

The Basics of DCAA Compliance

Overview

Once you have made the decision to become a government contractor, it is important that you learn your way around the rules and regulations that will be imposed on you. New acronyms will be thrown at you from every direction i.e. FAR, DFAR, ICE, CAS, and these are just the tip of the iceberg. You will need a trusted advisor to help you put in place the right procedures and tools to make your journey a smooth one. The purpose of this paper is to give you an overview of the audit agency and high-level overview of key audits that you will need to prepare for.

“Unanet Shone During Our DCAA Audit!”

DCAA and GAGAS

DCAA - If you are not familiar with this acronym, we promise it will end up etched in your mind. Let's quickly level set on the mission of the Defense Contract Audit Agency (DCAA). Their primary function is to perform contract and financial audits for agencies that are responsible for acquisition and contract administration for the US Government. DCAA audits ONLY contractors, like you. They conduct these audits in accordance with the Generally Accepted Government Auditing Standards (GAGAS). The principles that GAGAS embodies are unbiased audit conclusions based on facts. There is a wealth of information on the DCAA website www.dcaa.mil to help you more thoroughly prepare for impending audits.

DCAA's Role

DCAA is a vital part of the acquisition process for the Department of Defense (DOD) and certain other agencies. Their charter is to make sure that tax payers' money is spent responsibly and ethically by conducting audits that assure the validity of costs throughout the acquisition process. They have a tremendous amount of influence because they communicate with the contracting officer (CO) and make recommendations that have an impact on contract negotiations. The recommendations help the CO understand what the price of the contract should be.

You can find the latest information on what is going on with the DCAA, such as the DCAA Report to Congress and much more, at <https://www.dcaa.mil>

Compliance

In government contracting circles, you will hear the words COMPLIANCE and COMPLIANT over and over. So, you may be asking, “What Governs Compliance?” There are two major sets of rules that apply: FAR and CAS. The Federal Acquisition Regulation (FAR), is the holy grail of acquisition. It is used to guide agencies when they are buying goods and/or services. You can find the FAR online or you can grab it at your local library. Cost Accounting Standards (CAS) were established to drive standards into cost accounting practices. There are three major pillars of CAS that include measurement of cost, cost in the proper accounting period, and proper allocation to cost objectives. These two sets of rules are used by DCAA as the basis for all audits. The cost of not complying can be expensive. Not following the rules can lead to billing withholds, loss of certifications, loss in the bidding process, fines, and – if the non-compliance is deemed very serious – can result in jail time for the employee violating the rules.

Common Audits

Each audit that DCAA completes, whether before or after contract award, supports government officials who negotiate prices and award contracts for major weapons systems, services, and supplies.

Forward Pricing

Forward pricing audits are conducted on contract proposals, are related to a specific contract, and are conducted prior to award (usually during the selection process). Forward pricing audits are conducted on a Forward Pricing Rate Proposal (FPRP) that is related to a base year, usually the current year and two or more “out years.” This FPRP is not specific to a contract. This audit is generally completed before contract award and will usually result in a forward pricing rate recommendation (FPRR). The intent is to ensure out year rates are reasonable and realistic for use in forward pricing. Infrequently, the government will enter into formal negotiations with the contractor based on the FPRP and resulting in a bilateral Forward Pricing Rate Agreement (FPRA) wherein the contractor agrees to use the negotiated rates in all proposals for the current year.

Simply said, DCAA agrees with the future rates you are using to bid. The auditor will evaluate your estimate and verify that the government is paying a reasonable price for goods or services. Accurate contract prices are the starting point for fair and reasonable prices throughout the acquisition process because negotiation of subsequent modifications to a contract are often based on the initial estimated contract costs.

Pre-Award – Accounting System Audit

The Accounting System Audit is considered a pre-award audit and it is necessary for the award of any Cost Type contract. This is your opportunity to show off your Unanet Accounting System to DCAA! What you are looking for is an “Acceptable” rating. An acceptable accounting system meets the following criteria: 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.

As with pricing, there are two different examinations of the accounting system. The “Pre-Award Survey” is conducted prior to award and is contract-specific. It results in an opinion that the system is “acceptable” for use on the contemplated contract. It should be noted that this is NOT an audit because it does not look at any actual costs – only the system capabilities. It is referred to as a “Survey” in the document and it is considered a “review” in auditor terminology. It can be, and often is, done on a system that is not yet implemented, based on the software capabilities and pro forma company policies and procedures.

The other is a true audit and does look at actual costs as recorded in the system. This audit is not related to a specific contract, but the system status as of a point in time. It usually results in an opinion that the system, as operated, is “adequate” or “not adequate.” A “not adequate” opinion is an absolute killer because it will be reported to every contracting officer when they query DCMA’s system and could disqualify an offeror from an award.

The Survey is a Pre-Award Survey known as Standard Form (SF) 1408, which asks questions about your accounting system. Below are some of the inquiries of the form:

1. Is the accounting system in accordance the GAAP?
2. Accounting System provides for
 - c. Proper segregation of direct and indirect costs
 - d. Method for allocation of indirect costs
 - e. Timekeeping System
 - f. Labor distribution
 - g. Segregation of unallowable costs
 - h. Accumulation of costs under General Ledger Control
3. Accounting System provides financial information
4. Is the accounting designed to have reliable and accurate data?
5. Is the accounting system fully operable?

This overall process can be tricky for new government contracts and it is highly suggested that a process and tool partner be obtained to assure success.

Timekeeping

Timekeeping audits are being called out separately because they are among the most prevalent audits reported year over year. In the 21st century, there is no reason to not have an electronic timekeeping system like Unanet to capture your employees' daily activities. Unanet's web-based timesheet allows employees to input time daily no matter where they are working and allows supervisors to approve. Time collection systems should also give employees the ability to track by project number, task, charge number, and include change reasons. It is best if your timekeeping system is really integrated with your accounting system. The purpose of this audit is to:

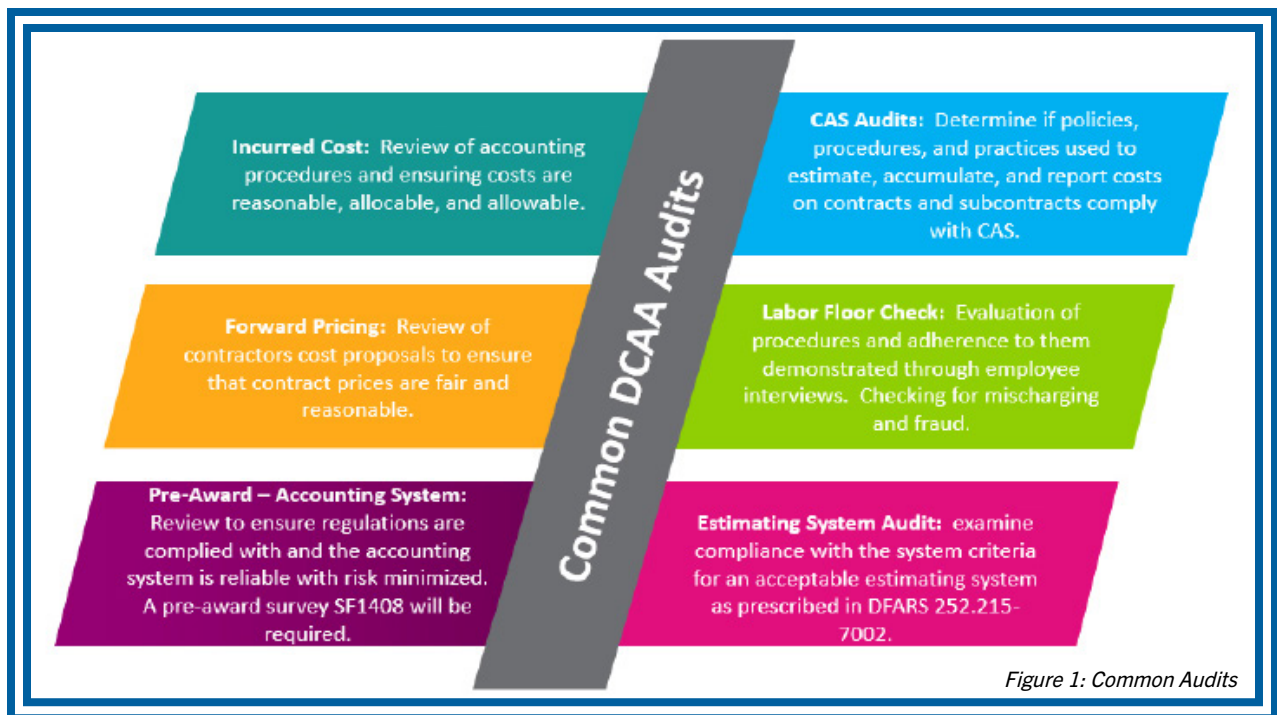
- Assure the contractor's compliance with its timekeeping internal controls and procedures
- Verify the reliability of employee time records
- Verify employees are at work
- Verify employees are performing in assigned job classifications
- Make sure time is charged to the proper cost objective

“Unanet keeps accurate time for us. We record to quarter of an hour increments in billing the government and Unanet ensures it's all done correctly, and we have no problems or issues whatsoever.”

A DCAA labor floor check can be scary for the employees being audited. It is the ONLY audit performed by DCAA that is done on an unannounced basis. It is suggested that a self-audit procedure is put into place to make sure employees understand what is expected and to keep them fresh on the timekeeping policies.

Special Audits

Special audits are a high priority due to the nature and timing of the audits. They can be conducted before or after contract award. These special requests come from contracting officers needing an independent financial opinion on specific portions of a contract or a contractor's accounting business system so that contract work can proceed. Special audits that are conducted after contract award primarily address circumstances where contracts are adjusted for changes or are in some stage of termination. These circumstances represent complex and high-risk audits where DCAA must carefully evaluate the cost of original contract work from the changed scope of work.



Other Audits

Other audits are typically initiated by DCAA when there is potential for a high-risk of misallocation or mischarging of costs. Most of the audit effort in this category focuses on adequacy of the contractor’s Cost Accounting Standards Disclosure Statement, compliance with cost accounting standards, assessment of contractor Cost Impact Statements for non-compliances, review of contractor business systems, and contractor compliance with the Truth in Negotiation Act (TINA).

Incurred Cost

This audit is by far the most common. The Incurred Cost is a financial representation of the work that you performed as a contractor for a specific period. It is used to make sure that claimed actual cost and billed cost reconcile. The audit regulations are in FAR 52.216-7. The clause addresses two key areas: interim reimbursement of costs and determination of final indirect rates and billing rates. The overall submission (Incurred Cost Electronically – ICE) can be difficult and you must identify items such as your rate structure, direct cost to cost objectives (contracts), and identify both indirect and unallowable costs. The ICE excel format that contains the schedules can be found on www.dcaa.mil. You need an accounting system like Unanet to assure that all types of cost are properly accounted for and reportable.

This audit is required for contracts when the contract amount is not fixed and when the contract contains the Allowable and Payment Clause at FAR 52.216-7 (all cost type and T&M contracts). The audit is due within a six-month period following the end of each fiscal year. Extensions are

granted on an exception only basis. The request must be in writing and the Contracting Officer must also grant the exception in writing. If you are not granted an extension and do not submit on time, there is a danger that the Contracting Officer will unilaterally set your indirect rates and their rates will be low enough to ensure the government is not paying for unallowable costs. In other words – COMPLY!

Unanet will Enable DCAA Compliance

The accounting, timekeeping, and expense solution you purchase will have a bearing on the success you have in overall compliance today and in the future. Unanet's integrated and real-time, project-based ERP system in conjunction with your policies, procedures, practices, and qualified personnel will assure that you can meet the CAS and FAR requirements.

“One of the several benefits of Unanet is the ease of satisfying a DCAA auditor.”

Want to learn more about how to become DCAA compliant and have a smooth audit experience? Watch our on-demand webinar [“Chart Your Course – DCAA Compliance.”](#)

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