





DCAA

DEFENSE CONTRACT AUDIT AGENCY


Requirements for Government Cost Type Contracts

Prior to Contractor's 1st 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 and Assertion
- Checklist asserts contractor meets SF1408 criteria and provides narrative describing how they meet each criterion 
SF 1408
- Only the Contracting Officer (either from the buying command or DCMA) can request DCAA to perform a Preaward Accounting System Audit

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

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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