



**DCAA**

DEFENSE CONTRACT AUDIT AGENCY

# **From a DCAA Perspective Series: Breaking into GovCon**

# Types of Government Contracts

- Fixed Price
- Cost Reimbursable
- Time and Material
- Indefinite Delivery Contracts
- Letter Contracts
- Basic Ordering Agreements

# Fixed Price Contracts

- Firm Fixed Price (FFP)
  - Not subject to any adjustments
  - Max incentive to control costs and perform efficiently
  - Minimal administrative burdens
  - Subject to audit when estimated price is over \$10M
  - FP with Performance Based Payments: does NOT require an adequate accounting system
- Fixed Price with Economic Price Adjustment (FPEPA)
  - Provides for upward (or downward) revisions of labor and/ or material
  - Adjustments limited only to contingencies stated in contract terms
  - Used to protect both government and contractors from volatile climates
  - Adjustments based on catalog/ market prices, cost of labor or material actually incurred, and cost indexes all established in terms of contract

# Cost Reimbursable Contracts

- **Cost Plus Incentive Fee**
  - Negotiated profit later adjusted based on relationship of total allowable costs to the total target costs
  - Formula of profit calculation included in contract terms
- **Cost Plus Award Fee**
  - Includes base fee at inception plus an award fee based on Government evaluation on performance
  - More for service-based contract awards
- **Cost Plus Fixed Fee**
  - Fee varies on actual performance costs incurred
  - More for research, testing, development contract awards
- **Prohibitions and Limitations**
  - Cost Plus Percentage (CPPC)
  - Accounting Systems
  - Limitation of Costs/ Limitation of Funds

# Time and Material Contracts

- **Time and Material (T&M)**
  - Specific PoP, fixed & burdened hourly rate
  - Labor categories and qualifications
  - Includes reimbursement for material and ODCs
  - High level of monitoring, administration, support, and LOE
  - Services for engineering, design, repair, emergency situations
  - NTE ceiling price
- **Labor Hours**
  - Similar to T&M
  - No materials, just labor services
  - Same clauses and provisions apply

# Other Types of Contracts

- Indefinite Delivery Contracts
  - Definite Quantity
  - Requirements
  - Indefinite Quantity
- Letter Contracts
- Basic Ordering Agreements (BOAs)

# Pros and Cons of Fixed Price Contracts



# Pros and Cons of Cost Type Contracts



## COST PLUS CONTRACT

**COST PLUS CONTRACT** is an agreement where one party gets reimbursed for all its expenses plus a profit margin at a pre-decided rate on total cost.

### TYPES

Cost Plus Award Fee Contract

The contractor gets a performance based award after completion of contract at a pre-decided rate by client.

Cost Plus Fixed Fee Contract

Here, the contractor gets the reimbursement of total cost along with a fixed fee determined in advance.

Cost Plus Incentive Fee Contract

In this case, the contractor gets incentives if he meet or exceeds the expectations. These incentives are under the head of contract provision in contract.

Cost Plus Percentage of Cost Contract

Here, contractor gets profit as percentage of total cost incurred by him. Profit increases with an increase in total cost.

### ADVANTAGES

- ❖ Contractor gets flexibility.
- ❖ Contractor's risk is minimized.
- ❖ It focus quality rather than cost.
- ❖ Budget-friendly contract.
- ❖ Helpful in outsourcing R&D activities.

### DISADVANTAGES

- ❖ Buyer has to bear the risk.
- ❖ Total cost is uncertain.
- ❖ May cause dispute in calculating cost.
- ❖ Difficult to realize indirect cost.
- ❖ Completion may get delayed.

# Contractor Qualifications

## **Responsible Prospective Contractor Criteria:**

- Adequate financial resources to perform the contract
- Ability to comply with the required or proposed delivery or performance schedule, considering the firm's existing commercial and governmental business commitments
- A satisfactory performance record
- A satisfactory record of integrity or business ethics
- The necessary organization, experience, accounting, operational controls, and technical skills to perform the contract
- The necessary production, construction and technical equipment and facilities
- Eligibility to receive the award under applicable laws and regulations

# Prior to Contractor's First Cost Type Contract Award

- FAR 242-7502(a): Contractors receiving cost-reimbursement, incentive type, time-and-materials, or labor-hour contracts, or contracts which provide for progress payments based on costs or on a percentage or stage of completion, shall maintain an accounting system.
- Contracting Officers request contractors to compose the Preaward Survey of Prospective Contractor Accounting System Checklist
- Checklist asserts contractor meets SF1408 criteria and provides narrative describing how they meet each criterion
- Only the Contracting Officer (either from the buying command or DCMA) can request DCAA to perform a Preaward Accounting System Audit



Checklist and  
Assertion



SF 1408

# Preaward Accounting System

## Audit Objectives

- Is the design of the accounting system acceptable for the prospective award?
- Can the contractor's accounting system accumulate and segregate costs under federal cost type contracts?
- Is the contractor's accounting system in operation or set up, but not in operation.
- DCAA's audit program is designed to evaluate each criterion of the SF 1408



Directory of Audit  
Programs

# Defining an Accounting System and What is Acceptable

## 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 the criteria under paragraph (c) of DFARS 252.242-7006(c) (criterion of SF1408) and provides reasonable assurance that:
  - Complies with applicable laws and regulations
  - The accounting system and cost data are reliable
  - Risk of misallocation and mischarges are minimized; and
  - Contract allocations and charges are consistent with billing procedures

# How Can A Small Business Prepare for a Preaward Accounting System Audit?

- Be sure your Preaward Accounting System Survey narrative is detailed and includes sufficient explanation for how each criterion meets the SF 1408 requirements
- Compile a list of recent/ relevant audit history (results, reports, outcomes, etc.)
- If applicable, be ready to explain corrective action plans for any prior questioned costs or instances of noncompliance
- Provide all relevant accounting system policies and procedures and be ready to explain/ describe all related internal controls (i.e.- proper segregation of direct versus indirect costs, timekeeping procedures, timesheet controls, how indirect rates are calculated, billing procedures, etc.)
- Adequate support and documentation!

# How Can A Small Business Prepare for a Preaward Accounting System Audit?

## (continued)

- Be able to describe, demonstrate, and provide examples of how your accounting system:
  - Generates basic financial reports (i.e.- trial balance, general ledger, job cost ledger/ profit and loss statement, etc.)
  - Identifies and segregates direct versus indirect expenses
  - Routinely (either actually or plans to) post and reconcile to books of account
  - Accounts for both direct and indirect time via paper or electronic timecards.
  - Identifies and handles unallowable costs
  - Provides for sub accounts or multiple contract line items (CLINs)
  - Calculates indirect rates (also what comprises the pools and bases)
  - Generates invoices (and show how these invoices are reliable/ accurate for current and cumulative costs)

# Examples of Noncompliances for Accounting System Audits

- Failure to properly segregate direct and indirect costs
- Lack of routine (at least monthly) posting to books of account
- Improper timekeeping/ labor mischarging
- Failure to exclude unallowable costs
- Inadequate procedures to ensure proper billing of subcontractor/ vendor costs
- Invoices that do not include both current and cumulative amounts and also do not reconcile to the job cost/ general ledgers

# Contractor Labor Floorchecks

- Objective:
  - To test the contractor's compliance with its timekeeping internal controls and procedures as well as the reliability of employee time records
  - To verify that employees are at work, performing in assigned job classifications, and that recorded time is charged to the proper cost objective
- Purpose:
  - To analyze current labor charging and cost allocation practices
  - To address deficiencies on a real-time basis
  - To support direct labor testing during annual Incurred Cost Audits (performed at a later date):
    - Assists DCAA in determining the accuracy of labor charges to contracts, indirect accounts, or other cost objectives
    - Evaluation performed on a real-time basis since employees are more likely to remember recent events

# Labor and Timekeeping System

- DFARS 252-242-7006(c) requires:
  - (9) A timekeeping system that identifies employees' labor by intermediate or final cost objectives
  - (10) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives
- “Intermediate”= Indirect / “Final Cost Objectives”= Direct
- Labor charges must be based on/ recorded via paper or electronic timecards
- Proper internal controls, approval process, and daily requirement to fill out timesheets
- Accumulation of labor hours and costs by contract via labor distribution report, which can be reconciled to timesheets, general ledger, and payroll reports

# How Can A Small Business Prepare for a Labor Floorcheck?

- Always keep an updated list of employees:
  - Ensure this listing includes employees by location, direct versus indirect, and what types of contracts they are working on
- Labor floorchecks will be unannounced, so discretion is key. Do not announce to your workforce that DCAA is there to conduct interviews.
- Ensure your employees are recording their time at least once a day
- Ensure you have clearly documented timekeeping policies and procedures:
  - These P&P should include detail such as set up of new job codes, how time is tracked, review and approval process, who has access to employee timesheets, how payroll is processed, etc.
- Document your company's procedures for Work at Home program (telecommuting)
- Identify a point of contact (and alternate) for employee interviews
  - Separate point of contacts for each location

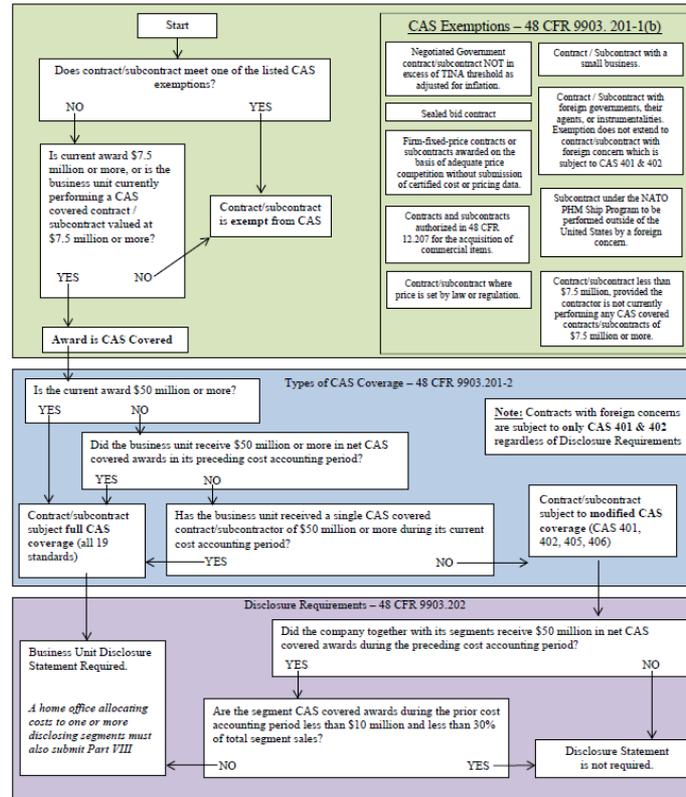
# Cost Accounting Standards

**A Cost Accounting Standard is a statement formally issued by the CASB that:**

- Enunciates a principle/or principles to be followed,
- Establishes practices to be applied, or
- Specifies criteria to be employed in selecting from alternative principles and practices in estimating, accumulating and reporting costs on contracts subject to the rules of the Board.



# CAS Applicability and Coverage



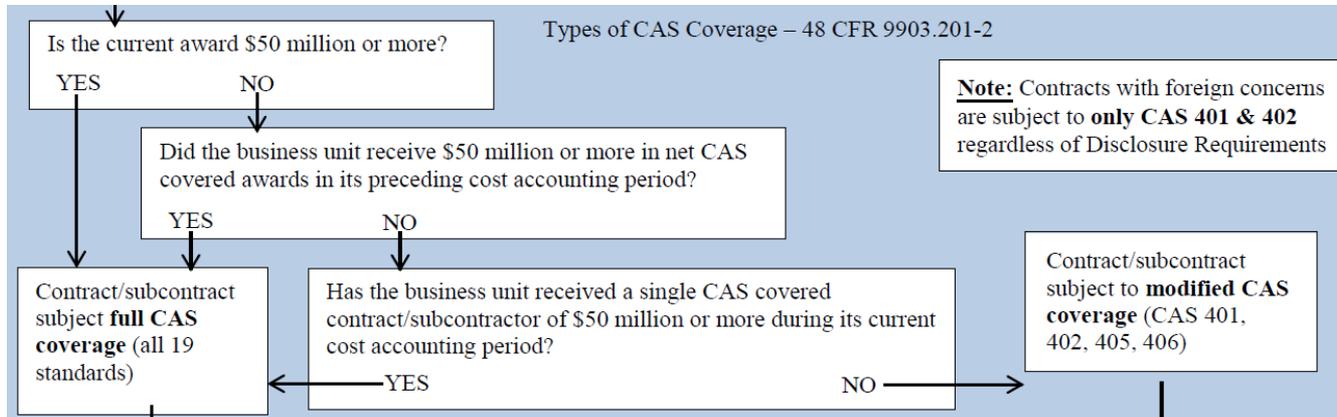
# Exemptions to CAS

## CAS Exemptions – 48 CFR 9903. 201-1(b)

Negotiated Government contract/subcontract NOT in excess of TINA threshold as adjusted for inflation.	Contract / Subcontract with a small business.
Sealed bid contract	Contract / Subcontract with foreign governments, their agents, or instrumentalities. Exemption does not extend to contract/subcontract with foreign concern which is subject to CAS 401 & 402
Firm-fixed-price contracts or subcontracts awarded on the basis of adequate price competition without submission of certified cost or pricing data.	Subcontract under the NATO PHM Ship Program to be performed outside of the United States by a foreign concern.
Contracts and subcontracts authorized in 48 CFR 12.207 for the acquisition of commercial items.	Contract/subcontract less than \$7.5 million, provided the contractor is not currently performing any CAS covered contracts/subcontracts of \$7.5 million or more.
Contract/subcontract where price is set by law or regulation.	



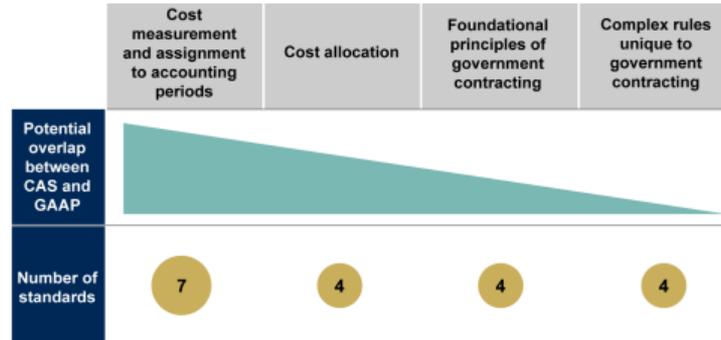
# Modified CAS Coverage



## Modified CAS Coverage Includes:

- CAS 401 – Consistency in Estimating, Accumulating, and Reporting Costs
- CAS 402 – Consistency in Allocating Costs Incurred for the Same Purpose
- CAS 405 – Accounting for Unallowable Costs
- CAS 406 – Cost Accounting Period

# Overlap of CAS and GAAP



Source: GAO presentation of Cost Accounting Standards Board information. | GAO-20-266

## 10 GAAP principles



# Overlap of CAS and FAR

Standard	Title	Category	FAR
401	Consistency in Estimating, Accumulating and Reporting Costs	Fundamental Cost Accounting Concepts	31.201-1
402	Consistency in Allocating Costs Incurred for the Same Purpose	Fundamental Cost Accounting Concepts	31.202, 31.203
403	Allocation of Home Office Expenses to Segments	Cost Allocations	31.203(h)
404	Capitalization of Tangible Assets	Tangible Capital Assets	31.205-11, 31.205-16, 31.205-52(a)
405	Accounting for Unallowable Costs	Fundamental Cost Accounting Concepts	31.201-6
406	Cost Accounting Period	Fundamental Cost Accounting Concepts	31.203(g)
407	Use Of Standard Costs for Direct Material and Direct Labor	Standard Cost	31.201-1
408	Accounting for Costs Of Compensated Personal Absence	Compensation	31.205-6(a), 31.205-6(m)
409	Depreciation of Tangible Capital Assets	Tangible Capital Assets	31.205-11, 31.205-16(a)
410	Allocation of Business Unit General and Administrative Expenses to Final Cost Objectives	Cost Allocations	31.203
411	Accounting for Acquisition Costs of Material	Material	31.205-26
412	Composition and Measurement of Pension Cost	Pensions/Insurance	31.205-6(j)
413	Adjustment and Allocation of Pension Cost	Pensions/Insurance	31.205-6(j)
414	Cost of Money as an Element of the Cost of Facilities Capital	Cost of Money	31.205-10
415	Accounting for the Cost of Deferred Compensation	Compensation	31.205-6(i), 31.205-6(k), 31.205-6(q)
416	Accounting for Insurance Costs	Pensions/Insurance	31.205-19
417	Cost of Money as an Element of the Cost of Capital Assets Under Construction	Cost of Money	31.205-10
418	Allocation of Direct and Indirect Costs	Cost Allocations	31.202, 31.203
420	Accounting for Independent Research and Development Costs and Bid and Proposal Costs	Cost Allocations	31.205-18

# Truthful Cost or Pricing Data

Formerly Known as Truth in Negotiations (TINA)

## Purpose

- To ensure that the Government is placed on equal footing with the contractor with respect to cost or pricing data to support the proposed price

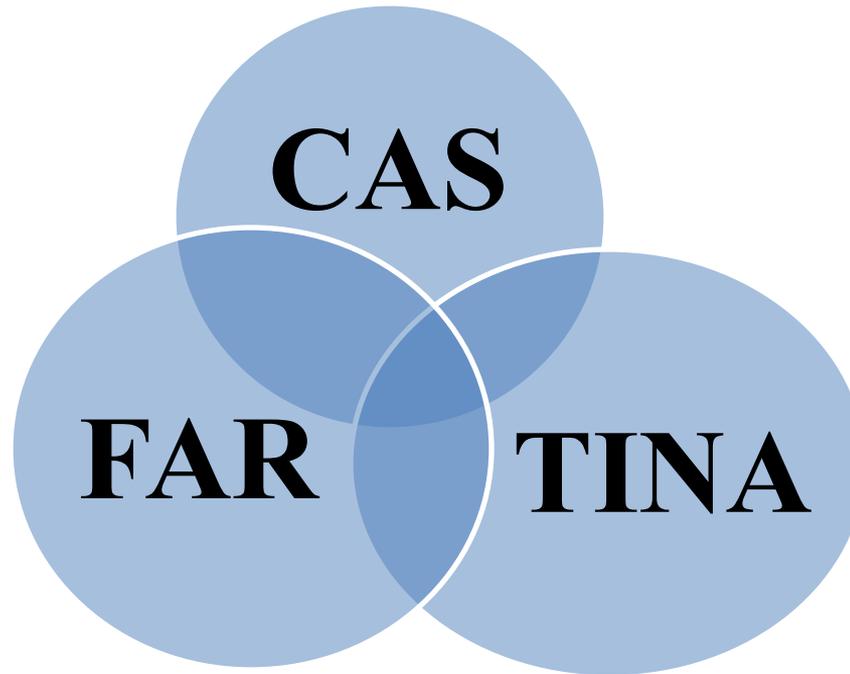
## Requirement

- FAR 15.403-4: Requires the CO to obtain certified cost or pricing data
- Contractor certifies their proposal is current, accurate, and complete

## Exemptions

- Adequate price competition
- Commercial Items or Services
- Prices Set by Law or Regulation
- Waiver by Agency Head
- Modifying a contract or subcontract for commercial items

# TINA and CAS Overlap



# Frequently Asked Questions

1. How do I get a DCAA approved government accounting system?

- You cannot. There is no such thing as a DCAA approved government accounting system.

2. How do I request a DCAA audit of my accounting system?

- DCAA does not perform audits requested by a contractor. DCAA only performs these audits based on a request from a federal entity who is responsible for determining the acceptability of a contractor's system.

3. Is QuickBooks or any other accounting software applications acceptable accounting system for federal contracting?

- An accounting system is more than just a software package. It includes accounting methods, procedures, and controls. Many accounting software application can be part of an acceptable accounting system or set up in a manner that fails to meet the requirements of an acceptable system.

# 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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