

IN THIS ISSUE

- **DoD Establishes New Requirements for Earned Value Management Are You Ready?**
- **Are Your Contracts CAS Covered?**
- **Are Public Relations and Advertising Costs Different From Selling and Marketing Costs?**
- **Getting Prepared for Incurred Cost Submissions**
- **Government Contract Training**

DoD Establishes New Requirements for Earned Value Management Are You Ready?

The Department of Defense recently revised their Earned Value Management Policy and those changes have many of our clients scrambling to understand, evaluate and implement a compliant Earned Value Management System (EVMS).

Understanding Earned Value Management

Earned Value Management (EVM) is a methodology for determining project cost and schedule performance by comparing planned work with accomplished work in terms of the dollar value assigned to the work. EVM differs from non-EVM project management because the focus is on cost and schedule integration and the **value** of the work performed rather than the **cost** of the work performed.

EVM monitors project performance and enhances control by answering the following questions:

- How much do we plan to spend and when? (*Planned Value*)
- What is the dollar value of the actual work accomplished? (*Earned Value*)
- How much have we spent for the work accomplished? (*Actual Costs*)
- How much do we plan to spend over the life of the project? (*Budget at Completion*)

- Based on the work accomplished to date, what is our estimated cost at completion? (*Estimate at Completion*)

An *Earned Value Management System (EVMS)* is a set of best practices, processes, and tools for enterprise project planning and control.

Changes in Government Policies Involving Earned Value Management

Both private and public sectors recognize the positive impact that Earned Value Management has on predicting project performance. Revisions to the DoD Earned Value Management Policy in 2005 lowered the cost threshold for cost or incentive contracts, subcontracts, intra-government and other agreements. Other directives that have increased the focus on EVM are the Office of Budget and Management (OMB) Circular A-11 (Part 7, Section 300), the Sarbanes-Oxley Act, and the President's Management Agenda Government-wide Initiative Number 5.

The revised DoD Earned Value Management Policy established a \$20 million threshold at which projects must implement the ANSI/EIA-748-A Standard for EVMS. Contracts whose value is over \$50 million must have an EVMS that has been formally validated and accepted. NASA has adopted the same \$20M / \$50M thresholds. GSA and DOE established a \$20M EVM threshold, where the FAA set theirs at \$10M. The Center for Medicare and Medicaid has also added EVM compliance as part of their solicitations, but they have not established specific thresholds thereby allowing their Contracting Officers some flexibility.

EVMS Implementation Readiness Assessments

Are you ready? Satisfying Earned Value Management reporting is not a function that the finance department can satisfy independently. EVM is an integrated program management approach that touches all project personnel and involves a high degree of people, process and tool integration. The implementation of an EVMS involves change across the enterprise. The degree of change and scope of effort required to successfully implement the EVMS depends on the specific earned value requirements and goals of the organization, the organization's project management maturity,

culture, business processes and tools, and the organization's level of discipline in following established processes and procedures. An EVMS Implementation Readiness Assessment provides insight into each of these areas and helps the organization formulate a realistic and accomplishable implementation plan. The goals of the EVMS Implementation Readiness Assessment are to identify:

- Project Management Maturity and Culture
- Preliminary Gap Analysis of Key EVM Process Areas
- Implementation Risks
- Cultural Dynamics
- Tools and Technology Capabilities and Needs
- Training Requirements

For more information about EVMS requirements, please contact Mr. Charles Broome at 256.533.1720.

Are Your Contracts CAS Covered?

Did you know that all it takes to be subject to modified CAS (Cost Accounting Standards) is a single contract with an award value of \$7.5 million dollars or more?

CAS regulations can be a bear to understand, and most contractors believe that CAS is only applicable to the larger contractors. Unless your contract qualifies for a CAS exemption, a \$7.5 million contract can trigger modified CAS coverage. If your company becomes subject to modified CAS, you must comply with the following standards:

- CAS 401 (Consistency in estimating, accumulating and reporting costs)
- CAS 402 (Consistency in allocating cost incurred for the same purpose)
- CAS 405 (Accounting for unallowable cost)
- CAS 406 (Cost Accounting period)

Remember, however, that a contractor is not subject to the preparation of a CASB disclosure statement until full CAS coverage is triggered.

And, to throw another kink in things, if you are awarded an IDIQ (Indefinite Delivery, Indefinite Quantity) contract with a total potential award value above CAS applicability range, regardless

of the amounts actually awarded in options to the contractor, the potential award is reviewed for CAS coverage, not just the options exercised.

The good news is that there are several exemptions to CAS coverage, and, with an exemption, provisions of CAS would not apply regardless of the value of a contract. A few of those exemptions are identified below:

- Negotiated government contract/subcontract for \$500,000 or less
- Sealed bid contract
- Firm-fixed-price contract/subcontract awarded on the basis of adequate price competition without the submission of cost or pricing data
- Contract/subcontract with a small business

So, take a close look at your contract awards, evaluate to see if you may qualify for a CAS exemption, and be aware of how easy it is to trigger CAS coverage. Make sure you are ready when the time comes.

Are Public Relations and Advertising Costs Different From Selling and Marketing Costs?

By definition it would seem that Public Relations and Advertising would be combined with Selling and Marketing costs, at least in the FAR Part 31 Cost Principles. Selling (FAR 31.205-38) is generally defined as inclusive of all efforts to market a contractor's goods and services. Selling and Marketing activities include direct selling efforts, such as identifying potential buyer, learning buyer's needs, convincing potential buyers to purchase the contractors' products or services negotiation and liaison between contractor and customer personnel, technical and consulting activities and individual demonstrations. The FAR also states that as long as these costs are reasonable, they are allowable.

Based on the preceding premises, one might conclude that there is no difference in the Allowability of either Public Relations / Advertising and Selling/Marketing; however, this would be a false assumption.

The FAR states that Public Relations and Advertising costs are generally unallowable because there is no direct or indirect benefit derived by the government. Some examples of Public Relations and Advertising would be trade shows, meetings/seminars where its purpose is not stimulation of production or dissemination of technical information, promotional material, souvenirs, company celebrations, and membership in community and civic organizations.

Now that we know the difference in the two types of cost, we can easily determine reasonableness and allowability of those costs. Let's look at one easy example, the company brochure. Assume that the brochure's purpose is to draw attention to the company's services/products and induce buyers to purchase those services/products; such an end purpose might be considered the same as that stated in the Selling and Marketing activities. The purpose of this brochure is largely promotional, and the costs for such an item are specifically identified as an unallowable cost as an Advertising activities.

Very few things are absolute in the government contracting area. All costs related to Selling and Marketing are subject to challenge for reasonableness and allowability by the government. If you decide that a cost should be allowable, include sufficient detail in your cost accounting records to justify the allowability. More information on these matters can be found in FAR 31.205-1 "Public relations and advertising" and FAR 31.205-38 "Selling costs".

Getting Prepared for Incurred Cost Submissions

If your fiscal year ended December 31, 2006, you should be aware that a cost presentation, known as the Incurred Cost Proposal, must be submitted to the Government no later than June 30, 2007.

This presentation is required for all government contractors and subcontractors when, during fiscal year 2006, costs were incurred under flexibly-priced arrangements, and the Allowable Cost and Payment clause (52.216-7), or other contract verbiage with the same requirements, are included in those contracts/subcontracts.

We encourage all government contractors to begin planning for that presentation early in 2007, to include the gathering of all contracts and related peripheral data required. Preparing the cost schedules and assembling all other financial, contracts, and organization information required can be an intimidating and time-consuming task. An early start in assembling this information will, if nothing else, reduce the stress by waiting until June 15 to begin working on this proposal.

Be aware that missing the June 30 deadline can result in suspension of direct billing privileges, suspension of invoiced costs, and in extreme cases, unilateral determination of final indirect rates.

Government Contract Training

NCMA Training

Brief Synopsis: Preparing for government contract audits and mitigating audit risk

Date: March 8, 2007

Location: BAE Systems, 310 Voyager Way, Bldg. 2, Huntsville, AL

Time:

Registration: 4:30 pm – 5 pm (heavy hors d'oeuvres)

Instruction: 5 pm – 8 pm

Cost: \$40 – members, \$45 – non-members

Registration: Go to www.ncmahsv.org

Government Contract Accounting Systems Compliance

Brief Synopsis: This course is designed to detail the components of a government contract accounting system and explain how an accounting system helps to ensure your compliance with government contracting rules and regulations.

Presented by: Federal Publications Seminars

Dates: May 2-3, 2007, Washington D.C.

Instructors: Darryl Walker and Charlie Broome
Go to www.fedpubseminars.com and click on the Government Contracts tab or call Beason & Nalley at 256.533.1720.

Specialized Training

Beason & Nalley will develop and provide specialized Government contracts compliance training for client/contractor audiences. Topics on which we can provide training include estimating systems, FAR Part 31 Cost Principles, TINA and defective pricing, cost accounting system requirements, and basics of Cost Accounting Standards, just to name a few. If you have an interest in training, with educational needs specific to your company, please contact Ms. Sandra Baker at sbaker@beasonnalley.com, or at 256.533.1720.

Future Newsletters – Beason & Nalley welcomes any feedback from the readers of this newsletter. We appreciate any suggestions that you may have as to future content, presentation and format, or interesting developments in the procurement community that would be of interest to our readers. Please provide any feedback or suggestions via our email address at dwalker@beasonnalley.com.

Beason & Nalley, Inc. provides accounting, business, financial and consulting services with a focus on serving government contractors. Beason & Nalley goes well beyond the bounds of what one would normally consider to be "typical" services. We provide services such as government contract services, outsourced accounting, audit, tax and Deltek GCS Premier™ and Deltek Costpoint® consulting and more. Our goal is to provide the business owner with options for their financially related administrative needs. Our service list is comprehensive. Contact us:

Beason & Nalley, Inc.

101 Monroe Street, Huntsville, AL 35801

Tel.: 256.533.1720, Toll Free: 1.800.416.1946

Email: info@beasonnalley.com

www.beasonnalley.com