



# DCAA AUDIT READINESS

## Understanding Project Accounting and its Impact on Government Contractors

JUNE 27, 2018

# ABOUT WIPP

- Founded in 2001, Women Impacting Public Policy (WIPP) is a national, nonpartisan organization advocating on behalf of women entrepreneurs
- We work to strengthen women business owners' impact on our nation's public policy, create economic opportunities and forge alliances with other business organizations
- Our collective voice, including 79 women's organizations, has a powerful influence on Capitol Hill and with the Administration



# ABOUT GIVE ME 5

- National program from WIPP & American Express OPEN designed to educate women business owners on how to apply for and secure federal procurement opportunities.
- Give Me 5 works to increase the representation of Women Business Owners that win government contracts. We provide accessible business education tools to assist both new and experienced federal contractors.
- Women Business Owners could gain more than \$4 billion in annual revenues if the 5% contracting goal set by Congress was reached.





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THANK YOU!!!



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# AGENDA

- FAR Part 31 Contract Cost Principles and Procedures
- Accounting For Unallowable Expenses
- DCAA Pre-Award Accounting System Audit
- Assessing Audit Readiness
- Using Contract Cost Principles To Your Benefit



# FAR PART 31: CONTRACT COST PRINCIPLES AND PROCEDURES

- Federal Acquisition Regulation (FAR) the uniform policies procedures governing acquisition of commercial goods and services of the Executive agencies of the Federal Government
- Designed to promote standardized and consistent procedures in a fair and impartial manner
- Most Federal Government contracts are governed by the FAR
- Signing a contract with the Federal Government makes contractors responsible for following the applicable guidelines applicable to the contract
- Contractors have the responsibility to read and understand FAR clauses referenced in their contracts



# FAR PART 31: CONTRACT COST PRINCIPLES AND PROCEDURES

- FAR Parts 31 provides guidance on contract costs principles and procedures of contractors
- Contractors are held accountable to adhering to the requirements of FAR Part 31
- This section addresses:
  - Cost allowability (FAR 31.201-2)
  - Cost allocability (FAR 31.201-4)
  - Cost classification (FAR 31.202 & FAR 31.203)





# FAR PART 31: CONTRACT COST PRINCIPLES AND PROCEDURES

- FAR 31.201-2: Cost Allowability
  - Allowable means billable
  - Allowable if reasonable (FAR 31.201-3) and allocable
  - Follows CAS where applicable, otherwise GAAP
  - Terms of the contract
  - Limitations set forth in FAR 31.201



# FAR PART 31: CONTRACT COST PRINCIPLES AND PROCEDURES

- FAR 31.201-4: Cost Allocability
  - Allocable means assignable or chargeable to one or more cost objectives (contracts) on the basis of relative benefits received or other equitable relationship
  - Benefits one or more contract(s)
    - Incurred specifically for a contract – OR
    - Benefits both a contract and other work and can be distributed to them in reasonable proportion to benefits received – OR
    - Is necessary to the overall operation of the business, although, a direct relationship to any particular cost objective cannot be shown

# FAR PART 31: CONTRACT COST PRINCIPLES AND PROCEDURES

- Cost Classifications
  - FAR 31.202 – Direct Costs
    - Any cost that is identified specifically with a particular final cost objective (contract)
  - FAR 31.203 – Indirect Costs
    - Any cost not directly identified with a single, final cost objective (contract), but identified with two or more final cost objectives



# FAR PART 31: CONTRACT COST PRINCIPLES AND PROCEDURES

- FAR Part 31 In Summary
  - Allowable distribution of costs to contracts
  - Equitable distribution of costs to contracts
  - Fair burden of tax payers
  - Consistency is key!



# ACCOUNTING FOR UNALLOWABLE EXPENSES

- FAR 31-201-6 governs the accounting treatment of unallowable expenses
  - Contractors required segregate unallowable costs from allowable costs
  - Unallowable costs must be identified and excluded from all cost claims; penalties may be assessed
  - Unallowable costs can be:
    - Expressly unallowable (FAR 31.205)
    - Mutually agreed to be unallowable (contract terms/negotiation)
    - Deemed unallowable by circumstance or value
    - Directly associated as unallowable

# ACCOUNTING FOR UNALLOWABLE EXPENSES

Selected Costs May Be: Allowable (A), Unallowable (UA), or Allowable With Restrictions (AWR)				
Selected Costs	FAR	A	UA	AWR
Alcoholic Beverages	31.205-51		X	
Asset Valuations Resulting from Business Combinations	31.205-52			X
Bad Debts	31.205-3		X	
Bonding Costs	31.205-4	X		
Compensation for Personal Services	31.205-6	X	X	X
Contingencies	31.205-7	X	X	
Contributions or Donations	31.205-8		X	
Cost of Money	31.205-10			X
Deferred Research & Development Costs	31.205-48		X	X
Depreciation	31.205-11			X
Economic Planning Costs	31.205-12	X	X	
Employee Morale, Health, Welfare, Food Service, & Dormitory Costs & Credits	31.205-13	X		X
Entertainment Costs	31.205-14		X	
Fines, Penalties, & Mischarging Costs	31.205-15		X	X

# DCAA PREAWARD SURVEY & ACCOUNTING SYSTEM AUDIT

- FAR 52.215-2 – Audit and Records-Negotiations
- Give Government the right to examine and/or audit contractor books and records
- Public interest is primary customer; ensure tax payer dollars are spent fairly and equitably
- Operate on a pass or fail system
- Contractor must make timely and reasonable access to records
- Reconcile time and cost claims against accounting records



# DCAA PREAWARD SURVEY & ACCOUNTING SYSTEM AUDIT

- Obtain understanding of contractor's accounting systems, processes and procedures
- Determine whether system is acceptable for award of Government contracts
- May trigger other types of audits by DCAA (i.e. financial capability, incurred cost)





# DCAA PREAWARD SURVEY & ACCOUNTING SYSTEM AUDIT

- Evaluate contractor internal controls
- Evaluates design and effectiveness of contractor's accounting system
- Evaluate accounting system as it relates to:
  - Proper segregation of costs (allowable versus unallowable)
  - Proper allocation of costs (equitable and reasonable)
  - Accumulation of costs under general ledger control
  - Compliance with GAAP and CAS
  - Evaluate timekeeping system and associated distribution of labor



# DCAA PREAWARD SURVEY & ACCOUNTING SYSTEM AUDIT

- Evaluate accounting system as it relates to (cont.):
  - Evaluate billing system and contract cost accumulation
  - Interim determination of indirect costs and rates
  - Exclusion of unallowable costs
  - Cost accumulation by CLIN (contract line item number)
  - Full operation of accounting system
  - Test adequacy of billing procedures
- Recommendations could determine award or not



# ASSESSING AUDIT READINESS

- No such thing as a DCAA compliant accounting software
- Contract cost accounting by task and CLIN is a MUST
- Self evaluate against the SF-1408
- Establish written policies and procedures and test practices periodically
- Test appropriate inclusion of costs in billing
- READ your contracts



# ASSESSING AUDIT READINESS

- Integrate accounting processes and systems
- Be prepared to support all pricing elements
- Establish and monitor indirect costs and rates monthly
- Train your staff and manage every day as if you are being audited
- Get help before you need it



# ASSESSING AUDIT READINESS

- Maintain adequate supporting documentation
- Maintain adequacy of Consultant/Subcontractor agreements and documentation
- Test and maintain adequacy of timekeeping
- Test commonly evaluated areas against FAR 31.205
  - Executive Compensation
  - Travel Expenses
  - Trade Show & Associated Costs
  - Legal Expenses



# ASSESSING AUDIT READINESS

- Impact of inadequacy
  - Penalties for knowingly or repeatedly disregarding regulations
  - Suspension of progress payments
  - Disallowance of costs



# USING CONTRACT COST PRINCIPLES TO YOUR BENEFIT

- Use contract cost accounting, internal controls and FAR requirements to:
  - Drive profit
  - Improve cashflow
  - Increase access to credit
  - Monitor contract performance
  - Manage effective utilization of the workforce
  - Increase productivity
  - Eliminate theft and other fraudulent activity
  - Predict the future and align with the mission of the business



# THANK YOU TO OUR SPEAKER



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THANK YOU FOR PARTICIPATING!

For questions, please contact Lin Stuart at  
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For this and other free webinars on federal  
contracting, go to:  
[www.GiveMe5.com](http://www.GiveMe5.com)



# GET INVOLVED!

- Learn how policy can impact your business growth
- Join countless other women entrepreneurs making their voices heard at the public policy table
- Get educated! WIPP offers unlimited opportunities for you and your staff
- Receive weekly/monthly policy updates and briefings
- Network with other highly successful women entrepreneurs



# QUESTIONS?



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