



Accounting and Auditing for Government Contractors

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The screenshot shows the SBA.gov website interface. At the top, there's a navigation bar with 'An Official Website of the United States Government', 'Translate', 'Login', and 'Register' options. Below this is the SBA logo and a search bar. The main navigation menu includes 'Starting & Managing', 'Loans & Grants', 'Contracting', 'Learning Center', 'Local Assistance', and 'About SBA'. The breadcrumb trail reads: 'SBA.gov > Contracting > Understanding the Federal Marketplace > Contracting Regulations for Small Businesses'. On the left, a 'Contracting' sidebar lists various sub-topics, with 'Contracting Regulations for Small Businesses' highlighted. The main content area features a large image of hands writing on a document, with the title 'Understanding the Federal Marketplace' and a sub-section 'Contracting Regulations for Small Businesses'. The text explains that expanding into the federal marketplace is lucrative but comes with unique laws and regulations. A 'Procurement Regulations' section is partially visible below. On the right, there are two promotional boxes: 'Need a Small Business Loan?' featuring the 'SBA LINC TOOL' and 'Recent Blogs About Contracting:' with links to 'How to Become a Small Business Government Contractor of Choice' and 'Increasing Mentor-Protégé Opportunities for all Small Businesses'.

For more info - www.sba.gov

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Who is DCAA?

The Defense Contract Audit Agency, operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller), (USD(C)) / Chief Financial Officer (CFO), Department of Defense.

DCAA Regional Boundaries



Federal Acquisition Regulation (FAR)

Statutory authorities to issue and revise the FAR have been delegated to the Procurement Executives in DoD, GSA and NASA. FAR applies to all agencies including the Executive Branch. The Legislative and Judicial branches are not required to comply with the FAR, but tend to follow it in spirit and content. These provisions include requirements for:

- Changing the scope of work
- Terminating contracts
- Making payments
- Testing and acceptance of delivered goods/services

What Constitutes DCAA Compliance

- Identifying and evaluating all activities that either contribute to or have an impact on proposed or incurred costs of government contracts.



-Financial Policies, Procedures, and Internal controls.

- Identify opportunities to reduce or avoid costs.



FAR Cost Principles

FAR Part 31 - A chronology that is used to determine the cost principles in effect at time of contract award that may be necessary for audits of historical costs. It can be found at www.dcaa.mil

Contract Types

- **Fixed Price Contracts**
- **Cost Contracts**
- **Incentive Contracts**
- **Indefinite Delivery Indefinite Quantity (IDIQ)**
- **Time & Material, Labor Hour, Letter Contracts**

Contract Accounting Terms

- **Invoicing, Receiving, and Property Transfer (iRAPT formerly WAWF)**
- **Vouchers (Invoices)**
- **Cost Accounting Standards (CAS)**
- **Incurred Cost Electronically (ICE)**
- **Cost Accumulation**
- **Indirect Costs**

Audit Emphasis



- (1) internal control systems & management policies,
- (2) accuracy and reasonableness of cost representations,
- (3) adequacy and reliability of records/accounting systems,
- (4) financial capability, and
- (5) contractor compliance with contractual provisions such as CAS and the Truth in Negotiations Act.

The extent of DCAA's involvement is determined by the type of contract that will be awarded. Generally, most DCAA efforts on firm-fixed price type contracts take place during the proposal stage rather than in the incurred cost stage. The reverse is true for flexibly priced contracts.

Primary Areas of Accounting Compliance

- Pre-award Audits of Contractor Accounting Systems
- Accumulation of Costs
 - Direct vs. Indirect
 - By Contract & CLIN
 - Logically, Consistency, Allowability
- General Ledger Control
- Timekeeping & Labor Distribution system
- Uncompensated Overtime
- Monthly Closing of financial books
- Unallowable Costs
- GAAP Overrides Tax allowability

Defining Cost Structures

Direct costs are defined in FAR 31.202 as any cost that can be identified specifically with a particular final cost objective (e.g., a contract). An example would be labor specifically identified to the contract, or materials purchased specifically for the contract.

Indirect costs are defined in FAR 31.203 as any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or an intermediate cost objective.

Overhead Costs

Costs that are incurred for or that only benefit an identifiable unit or activity of the contractor internal organization such as a engineering department are considered overhead costs. It is common to find separate overhead pools for engineering, manufacturing, material handling, and for certain off-site activities.

Defining Cost Structures

Examples of overhead pool costs are:

- Department supervision
- Training of department employees
- Fringe benefits of department employees

G&A Cost

G&A expenses represent the cost of activities that are necessary to the overall operation of the business as a whole, but for which a direct relationship to any particular cost objective cannot be shown. G&A includes the top management functions. Typically, it includes human resources, accounting, public relations, contract administration, legal, etc.

Defining Cost Structures

Facilities Capital Cost of Money (cost of capital committed to facilities) is an imputed cost. It is allowable whether or not the contract is otherwise subject to cost accounting standards (CAS).

Other Indirect Cost Pools

- IRAD
- Bids & Proposals
- Manufacturing Overhead
- Fringe Benefits



Defining Cost Structures

Unallowable Expenses

Expenses that are legitimate business expenses however are not allowed on government contracts. Examples include:

- GSA IFF Fees
- Federal Taxes
- Interest Expenses
- Donations
- Penalties & Fines
- Employee Morale

Uncompensated Overtime

It the unpaid hours worked over the standard 40 hours for exempt FAR 52.237-10 requires that all hours worked are recorded whether paid or not. This is necessary because labor costs and overhead are affected by total hours worked.

Accumulation of Direct & Indirect Costs

a. Proper segregation of direct from indirect costs.

DCAA will review the accounting system to determine if direct costs are segregated from indirect costs.

Indirect costs are normally placed in an overhead or general and administrative (G&A) expense pool and allocated to contracts on some equitable basis. Once these criteria are defined, they must be consistently applied.



Accumulation of Costs

b. Identification and accumulation of direct costs by contract.

DCAA will determine if the accounting system can accumulate costs by contract (commonly referred to as a job order cost accounting system).

c. A logical and consistent method for the allocation of indirect costs to cost objectives. DCAA will determine if indirect costs are allocated to cost objectives based upon relative benefits received, or other equitable relationship. Fundamentally, this means that 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.

Accumulation of Costs

d. Accumulation of costs under general ledger control. DCAA will determine if the job order cost accounting system can be reconciled with the general ledger, and that the company accounting system is controlled by the general ledger.

e. A timekeeping system that identifies employees' labor by cost objectives. DCAA will determine whether a contractor's timekeeping system has the ability to track employees' time spent on each work activity.



Accumulation of Costs

f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.

Once an employee's time is segregated, the costs must be allocated to the appropriate cost objectives.

g. Interim (at least monthly) determination of costs charged to a contract through routine posting to books of account.

DCAA will determine if the accounting system produces appropriate reports that show the results of charges to contracts. These reports should be produced at least monthly.

Accounting System & Labor Evaluations

Pre-award Surveys of Contractor Accounting Systems

-Financial capability audits are performed to determine if the contractor is financially capable of performing on Government contracts. Reports including financial statements, lending institutions, SEC filings, cash flow forecasts, loan agreements, aging of accounts receivable and payable, financial history of the contractor and affiliated concerns, and payroll tax returns.

The pre-award accounting system survey is to determine the acceptability of the accounting system for **accumulating costs** under a Government contract.



QuickBooks Setup Basics

Compliant Chart of Accounts

- Standard Balance Sheet Accounts
- COGS (tracking direct costs, project related)
- Most common indirect cost pools
 - Fringe (use all productive labor as the base)
 - Overhead (use direct labor as base)
 - General & Administrative (use total cost input as base)
- Unallowable Costs (FAR Part 31.205)

Indirect Costs – Approved Structure from DCAA is a minimum of 3 Rate Structure – Fringe, Overhead, and G&A pool. The G&A Pool can be further divided into sub pools – Facilities, Sales & Marketing, Finance & Admin, Bids & Proposal, Independent Research & Development.

QuickBooks Setup Basics

Payroll Items

All Wages will be setup as Hourly Wages for DCAA purposes. Payroll Items will need to be setup for Direct, Overhead, and all G&A wages categories. Uncompensated Wages will also be setup under both Overhead and G&A categories

Employee Setup will involve assigning employee wages to specific payroll item accounts. Payroll Items are mapped to GL accounts.

**QuickBooks is not a DCAA Approved Compliant System. However the correct setup of the system can derive acceptable reporting for DCAA.

Accounting System & Labor Evaluations

Time Card Compliance

Detailed instructions for timecard preparation should be established through a timekeeping company procedure.

- Recording his/her time on a daily basis.
- Recording time on the timecard in ink.
- The correct distribution of time by project numbers, contract number or name for a particular assignment.
- Changes to the timecard should be lined through, with the employee's initials beside the change.
- Recording all hours worked whether they are paid or not.

This is necessary because labor costs and overheads are affected by total hours worked, not just paid hours worked. Unpaid hours worked are termed "uncompensated overtime."



iRapt, ICE, and PBR

Incurred Cost Electronically (ICE)

The Allowable Cost And Payment clause (FAR 52.216-7) requires that the contractor submit an adequate final incurred cost proposal together with supporting data, within 6 months after the end of its fiscal year. The receipt of a proposal by the audit office starts the audit process. If the proposal is inadequate the auditor will notify the contractor of the deficiency

The audit will include an evaluation of both direct and indirect costs. The audit objective is to examine contractor cost representations to determine whether such costs are: reasonable, allocable to the contract, in accordance with GAAP and Cost Accounting Standards (CAS), and not prohibited by the contract, Government statute, or regulation.

Best Practices to PASS any DCAA Audit / Test

Knowledge is King	GAAP Principles
Reconciliations and data integrity	Financial statements
Prepaid & accruals	Accounting system compliance
Month end close functions	Audit schedules and third party validations
DCAA Policies & Procedures	Uncompensated Overtime



QUESTIONS

