



# **From a DCAA Perspective Series:**

**Audits Under the Small Business  
Innovation Research (SBIR) and Small  
Business Technology Transfer (STTR)  
Programs**

# Objectives

- Provide an overview of the SBIR/STTR program
- Define DCAA's role
- Outline DCAA audits applicable to SBIR/STTR
- Communicate ways small business can prepare for DCAA audits
- Discuss resources/ information available for small businesses

# SBIR/ STTR Program Overview

- Highly competitive
- For small businesses in R&D
- Federally funded through congressional mandates
- Over 5k new awards every year
- Defense SBIR Innovation Portal (DSIP)



## Research and Development

*[ri-'sɑrch (')an(d) di-'ve-lap-mənt]*

An ongoing effort to develop or improve products and services, often undertaken by teams of highly skilled scientists and engineers.

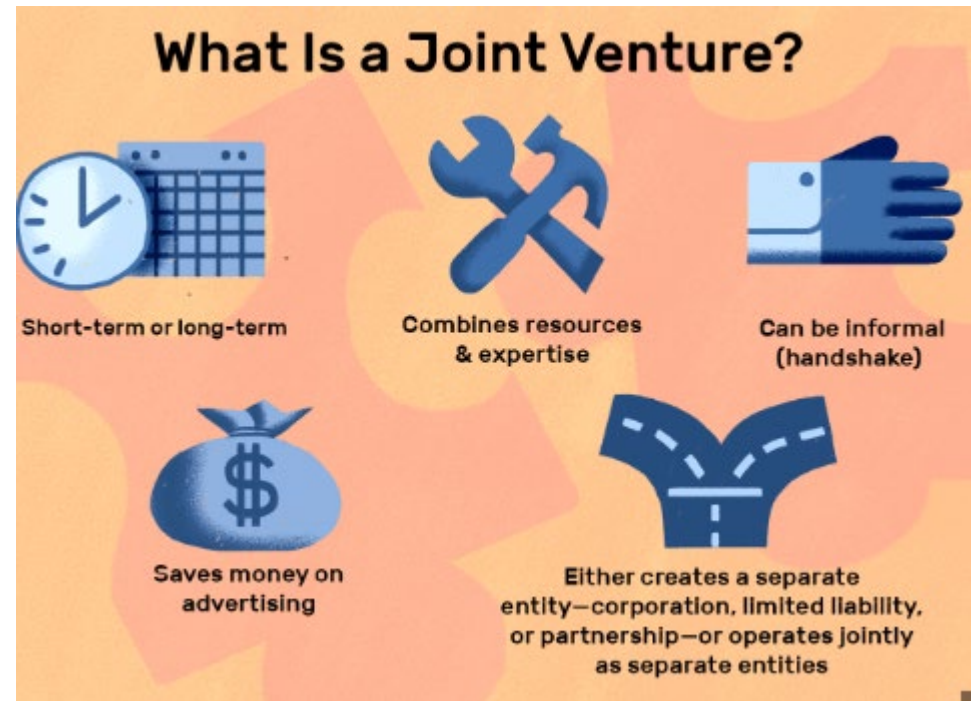
# Small Business Innovation Research

- Designed to promote small business research and development with potential for commercialization
- 3.2% of the external research budget for agencies with a budget greater than \$100 million per year
- \$3.2 billion minimum spend each year
- Work Requirements for awardee:
  - Phase I: two-thirds of research efforts
  - Phase II: half of research efforts



# Small Business Technology Transfer

- JVs between small businesses and nonprofit research institutions
- 0.45% of the external research budget for agencies with a budget greater than \$1 billion per year
- \$450 million minimum spend each year
- Work requirements for awardee:
  - Phase I & II: No less than 40% of research effort



# Differences Between SBIR & STTR

|                               | SBIR  | STTR   |
|-------------------------------|---|--|
| <b>Partnering Requirement</b> | Permits partnering  | Requires a non-profit research institution partner   |
| <b>Principal Investigator</b> | Primary employment (>50%) must be with the small business | PI may be employed by either the research institution partner or small business (check solicitation) |
| <b>Work Requirement</b>       | May subcontract up to:<br>33% (Phase I)<br>50% (Phase II) | Minimum:<br>40% Small Business<br>30% Research Institution Partner                                   |
| <b>Program Size</b>           | 3.2% (FY19 - \$3.28B)                                     | 0.45% (FY19 - \$453M)  |
| <b>Majority VC ownership</b>  | Allowed by some agencies                                  | Not allowed  |
| <b>Participating Agencies</b> | 11 agencies<br>(extramural R&D budget > \$100M)           | 5 agencies<br>(extramural R&D budget > \$1B)   |

# Mission

- Supports scientific excellence and technological innovation through Federal research funds
- Build a strong national economy
- Encourage innovation and entrepreneurship by women, socially or economically disadvantaged persons
- Foster technology transfer through coop R&D between SB and R&D institutions



# Contractor Eligibility

- **General requirements:**

- US based small businesses
- Work must be performed in US
- Organized for profit
- No more than 500 employees, including affiliates
- Be sure to register on SAM, Grants, eRA Commons, and SBA



- **STTR Extras:**

- Partnered with nonprofit research institution (i.e.- nonprofit college/university, domestic research org, FFRDC)
- JV must establish intellectual property agreement



# Three Phases

## SMALL BUSINESS INNOVATION RESEARCH PROGRAM

### PHASE I Scientific and Technical Feasibility Study PROOF OF CONCEPT

- Typically \$150,000 threshold
- Funded with SBIR funds
- 2/3 of work must be performed by the small business
- All work must be performed in the U.S.
- Typically 5 months in duration
- Up to an additional \$6,500 may be provided for Technical and Business Assistance
- Participation in DHS/NSF I-Corps Program at \$50K

### PHASE II Full Research/R&D PROTOTYPE DEMONSTRATION

- Typically \$1,000,000 threshold
- Funded with SBIR funds
- 50% of work must be performed by the small business
- Typically 24 months in duration
- All work must be performed in the U.S.
- \$50K may be proposed for technical and business assistance (inclusive of threshold)
- Potential for Commercialization Readiness Pilot Program funds

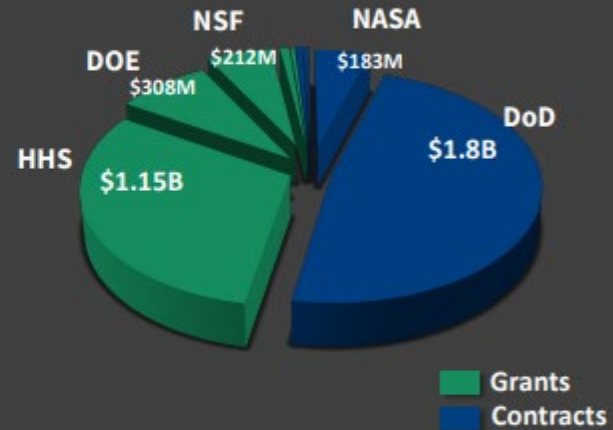
### PHASE III Commercialization

- Funded with non-SBIR dollars
- No dollar or time limits
- Size standards do not apply
- For work that derives from, extends, or completes Phase I/Phase II efforts
- Can be directed award; competition satisfied in Phase I & II

# Participating Agencies and Award Funding

## FY2019 SBIR/STTR Budgets by Agency

| Agencies   | Budget   |
|--|----------|
| Department of Defense (DoD)*   | \$1.80 B |
| Department of Health and Human Services (HHS)**, including the National Institutes of Health (NIH) | \$1.15 B |
| Department of Energy (DOE), including Advanced Research Projects Agency – Energy (ARPA-E)          | \$308 M  |
| National Science Foundation (NSF)  | \$212 M  |
| National Aeronautics and Space Administration (NASA)   | \$183 M  |
| U.S. Department of Agriculture (USDA)  | \$30 M   |
| Department of Homeland Security (DHS)  | \$17 M   |
| Department of Commerce: National Oceanic and Atmospheric Administration (NOAA)                     | \$9.5 M  |
| Department of Education (ED)   | \$8.4 M  |
| Department of Transportation (DOT)   | \$5.2 M  |
| Department of Commerce: National Institute of Standards and Technology (NIST)                      | \$3.9 M  |
| Environmental Protection Agency (EPA)*   | \$3.6 M  |



**SBIR: \$3.28 Billion**  
**STTR: \$453 Million**

\* Budgeted Amount; other Agencies Obligated Amount  
 \*\* Provides grants and contracts



# Role of SBA

- Serves as the coordinating agency
- Directs each agencies' implementation of program and review their progress
- Reports annually to Congress
- Provides oversight/guidance
- Leads outreach, training, and building of support



# FY 2023 Policy Directive Highlights

- Annual program solicitation with R/R&D topics
- Phase I Master Schedule
- Work requirements for awardees
- SBA Oversight with PI/PM
- Proposal Application Requirements
- Dollar value of awards

# Role of DCAA

- **Historically:**

- SBIR/STTR contract, subcontract, and mods valued at \$0- \$7.5M were exempt from FAR 52.215-2 (Audit and Records-Negotiations)
- DCAA audit procedures removed SBIR/STTR contract awards from ADV
- DCMA concerns over settled final costs/ rates and close outs

- **Class Deviation/ Updates:**

- April 2023 DPC issued a class deviation revision 2022-O0005, Revision 2 removing above exemption
- DCAA has the right “to examine and audit all of the Contractor’s records, including computations and projections, related to performance of the contract, subcontract or modification.”

# DCAA Audits under SBIR/ STTR

- Pre-Award and Post-Award Accounting System Audits
- Pricing Proposals
- Requests for Specific Cost Information
- Provisional Billing Rates
- Incurred Costs



# Pre-Award/Post-Award Accounting System Reviews

- Pre-Award Accounting System Survey
  - Performed to identify if the contractor's accounting system is suitably designed for award of a prospective contract in accordance with the criteria contained in FAR 53.209-1(f)
  - This audit does not incorporate tests of system operation, only system design
- Post-Award Accounting System Audit
  - Performed after award of a cost-type contract
  - Includes tests of operational capability of the accounting system as well as related billing processes and procedures
    - The audit procedures are designed to test for compliance with criteria set forth in DFARS 252.242-7006
  - May be performed prior to award of a cost-type contract if risks have been identified in current cost-type billings

# Acceptable Accounting System

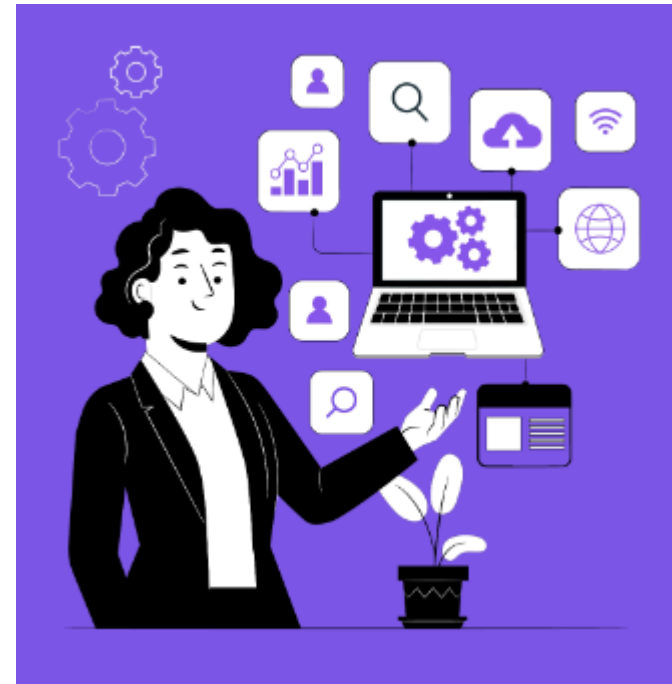
## DFARS 252.242-7006:

- “Accounting system” means the Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.
  
- An acceptable accounting system, means a system that complies with criteria under paragraph (c) of DFARS 252.242-7006(c) and provides reasonable assurance that:
  - Applicable laws and regulations are complied with;
  - The accounting system and cost data are reliable;
  - Risk of misallocations and mischarges are minimized; and
  - Contract allocations and charges are consistent with billing procedures.



# Pre-Award Accounting System Audit

- Evaluates design of Accounting System to determine if it is acceptable for prospective contract
- DCAA or Buying Command will request contractor complete Accounting System Checklist
- Contractor should be prepared to demonstrate how accounting system design satisfies SF 1408 criteria at initial meeting



# Pre-award Checklist and SF 1408



Adequacy  
Checklist



SF 1408



# Post-Award Contractor Accounting System Compliance Requirements

- As identified by FAR 42.302(a)(12), the administrative contracting officer (ACO) is delegated the authority to determine the adequacy of the contractor's accounting system
- DFARS 252.242-7006(c) identifies the criteria utilized by the ACO to determine compliance for accounting systems
- All areas identified in the pre-award phase (SF-1408) are included in the Business System Criteria requirements of an accounting system, as well as these four additional criteria:
  - (1) A sound internal control environment, accounting framework, and organizational structure;
  - (6) Reconciliation of subsidiary cost ledgers and cost objectives to general ledger;
  - (7) Approval and documentation of adjusting entries; and
  - (8) Management reviews or internal audits of the system to ensure compliance with the Contractor's established policies, procedures, and accounting practices.

# Pricing Proposals

- DFARS, PGI 215.404-2(c) states the contracting officer *should* consider requesting audit assistance from DCAA for –
  - Fixed-price proposals exceeding \$10 million;
  - Cost-type proposals exceeding \$100 million.
  - The contracting officer should not request DCAA audit assistance for proposed contracts or modifications in an amount less than that specified unless there are exceptional circumstances explained in the request for audit.
- DCMA has been tasked with providing pricing support for proposals below the auditable thresholds (*exceptions may apply for classified or high visibility efforts*)

# Requests for “Readily Available” Data

- A contracting officer may request specific information for use in performing their own analysis without requesting an audit or advisory services in connection with:
  - Pricing actions
  - Actual or billed costs
  - Other actions (e.g., vouchers, financing, data reporting, systems, etc.)
- The objective of this service is to assist the contracting officer by providing readily available information.
- The audit team does not perform any analysis and does not provide any assurance on the information given.

# Provisional Billing Rates

- Proposed by the contractor for reimbursement of indirect costs on interim vouchers to prevent substantial over/under run of actual costs
- Used for interim purposes until settlement is reached on the final indirect rates for a fiscal year
- Established using information resulting from recent reviews, previous rate audits or experience, or similar reliable data/contracting activities
- Established to approximate the contractor's final year end rates and relate to the current fiscal year only
- DCAA never recommends that PBRs be used for the sole purpose of forward pricing (see next slide)

# Provisional Billing vs. Forward Pricing

- Forward Pricing Rates (FPRs) are proposed by the contractor and approved by DCMA for purposes of proposing contract effort on a consistent basis (generally larger contractors)
- They are established by DCMA through a Forward Pricing Rate Agreement (FPRA) or Forward Pricing Rate Recommendation (FPRR)
- DCAA audit reports can be used as the basis for FPRAs/FPRRs
- All rates identified in proposals are forward pricing rates
- FPRs are required to be established (per FAR 15) for all years under the proposed effort
- Each proposal should be evaluated separately for forward pricing purposes as any awarded future effort has the possibility of significantly impacting the contractor's business base

# Incurring Cost Audits

- The audit objective is to examine contractor cost representations identified in the incurred cost proposal to determine whether such costs are: reasonable, allowable and allocable to the contract(s), in accordance with Generally Accepted Accounting Principles (GAAP) and CAS, and not prohibited by the contract, Government statute, or regulation (FAR part 31).





# Incurring Cost Audits - Audit Requirements

- FAR 31.201-2(d) requires contractors to maintain records and supporting documentation to demonstrate allowability and allocability of costs
- FAR 31.205 also requires specific documentation to demonstrate the allowability of certain cost elements

# Due Dates of Submissions

- Allowable Cost and Payment Clause (FAR 52.216-7(d)(2)):
  - Requires contractors to submit incurred cost claims within **six months** after completion of their FYE
  - Applies to cost-reimbursement type contracts (FAR 16.307)



# Incurring Cost Electronically (ICE) Model

ICE is an EXCEL spreadsheet that provides contractors with a standard user-friendly electronic package to assist in preparing timely and adequate incurred cost submissions.

It should result in less time being spent in:

- *Submission preparation*
- *Supporting the audit*

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



# How Can a Small Business Prepare for an Audit?

- Be prepared to demonstrate how accounting system design satisfies SF 1408 criteria
- Maintain records and supporting documentation to demonstrate allowability and allocability of costs (FAR 31.201-(d)(2))
  - FAR 4.7 provides policies and procedures for retention of records by contractors



# DCAA Internet Resources

- **Guidance**

- Audit Process Overview – Information for Contractors Manual
- Directory of Audit Programs
- Contract Audit Manual
- Select Area of Cost Guidebook (FAR 31.205 Cost Principles)
- Links to Acquisition Regulations



- **Checklists and Tools**

- Cost of Money Rates
- Incurred Cost Electronically (ICE) Model
- Contractor Submission Portal
- Adequacy Checklists - Preaward Accounting System, Contract Pricing Proposal, Forward Pricing Rate Proposal, Incurred Cost Submission, Termination Settlement Proposal.

- **Frequently Asked Questions For Contracting Officers, Contractors and COVID-19**

# Small Business Outreach Survey

We would love to hear about your recent experience with the DCAA Small Business Program, as we are committed to providing the best guidance possible and strengthening our nation's Defense Industrial Base. By participating in our survey, you will help us improve our courses, content and provide you with even better support as we continue to grow our program.



# Questions/Comments



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