



A QUICK GUIDE TO INCURRED COST PROPOSALS



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OVERVIEW

The Incurred Cost Proposal is the final step for the government to determine the true costs of your contracts. The government is focused on fair and reasonable pricing. You will see that terminology throughout the FAR. Indirect rates are designed to support the concepts of fair and reasonable by distributing all the company's allowable indirect costs proportionately across all contracts. Here is how the whole process works:

You start out with a budget. Generally, that budget is the basis for your first proposal to the government. This initial budget should have a depiction of what indirect costs you believe you will incur during the execution of that contract. Those indirect costs are divided into the appropriate base and rates are established. These become your Provisional Billing Rates.

Provisional Billing Rates are used for the purpose of invoicing the government through the beginning of your contract award until the end of your accounting period. At the end of your accounting period, you calculate your actual rates and invoice the government for the difference between your provisional rate and your actual rate.

In the case where you owe the government money, you create a payable and a plan to zero that payable out before contract close. This calculated (actual) rate for the previous year, now becomes your provisional billing rate for the upcoming year. You then prepare an Incurred Cost Proposal based on the previous year's data and send them to the cognizant agency that you are contracted with for their approval. The approved Incurred Cost Proposal will be used by the government as a basis for all calculations necessary to close out the contract.

WHEN ARE YOU REQUIRED TO DO AN INCURRED COST PROPOSAL?

Incurred Cost Proposals are required by all government agencies when you are engaged in a Cost Type contract. The specific FAR clause dictating an ICP is [FAR 52.216-7 \(d\)\(2\)](#). Incurred Cost Proposals are due 180 days after your fiscal year end.

WHO PREPARES THE INCURRED COST PROPOSAL?

The preparation of an Incurred Cost Proposal is the responsibility of the company who is under contract with the government. Preparing ICPs is a service ReliAscent® offers to our clients.

WHERE IS AN INCURRED COST PROPOSAL SUBMITTED?

Each agency has specific instructions on where your Incurred Cost Proposal will be sent once completed. Please follow the guidance located later in this document.

WHAT IS AN INCURRED COST PROPOSAL?

There are several versions depending on the cognizant agency. See guidance specific to your agency for the proper format in this document.

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WHY AM I REQUIRED TO DO AN INCURRED COST PROPOSAL?

If you are under a Cost Type Contract with any government agency, an ICP is required to provide the government with the proper documentation to reconcile your account during the contract closing process.

HOW DO I DO AN INCURRED COST PROPOSAL?

The following sections provide guidance to prepare and submit an ICP. Each Agency is a little different, so please be sure that you are following the instructions for the Cognizant Agency that governs your Indirect Rates.

DEFENSE CONTRACT AUDIT AGENCY (DCAA)

The DCAA is the cognizant agency for all Department of Defense contracts. The DCAA also assists other agencies, such as Department of Homeland Security (DHS) and Department of Energy (DOE) when their workload permits. For non-DoD agencies, please check your contract to determine if the DCAA is the cognizant agency for the purpose of your Incurred Cost Proposal Submission. The Incurred Cost Proposal submission for the DCAA is called ICE (incurred Cost Electronic). These are required for all contractors who have direct cost type contracts with an agency under authority of the DCAA. For ICE instructions, go to:



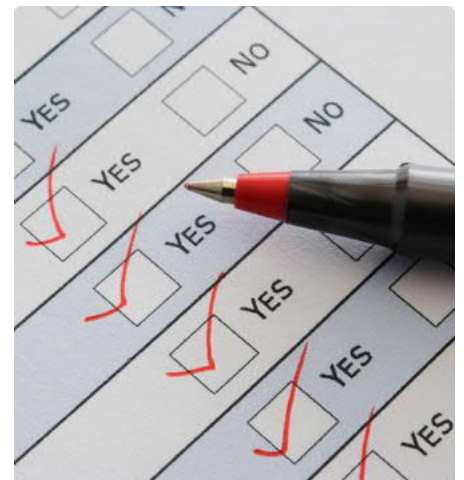
Link - <https://www.dcaa.mil/Checklists-Tools/ICE-Model/>

From this link you can download the ICE Model and follow the instructions on how to complete an ICE to be DCAA compliant. The download includes the ICE Model and Instruction Manual.

DCAA INCURRED COST SUBMISSION ADEQUACY CHECKLIST

The following link provides the latest DCAA Incurred Cost Submission Adequacy Checklist. Use this to be sure that your ICE is completed correctly.

<https://www.dcaa.mil/Checklists-Tools/Incurred-Cost-Submission-Adequacy-Checklist/>



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DATA NEEDED TO PREPARE YOUR ICE SCHEDULE

ReliAscent® recommends that government contractors also gather all required data in one place, prior to beginning work on the ICE. These items include:

- General Ledger (G/L) and Trial Balance for Fiscal Year (FY) and Prior FY (Refer to Schedules B, C, D, G, Q-1, Q-2, Q-3, Q-4).
- Cost element breakdown of cost type, T&M, other flexibly priced contracts, firm fixed price and commercial contracts (Refer to Schedule H).
- Job Cost Ledger for FYs submitted should reconcile to G/L (Refer to Schedule G-1).
- Hours and amounts billed on T&M contracts (Refer to Schedule K).
- Financial Statements for FY and Prior FY (Refer to Schedules B, C, G, G-1, Q-1, Q-2, Q-3, Q-4).
- Form 941 Quarterly Tax Returns for FY submitted (Refer to Schedule L).
- Federal Tax Returns for FY submitted (Refer to Schedule R).
- Copies of information used to brief flexibly priced contracts (see Appendix 2) (Refer to Schedule S)
- Decisions/accounting and organizational changes (Refer to Schedule M).
- Written policies and procedures on identifying and segregating unallowable costs (Refer to Accounting Manual).
- If Applicable, FY and Prior FY Net Book Value of Assets for Cost of Money computation (Refer to Schedule F and F-1).
- Schedule of IR&D/B&P projects if applicable (Refer to Schedule P).
- Cumulative billing and contract closing information (Refer to Schedules I & O).

DCAA ICE MODEL—TAB BY TAB OVERVIEW & IMPORTANT NOTES

The Workbook's Table of Contents (TOC) is linked to all Schedules. Schedules A through O are generally the required schedules for the incurred cost proposal. However, depending on your accounting practices, you may not need all schedules (i.e., if your company does not have any intermediate pools then you will not be completing Schedule D since this schedule is used to provide details of intermediate pool costs). Here are the required schedules:

- Schedule A – Summary of all Claimed Indirect Rates.
 - ◇ Summarizes and displays the calculated actual indirect rates for the year. This schedule requires no input. It is the result of all the data you enter into your ICE.
- Schedule B – General and Administrative (G&A) Expenses (Final Indirect Cost Pool)
 - ◇ You will enter your G&A data from your accounting data into this schedule. You will also enter your unallowable expense. The adjustment column is to reverse out the unallowable amounts.
 - ◇ The bottom portion of this schedule is information pulled from other schedules and formulas – no entry required.

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- Schedule C – Overhead Expenses (Final Indirect Cost Pool).
 - ◇ You will enter your Overhead Expense data from your accounting data into this schedule. The adjustment column is to reverse out the unallowable amounts (unusual).
- Fringe – Fringe Pool.
 - ◇ You will enter your Fringe Expenses from your accounting date into this schedule.
- Schedule E – Claimed Allocation Bases by element of cost used to distribute indirect costs.
 - ◇ This schedule should require no entry.

ITEMS TO SCREEN FOR ON SCHEDULES A-E:

- If the G&A rate is calculated on a Total Cost Input (TCI) basis, that is G&A is applied to all direct costs and OH, then the G&A pool plus the G&A base shown in Schedule A should equal the total **“allowable” costs from the accounting system.**
- If the G&A rate is calculated on another basis that passes through contract costs without G&A, then the G&A pool plus the G&A base shown in Schedule A plus the pass-thru costs should equal the total **“allowable” costs from the accounting system.**
- Indirect rates in Schedule A should be evaluated and compared against those agreed upon for billing purposes, i.e. the approved Provisional Billing Rates (PBR). Variances between PBR and ICE indirect rates should be reconciled from a top-level view, unless further analysis is deemed warranted. That is, examine why are rates different and what might have caused the difference.
- **It's good practice to have a reliable, independent indirect rate calculator to compare results, find and resolve calculation errors.**

- Schedule G – Reconciliation of Books of Account and Claimed Direct Costs.
 - ◇ This schedule should require no entry.
- Summary Schedule H – Summary Schedule H of Direct Contract/Subcontract/IR&D/B&P.
 - ◇ This schedule should require no entry.

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- Summary Schedule H – Summary Schedule H of Direct Contract/Subcontract/IR&D/B&P.
 - ◇ This schedule should require no entry.
- Schedule H – Schedule of Direct Costs by Contract/Subcontract and Indirect Expense Applied at Claimed Rates.

Now that actual indirect rates are known for an annual period, these indirect rates can be applied to all your job costs for that year.

Schedule H does this by segregating cost-type and T&M type contract cost data from Fixed Price (FP) and Commercial contracts.

Cost-type and T&M contracts (and subcontracts) are reported individually whereas FP and commercial contract data can be aggregated.

Contract cost data is entered into Schedule H under the various cost categories, i.e. labor, and other contract costs such as subcontracts, material, travel, and so on. The ICE model then draws into Schedule H the indirect rates from Schedule A which derives the total cost (direct and indirect) for each job.

On this schedule you will list all of your contracts by contract type. Here you enter all of your contract costs by Labor, Travel, Materials, ODC and Subcontracts.
- Schedule H-1 – Subsidiary Schedule of Government Participation Percentages.

ITEMS TO SCREEN FOR ON SCHEDULE H:

- The aggregate of all the job costs in Schedule H should equal the sum of the G&A pool and base on Schedule A.
 - The total direct costs for each cost element (labor, other contract costs), in Schedule H should reconcile **with similar data from the accounting system.**
-
- Schedule I – Schedule of Cumulative Direct and Indirect Costs Claimed and Billed by Contract and Subcontract.

The efforts to fill out Schedules A-E and H all culminate in filling out Schedule I. Schedule I is designed to accumulate all calculated costs (direct and indirect) for all years of a contract, then compare those results with costs that have been billed to the government. The difference is expressed as a variance in the form of a contract either being underbilled or overbilled.

 - ◇ This is the reconciliation schedule the DCAA uses when they are closing your contracts. It is vital that prior year data be carried forward correctly and all costs are tracked on this schedule correctly.
 - ◇ This schedule must tie out to Schedule H.

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ITEMS TO SCREEN FOR ON SCHEDULE I:

- **Prior year costs reported for each contract should be scrutinized for accuracy. This data is either derived from prior year ICE reports that have not been approved by the government,**
- **Total Cumulative contract costs for each contract should be evaluated to ensure any costs over the contract cost limit are identified.**
- **The variance in cumulative billed cost total to actual cost total should be evaluated for each contract.**

- **Schedule J – Subcontract Information.**

- ◇ Enter all of the subcontracts you used that were by category under any of your Cost Type contracts.

- **Schedule K – Summary of Hours and Amounts on Time and Material/Labor Hour Contracts.**

- ◇ This schedule is only required if you have contracts that were T&M or Labor Hour.

- **Schedule L – Reconciliation of Total Payroll per IRS Form 941 to Total Labor Costs Distribution.** Since labor is typically the largest cost for a firm, and in the government's eyes, the riskiest to record and allocate properly, Schedule L seeks to reconcile labor posted in the accounting system and reported on the ICE schedules with a reliable secondary data source. The DCAA preference is to use IRS 941 Forms to accomplish this check on labor.

- ◇ Enter all of your quarterly 941 data here.

- ◇ This schedule should tie out to your 941 labor numbers.

ITEMS TO SCREEN FOR ON SCHEDULE L:

- Are all labor expenses accounted for that are paid through the payroll service?
- Experience suggests data in block 5c of the IRS Form 941 most closely reflects gross wages reported in **the accounting system.**
- Bear in mind accrued labor won't match precisely with IRS Forms 941 since these forms are reported on a cash basis. Schedule L provides for these adjustments.
- **Total Labor Distribution should then equal Total Adjusted Payroll.**

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- **Schedule M – Listing of Decision/Agreements, or Approvals Affecting Direct/Indirect Costs and Description of Accounting or Organization Changes.**
 - ◇ Required, even if the result is –none–.
- **Schedule N – Certification of Final Indirect Costs.**
 - ◇ Please have the person responsible for the ICE sign this page once you have completed and checked your ICE.
 - ◇ If your ICE is modified this page must be resubmitted with the modification with a current signature.
- **Schedule O – Schedule of Contract Closing Information for those Contract which Work Effort was Completed.**
 - ◇ List all contracts that closed during the reporting year here.
 - ◇ If you have a contract listed here, then schedule I should have 'Yes' in column O.
- **Optional schedules are also included, which provide the following:**
 - Schedule D – Provides details on intermediate pool costs. Is not optional if you have intermediate pools.
 - Schedule F-1 - Convenient format for contractors to calculate the average net book value (NBV) of assets for the subsequent calculation of cost of money (COM) on Schedule F.
 - Schedule G-1 - Additional reconciliation between the books of account/general ledger and the job cost-ledger.
 - Schedule P - Computation of Allowable IR&D/B&P Costs formerly included as Schedule H in the July 1996 version. This version included for contractors who have costs applicable to the prior FAR 31.205-18 limitation.
 - Schedules Q-1 to Q-4 - Comparative analysis of indirect cost pools and direct costs from the prior period to the claimed submission.
 - Schedule R - Reconciliation of the claim to the Corporate Income Tax Return.
 - Schedule S - Briefing contracts.
 - Schedule T - Executive Compensation Information.

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INCURRED COST PROPOSALS FOR AGENCIES OUTSIDE OF THE DEFENSE DEPARTMENT

Different Agencies may also require you to complete an ICE, though there may be important differences to consider. The most common examples are listed below.

NATIONAL INSTITUTES OF HEALTH (NIH)

NIH has a division that manages Incurred Cost Proposals internally. If you have cost type contracts or grants with the NIH, you will submit your Incurred Cost Proposal directly to this division. For ICP instructions, go to:

Link - <https://oamp.od.nih.gov/dfas/indirect-cost-branch/indirect-cost-submission>

This link gives you information on how to submit an ICP. The first paragraph defers to the DCAA's ICE if you are doing that for any program that requires it. If you are not governed by the DCAA ICE, then follow the steps in the sections below. Remember, the NIH has a larger set of unallowable costs, such as IR&D and Sales and Marketing.

NATIONAL SCIENCE FOUNDATION (NSF)

NSF has a division that manages Incurred Cost Proposals internally. If you have cost type contracts or grants with the NIH, you will submit your Incurred Cost Proposal directly to this division. For ICP instructions, go to:

Link - <https://www.nsf.gov/bfa/dias/caar/docs/idcsubmissions.pdf>

Pay close attention to the type of business (Non-Profit vs. Profit) because the worksheets are different. Remember that the NSF has a cap on its overall rate, so use the Modified Total Direct Cost (MTDC) method to maximize the ability to recoup your indirect costs. Like the NIH, NSF has a larger number of unallowable cost categories, so be sure you are aware of what is allowable and what is not.

DEPARTMENT OF ENERGY (DOE)

DoE does not have a division that manages Incurred Cost Proposals internally. If you have cost type contracts or grants with the DOE, you will submit your Incurred Cost Proposal directly to your Cognizant Contracting Officer (CCO). For ICP instructions, go to:

Link - [https://www.energy.gov/sites/prod/files/42.1 Indirect Cost Rate Administration.pdf](https://www.energy.gov/sites/prod/files/42.1%20Indirect%20Cost%20Rate%20Administration.pdf)

The DOE guidance is nearly non-existent. Our advice, fill out an incurred cost proposal using one of the other agencies instructions and sent it to your CCO with a good executive summary. Make your summary clear enough so that your CCO doesn't have to figure anything out. They will generally respond favorably to your attempt at making their life easier.

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UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)

USDA has a division that manages Incurred Cost Proposals internally. If you have cost type contracts or grants with the USDA, you will submit your Incurred Cost Proposal directly to this division. For ICP instructions, go to:

Link - <https://nifa.usda.gov/indirect-costs>

The guidance is different for Non-Profit and For-Profit companies. However, the Accounting Questionnaire is the same, so regardless of which link you hit, it takes you to the same place and says Non-Profit.

CONTACT RELIASCENT FOR ASSISTANCE

While some companies are properly staffed with experienced accountants that can complete the ICP without assistance, most small businesses lack this experience, and even seasoned accountants can have significant issues with this complex report. Failure to complete the ICP properly, or submit it on time, can lead to financially painful consequences and even a DCAA ICE Audit.

[Contact ReliAscent®](#) today to learn more about our ICP/ICE submission and audit support services. ReliAscent® can complete your ICP, or our experts can train your accounting staff on-site, and even optimize your accounting system to make the ICP process manageable and streamlined.

DEFINITIONS

Adjustment to Actuals – An adjustment of the difference between your Provisional Billing Rate and your Actual Rate

Allowable Costs – Fair and reasonable costs. For costs that are specifically unallowable, see FAR 31.201, 31.202, 31.203, and 31.205

Base – The divisor in a rate structure that has a causal relationship to the cost pool being divided

Bid and Proposal – This is specific work towards winning an open solicitation or request for quotation/proposal. It may include Research and Development (R&D) if the R&D is necessary to support the proposal.

Causal Relationship – Also called Beneficial Relationship. Example is Fringe to Labor...Labor benefits from Fringe or Fringe is caused by Labor.

Consultant – An outside person or organization that provides specific skills or talents where a specific task or milestone is not readily identifiable.

Direct Costs – Any cost that is identified specifically with a particular final cost objective.

Fixed Fee – A predetermined amount, based on a percentage of project costs provided in the contract or grant.

Final cost objective – any cost that can be identified with a particular contract, job or project.

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Finance and Administration – F&A is a subcategory of G&A in the Department of Defense model. In this model F&A is expenses related to accounting and finance and general administration of the business. In many other agencies, F&A is a term meaning all indirect costs except Fringe.

Forward Pricing Rate Agreement – A rate established based on budget projections. In the immediate year it is the Provisional Billing Rate, for future (out-years) it is called the Forward Pricing Rate (agreement).

Fringe – Benefits and/or Costs to the company as a result of having employees.

General and Administrative – Expenses which are for the purpose of the management of the business. These expenses would incur if the company had no direct projects. These expenses do not include expenses that can be more directly related or have a beneficial or causal relationship to a cost objective.

Incurred Costs – Costs that have already happened and are entered into your accounting data.

Independent Research and Development (IR&D) – Tasks that are for creating a technology, product or idea that has no specific customer.

Indirect Costs – Any cost that is not specifically identified to a particular final cost objective. These costs include categories such as Fringe, Facilities, Support Overhead, Finance and Admin, General and Admin, Bid & Proposal, Marketing and Sales, and Independent Research and Development.

Marketing & Sales – Costs associated with business promotion, not directed toward a specific solicitation or request for quotation.

Overhead – The culmination of allocated Fringe, Facilities and all Support Overhead attributed to all cost objectives.

Provisional Billing Rate – A rate established for the purpose of billing during the year, generally based on a prior year data, or a budget proposed for the year the rate is being established.

Rate Structure – This is the indirect rate structure that you select for your business. The FAR allows each business to select a structure that is best suited for their business model.

Subcontractor – An outside person or organization that is hired to perform specific tasks specified in a statement of work with specific milestones in order to receive funds from the issuer.

Support Overhead – Indirect costs that are associated with supporting projects or programs.

Unallowable Costs – Costs that cannot be billed to the government because they are prohibited by law, tradition or custom. Costs deemed not fair and reasonable, even if the category of cost is allowable can be determined unallowable.