



Redstone
Government Consulting

CASE STUDY

Indirect Costs Allocation Structure and Remedying DCAA Risks

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Background

A multi-billion-dollar Middle Eastern logistics chain supply company, with U.S. government contracts for delivering field supplies and services to U.S. forces operating in Iraq, required an improved and a more refined indirect cost grouping and allocation process to meet the requirements of the Cost Accounting Standards and the FAR Part 31 Cost principles. The foreign entity maintained several business entities, each with their own general ledger from which costs was charged to government contracts. DCAA auditors had identified deficiencies with grouping and allocation of overhead and G&A costs, and cost originating at certain home office locations. A major obstacle in overcoming these deficiencies was the reluctance of the client's foreign national managers and accounting staff to making the changes since they did not fully comprehend the government contract terms and conditions necessitating these changes. The management team viewed DCAA required changes as intrusive and not to be taken seriously. The company maintained an experienced internal government contracting compliance staff but requested our services to complement their resources in revising the allocation of indirect costs to U.S. government contracts, and in emphasizing the need for implementing changes to avoid adverse government contract actions.

Scope

Our professional traveled to the Middle East location of the client to gain an understanding of existing indirect accounting practices and assist in identifying gaps between those practices and government regulations. Because costs charged to the government contracts originated at different levels within the company organization, we assisted in designing a multi-entity indirect cost collection and allocation structure compliant with the contract terms and conditions. In performing this task, we developed a comprehensive allocation model, which identified origination point of the costs, the indirect cost centers, and the allocation method. We also participated in meetings with personnel who had resisted making necessary changes to not only discuss the new cost accounting practices, but also explain why the government regulations required the company's high-level management and the accounting staff's prompt attention and cooperation in making changes.

Outcome

Recommended changes to the indirect cost allocation practices were adopted and implemented over a period of two years, which reduced the number of DCAA reported deficiencies. Our team returned to the Middle East numerous times to assist in continuous oversight of the implemented indirect cost allocation processes.



About Redstone Government Consulting

Redstone GCI is a consulting firm focused on fulfilling the needs of government contractors in all areas of compliance. With a singular mission to help contractors through the multiple layers of “red tape,” we allow contractors to focus on what they do best – support their mission with the U.S. Government. We are home to a group of consultants made up of GovCon industry professionals, CPAs, attorneys, and retired government audit and acquisition professionals.

Our focus and knowledge of audit and compliance functions administered by DCAA and DCMA will always be at the heart of what we do. However, for the past decade, we’ve strategically grown to support other areas of the government contractor back-office with that same level of focus and expertise. We’ve added expertise in contracts management, subcontract administration, proposal pricing, various software systems, HR and employment law, property administration, manufacturing, data analytics/reporting, Grant specialists, M&A, and many other areas. When we see a trend in the needs of contractors, we act to ensure we can provide the best expertise in the market to fulfill those needs.

One thing our clients can be certain of is that with the Redstone GCI Team in your corner, there is no problem too big and no issue too technical for our team to tackle.