for accounting for the contract after award, and for reporting contract costs after award. So the bottom-line is: if you haven't figured out your cost accounting practices before the cost estimate is generated, you are very likely going to start out contract performance with a CAS 401 noncompliance.

But it's more than that. Of course it is.

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That Disclosure Statement isn't going to write itself. And it's not the actual typing of the words, the completion of the fields in the Word table, that is the bugaboo. *Nope*. The bugaboo is deciding on what the company's cost accounting practices are, or will be. Companies that don't have Disclosure Statements also tend not to have well-documented accounting, policies, procedures, and/or practices. Thus, it takes teams (plural) of people coming together to develop a consensus on exactly what the company's practices are.

Think that's easy? *Nope*. Just coming up with an organization structure on which to hang indirect cost pools and allocation bases can take a matter of months. I remember coming up with more than 20 different iterations at one company before we could get something that most people could agree upon. (Some stakeholders never did like the final version.) The accountants and engineers wanted something very precise, while the sales and marketing folks wanted something very flexible. And the program managers just wanted something they could manage to.

And that was just the pools and bases.

If you've ever thumbed-through a Disclosure Statement, you've realized that it takes more than the accounting folks to fill it out. It can take actuaries, and insurance folks, and manufacturing folks—just to name a few. Most parts of the company need to come together in order to get an accurate Disclosure Statement for submission; and then they need to support that submission through government reviews.

That's a lot of work. And you really don't want to be doing all that work at the very same time the company is preparing a large proposal for a CAS-covered opportunity. Nobody is going to have the time—or the focus—to deal with CAS matters when there is a multi-million-dollar proposal in process.

For the above reasons, plus others, a company that wants to pursue CAS-covered contract work needs to commit to the effort early, at least a year but perhaps two or three years in advance of submitting a proposal for that work.

“But what if we don't win? Won't all that effort and money just have been wasted?”

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For that opportunity, perhaps. But not for the next opportunity or the ones after that.

Committing to CAS compliance is a step that prepares a contractor to compete on a new level, and potentially receive larger contracts. But the key word is “compete.” The company is still going to have to go after the work and then perform well should it receive an award.

But if the company doesn't invest in CAS compliance, then it has little if any chance of winning those new contracts.

As one company recently learned.