



DEFENSE CONTRACT AUDIT AGENCY

Fundamental Building Blocks for an Acceptable Accounting System

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DCAA Services

Preaward Contract Audit Services

- Accounting System Survey
- Cost Proposals
- Forward Pricing Labor and Indirect Rates
(Fringe Benefit, Overhead, G&A and Other)
- Attend Negotiation Conferences



DCAA Services

Postaward Contract Audit Services

- Provisional Billing Rates
- Incurred Costs/Annual Overhead Rates
- Claims (Hardship, Equitable Adjustment/Delay Claims, and Termination Claims)
- Change Order Proposals
- Contractor Billings
- Contract Audit Closing Statements only When Contract Audit Closing Worksheets are Unavailable



Accounting System Fundamentals

Accounting System Survey

- Accounting System in Accordance with Generally Accepted Accounting Principles
- Segregation of Direct and Indirect Costs
- Identification & Accumulation of Direct Costs by contract
- Logical & Consistent Method for Allocating indirect Costs
- Adequate Timekeeping System
- A Labor Distribution System That Charges Direct and Indirect Labor to the Appropriate Cost Objectives
- Can Determine Interim indirect Rates
- Excludes Unallowable Costs
- Provides Financial Information Required by Contract Clauses or to Support Progress Payments



Accounting System Fundamentals

Accounting System in Accordance with Generally Accepted Accounting Principles

- What type of accounting software is used in processing financial information? Is the cost accounting system formally documented? Are contract costs posted at least monthly?
- Accrual vs Cash Basis of Accounting
 - (1) Matching of expenses to revenues.
 - (2) Important because of assignment of indirect costs to final cost objectives.



Accounting System Fundamentals

Proper Segregation of Direct and indirect Costs

- A direct cost means any cost that is identified specifically with a particular final cost objective. Direct costs are not limited to items that are incorporated in the end product as material or labor. Costs specifically identified with a contract are direct costs of that contract. FAR 2.101
- Types of Direct Costs
 - (1) Direct labor
 - (2) Direct material
 - (3) Subcontracts
 - (4) Other direct costs – travel, reproduction, computer time



Accounting System Fundamentals

Proper Segregation of Direct and indirect Costs

- An indirect cost means any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective. FAR 2.101
- Types of Indirect Costs
 - (1) Fringes
 - (2) Material handling expenses
 - (3) Purchasing
 - (4) Rent
 - (5) Training
 - (6) Travel
 - (7) Computer time



Accounting System Fundamentals

Proper Segregation of Direct and indirect Costs

A cost may not be allocated as an indirect cost to a final cost objective if other costs incurred for the same purpose have been included as direct costs of that or any other cost objective.

Example: Guard services



Accounting System Fundamentals

Direct Costs

- Does the contractor have a subsidiary job cost ledger which accumulates costs by contract?

Indirect Costs

- Are the indirect costs accumulated in logical groupings and allocated based on benefits accruing to intermediate and final cost objectives?



Accounting System Fundamentals

Indirect Costs

- Types of Indirect pools
 - Fringes
 - Labor overhead
 - Subcontract handling
 - Material handling
 - Space utilization
 - General & administrative (G&A)



Accounting System Fundamentals

Indirect Costs

- Types of Indirect bases

Direct labor dollars

Subcontract value

Total material costs

Square footage

G&A – Total cost input

Value-added



Accounting System Fundamentals

Timekeeping System

- Control over access to timesheets
- Employee maintains possession of the timesheet during the pay period
- Employees prepare time sheets in ink
- Contractor should provide work order or authorization to employee
- Time is recorded no less than daily on the timesheet
- Corrections are made in ink, initialed by the employee and supervisor, and provide a description of the reason for the change
- Should be signed by the employee and approved by the supervisor for entry into the accounting system



Accounting System Fundamentals

Timekeeping System

- Record all hours worked whether paid or not known as “uncompensated overtime” FAR 52.237-10
- If electronic, only the employee uses their labor charging instrument
- If electronic, a verifiable audit trail process is in place that collects all initial entries and subsequent changes
- Labor distribution records are reconcilable to payroll records and can be traced to and from cost accumulation records in subsidiary and general ledger accounts
- Employees should have training to insure timekeeping policies are known and applied properly



Accounting System Fundamentals

Compliance with Federal Acquisition Regulations (FAR)

- How does the contractor plan to identify and exclude unallowable costs?
- Can the interim indirect expense rates be readily calculated from the books of accounts and are the interim rates routinely monitored?
- Are total contract expenditures monitored against contract limitations on price and cost, and how frequently?
- Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16(g) or FAR 52.232-20?



Accounting System Fundamentals

Billing Procedures

- Are billings prepared from the books and records?
- Are subcontractors and vendors included in billings only if payment will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor's payment?
- Are total contract expenditures monitored against contract limitations on price and cost, and how frequently?
- Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16(g) or FAR 52.232-20?

Questions?

