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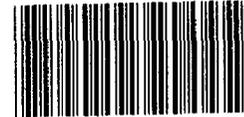
United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Financial  
Management Division

B-252764

May 10, 1993

Mr. Richard C. Loeb  
Executive Secretary  
Cost Accounting Standards Board  
Office of Federal Procurement Policy  
Office of Management and Budget



149152

Attention: CASB Docket No. 91-04

Dear Mr. Loeb:

We have reviewed the Cost Accounting Standards Board's (CASB) notice of proposed rulemaking which would amend the dollar thresholds for the application of cost accounting standards.

As you know, these standards and requirements establish the rules private firms must follow when measuring, allocating, and assigning costs incurred in providing goods and services under federal government contracts. These requirements are subject to thresholds, or minimum dollar amounts, which determine whether CASB standards and requirements apply for individual contracts, and if so, whether all (full coverage) or only selected (modified coverage) standards apply.

Currently, only an individual contract exceeding \$500,000 can trigger what is referred to as "initial coverage." Depending upon the contract amount, initial coverage is either "full coverage," in which all CASB standards and requirements must be followed by the contractor, or "modified coverage," in which only a limited number of the requirements must be followed. After initial coverage occurs, all subsequent contracts awarded that firm during the period exceeding \$100,000 are also subject to full or modified coverage. In general, full coverage applies if (1) the cumulative value of a firm's contract or contracts exceeds \$10 million or (2) the contractor derives 10 percent or more of its total sales during the period from federal contracts. Modified coverage applies for annual contracts totaling \$10 million or less.

GAO/AFMD-93-68R CASB - Thresholds

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The amendments proposed four primary changes: (1) increase the threshold for full coverage from \$10 million to \$25 million, (2) eliminate the requirement that contractors who derive 10 percent or more of their total sales from federal contracts be subject to full coverage, (3) include CASB Statements 405, Accounting for Unallowable Costs, and 406, Cost Accounting Period, as the third and fourth standards required to be followed under modified coverage, and (4) increase the minimum threshold for subsequently covered contracts from \$100,001 to \$500,001 for modified coverage and from \$100,001 to \$1 million for full coverage.

We support increasing the full coverage threshold from \$10 million to \$25 million. This would seem reasonable because inflation as measured by the consumer price index published by the Bureau of Economic Analysis has increased about 250 percent since the \$10 million amount was initially established in 1977. In addition, a CASB study indicated that while such a change would decrease the number of contractors (or contractor business segments) subject to full coverage by 40 to 50 percent, the total contract dollar amount subject to full coverage would decrease only 5 to 6 percent.

We support eliminating the requirement that contractors be subject to full coverage when 10 percent or more of their total annual sales are from federal contracts because it simplifies the full coverage criteria. Also, the 10 percent test tends to discriminate against smaller firms because they may be subject to full coverage even when contract award amounts are considerably under the threshold. Canceling the 10 percent test may encourage small firms to compete for government contracts.

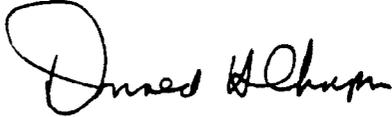
We agree with adding CASB Statements 405 and 406 as required standards under modified coverage because they tend to promote uniformity and reduce the risk that the government will pay for unallowable costs.

Regarding the minimum threshold for subsequent contracts, the Office of Federal Procurement Policy Act Amendments of 1988, Public Law 100-679, established \$500,001 as the minimum amount of initially covered contracts subject to the standards and requirements of CASB. Consequently, ratification of this proposal is consistent with that provision.

B-252764

We hope our views are helpful. If you have any questions, please contact John W. Hill, Jr., Director, Audit Support and Analysis, at (202) 512-8549.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Donald H. Chapin".

Donald H. Chapin  
Assistant Comptroller General

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