



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PPD 730.5.35.1

June 15, 2009
09-PPD-009(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Alert on the Use of the Incurred Cost Electronically (ICE) Model

This audit alert is being issued to bring attention to errors that were discovered in the ICE Model Version 2.0.0, issued in May 2008. This version of the model contained programming errors in calculating:

- G&A/G&A Cost of Money (COM) rate/allocation in instances where a value-added base is used,
- G&A rate/allocation when fringe on IR&D/B&P is applied as an intermediate allocation,
- Overhead/Overhead COM rate/allocation where fringe is included in the overhead base, and
- G&A COM pool when material COM is applied to IR&D/B&P material.

Version 2.0.0 of the ICE application was removed from the public website once the errors were identified and Version 2.0.1, which has corrected the programming errors, has been posted.

The enclosure explains the conditions that would need to occur for the ICE Model to miscalculate the overhead and/or G&A rate (and associated COM rates), a description of the calculation error(s), how the error was fixed in Version 2.0.1, and the manual fix that can be performed by the contractor to correct the calculation error(s) in cases where Version 2.0.0 was utilized. FAO personnel should take the following actions:

- Review all contractor incurred cost submissions received that were prepared using the ICE Model, Version 2.0.0, to identify whether the conditions outlined in the enclosure exist. Manually recalculate those sections of the contractor's incurred cost submission to identify any calculation errors due to the programming errors. If errors are identified, return the submission to the contractor for correction with a copy of this memorandum.
- For incurred cost submissions not received, provide a copy of this memorandum to contractors within the FAO that have historically used the ICE model to prepare their incurred cost submission. If the contractor is in the process of preparing their submission using Version 2.0.0 of the ICE Model, recommend they use the currently available Version 2.0.1, which has corrected the identified programming errors.

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FAO personnel with questions should contact their regional points of contact. Regional personnel with questions should contact the Policy Programs Division at (703) 767-2270.

/Signed/

Kenneth J. Saccoccia

Assistant Director

Policy and Plans

Enclosure:

Programming Errors on ICE Model

DISTRIBUTION: C

**Programming Errors Identified on the
Incurred Cost Electronically (ICE) Model
(Version 2.0.0)**

1. Application of Value-Added G&A:

Conditions Causing Impact – This issue only impacts contractor submittals where both of the following conditions are present:

- Value-Added G&A is selected on the Setup tab, and
- The contractor has not modified the applicable G&A formulas on Sched H.

Description – If the contractor selected a Value-Added G&A Base (a checkbox on the Setup tab), material and subcontractor costs were properly removed from the G&A base on Schedule E to compute the G&A Rate; however, on Schedule H (and potentially on Schedule K if the contractor had T&M contracts) the G&A rate was being applied to a Total Cost Input (TCI) base.

Generally, this issue will cause G&A to be over-applied on Schedule H (and potentially on Schedule K if the contractor had T&M contracts), if a specific line item (i.e. contract) on that schedule contains material and/or subcontract cost. The issue will also impact G&A Cost of Money (COM) rate since it is applied to the same base as G&A.

Version 2.0.1 Correction – A column was added to Schedule H in which the G&A base is computed. If Value-Added is selected, material and subcontract costs are removed from TCI to reflect the Value-Added base. This base is also used when applying G&A COM on Schedule H.

Manual Fix to Version 2.0.0 – If the contractor uses a Value-added G&A base, the contractor should revise the G&A formulas in Schedule H, Column AA, to subtract material and subcontract cost from the G&A base (Column Z). A similar modification needs to be made to the G&A COM computation(s) on Schedule H, Column AI, since G&A COM is applied to the same base as G&A.

Sample Formulas (G&A):

Before: =ROUND('Sched A'!\$B\$49*Z17,0)

After: =ROUND('Sched A'!\$B\$49*(Z17-M17-J17),0)

Sample Formulas (G&A-COM):

Before: =ROUND(Z17*'Sched A'!\$B\$122,0)

After: =ROUND((Z17-M17-J17)*'Sched A'!\$B\$122,0)

A similar modification may also need to be made to the G&A computation(s) on Schedule K if the contractor has T&M contracts.

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2. Fringe on IR&D/B&P is Included in G&A Per GL Column (on Schedule B) when Fringe is Applied as an Intermediate Allocation:

Conditions Causing Impact – This issue only impacts contractor submittals where all of the following conditions are present:

- Contractor indicates that they use a fringe pool (on the Setup tab),
- Contractor selects the option where fringe is only an intermediate allocation,
- Contractor has IR&D and/or B&P labor on Schedule H, and
- Contractor has not modified the applicable formulas on Schedule B.

Description – Schedule B, Column H, shows G&A pool per G/L. Near the bottom of this schedule are cells that “move” fringe on IR&D/B&P from the G&A base into the G&A pool, but this movement should only happen if the contractor applies fringe as a final rate. If the contractor elects to have fringe treated as an intermediate allocation only, then these cells on Schedule B should show zero cost since the fringe on IR&D/B&P labor will be moved from the G&A base into the G&A pool by other means (i.e., as part of the final O/H rate allocations). The amounts on Schedule B, Column H (IR&D and B&P fringe cells), impact the G&A base on Schedule E by reducing the base by the computed fringe on IR&D/B&P.

Generally, this issue will cause the G&A base to be understated since the G&A base is reduced by IR&D/B&P fringe when it should not be. The size of the understatement depends on the significance of the IR&D/B&P labor and the significance of the fringe rate, and may or may not impact the computed G&A rate.

Version 2.0.1 Correction – IR&D & B&P Fringe formulas on Schedule B, Column H, were corrected to reflect zero if the contractor only allocates fringe as an intermediate (as opposed to a Final) rate. These amounts from Schedule B automatically flow to the G&A base computation on Schedule E so no formula changes were required on Schedule E.

Manual Fix to Version 2.0.0 – If the contractor has checked the box on the Setup indicating that Fringe is only an intermediate allocation, the contractor should replace the formulas on Schedule B, Column H, for the rows identified as “IR&D Fringe” and “B&P Fringe” (the cells allocating fringe on IR&D and B&P respectively) with zero. These amounts should then automatically flow to the G&A base computation on Schedule E.

3. Fringe in Overhead Base:

Conditions Causing Impact – This issue only impacts contractor submittals where all of the following conditions are present:

- Contractor indicates that they use a fringe pool (on the Setup tab),
- Contractor selects the option where fringe is applied as a final rate,
- Contractor selects the option to include fringe in the applicable overhead base,

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- The contractor has adjustments (i.e., unallowable costs) in the fringe pool causing a difference between G/L Fringe and Claimed Fringe on the fringe tab, and
- Contractor has not modified the applicable O/H base formulas on Schedule E.

Description – If the contractor selects Fringe as a final rate and elects to include fringe costs in the applicable overhead bases, the ICE Model adds a line to the applicable overhead bases on Schedule E to reflect the fringe costs as part of the overhead base. However, the Fringe reflected in Version 2.0.0 allocation base is the “claimed” Fringe (which excludes contractor identified unallowable costs), whereas G/L Fringe should be reflected in the base to force unallowable Fringe to carry its share of the overhead.

Generally, this issue will cause overhead bases to be understated due to the exclusion of unallowable Fringe from the overhead base. The size of the understatement depends on the size of the difference between G/L Fringe and Claimed Fringe, and the percentage of Fringe that is allocated to direct labor. Depending on the size of the understatement, the overhead rates may or may not be impacted.

Version 2.0.1 Correction – Overhead base formulas on Schedule E (the lines that reflect fringe in the base) were modified to show G/L fringe as opposed to claimed fringe allocations.

Manual Fix to Version 2.0.0 – If the contractor includes the Fringe allocated on direct labor in the base for computing applicable overheads, revise the Fringe line in the Overhead Base formulas on Schedule E (cells B18, B35, B52, B69, B86, if visible) to show Fringe before adjustments. Generally, this can be accomplished by changing the cell references in Schedule E, (cells B18, B35, B52, B69, and B86 to pull in values from Column G of the Fringe sheet, as opposed to Column F of the Fringe sheet.

Sample Formulas (cells B18, B35, B52, B69, B86 if visible):

Before: =Fringe!F##*Fringe_in_OH_Base

After: =Fringe!G##*Fringe_in_OH_Base

Note: ## in the formulas above refer to specific rows on the Fringe worksheet (the row(s) that allocate fringe to direct labor associated with each pool). These rows will vary depending on the number of detail lines in the contractor’s Fringe worksheet, but the row(s) should already be properly reflected in the cells being changed on Schedule E. Simply change the formula reference from Fringe!F to Fringe!G. Cells D18, D35, D52, D69, and D86 should generally equal cells B18, B35, B52, B69, and B86, respectively, after the formula modification.

4. Overhead Cost of Money Application when Fringe is in the Overhead Base:

Conditions Causing Impact – This issue only impacts contractor submittals where all of the following conditions are present:

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- Contractor indicates that they use a fringe pool (on the Setup tab),
- Contractor selects the option where fringe is applied as a final rate,
- Contractor selects the option to include fringe in the applicable overhead base,
- Contractor claims Overhead Cost of Money, and
- Contractor has not modified the applicable O/H COM base formulas on Schedule H.

Description – In ICE Version 2.0.0, the base for computing Overhead COM rate is the same as the base for computing the overhead in accordance with CAS 414. However, on Schedule H, the base for applying Overhead COM to contracts is direct labor. In cases where the contractor uses fringe as a final rate and includes fringe in the overhead base, the fringe needs to be added to direct labor to form the appropriate base for the O/H COM allocation.

Generally, this issue will cause overhead COM to be under applied on Schedule H since applicable fringe is being excluded from the allocation base.

Version 2.0.1 Correction – On Schedule H, Overhead COM formulas were modified to include applicable fringe in the allocation base if the contractor elects to include fringe in the overhead base.

Manual Fix to Version 2.0.0 – If the contractor includes the fringe allocated on direct labor in the base for computing applicable overheads, the contractor should revise the O/H COM formulas on Schedule H, Columns AC through AG (if all O/H pools are being used), to add the applicable computed fringe (Schedule H, Columns O through S) to the labor base. This combined base (labor + fringe) should then be multiplied by the applicable O/H COM rate.

Sample Formulas:

Before: =ROUND(C17*Sched A!\$B\$92,0)

After: =ROUND((C17+O17)*Sched A!\$B\$92,0)

5. Cost of Money on IR&D/B&P Material is Not Properly Moved into the G&A Cost of Money Pool:

Conditions Causing Impact – This issue only impacts contractor submittals where all of the following conditions are present:

- Contractor indicates that they use a final overhead pool allocated on material and/or subcontracts,
- Contractor has a COM pool allocated over this same base,
- Contractor has IR&D/B&P material and/or subcontract cost on Schedule H, and
- Contractor has not modified the applicable formula on Schedule F.

Description – Schedule F (cell I32) is used to compute the IR&D/B&P material and/or subcontract costs. This cell is used as the base for determining material COM that should be moved into the G&A COM pool, and for this movement to be correct this base must be a

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negative amount. The formula cell I32 in ICE 2.0.0 does not convert this base to a negative amount.

Generally, this issue will cause G&A COM pool to be understated since the cost of money on IR&D and B&P material/subcontracts is not properly moved into the pool. The size of the understatement depends on the significance of IR&D/B&P material/subcontracts and the material COM rate. Depending on the size of the understatement, the computed G&A COM rate may or may not be impacted.

Version 2.0.1 Correction – The formula in cell I32 was modified to result in a negative amount and the user manual was updated to provide additional explanation on setting up COM when a material/subcontracts pool is designated on the Setup tab.

Manual Fix to Version 2.0.0 – If the contractor has checked the box on the Setup indicating that there is a final overhead pool that uses material/subcontract costs as the base, and the contractor computes COM on this base, the contractor should ensure that Schedule F includes a line that properly reflects the Material COM pool and base, and that the Material COM on the IR&D and B&P material is properly included in the G&A COM pool.