



Working with clients, not just for them

W H I T E P A P E R

All Systems Go: Making Sure You Have a DCAA Compliant Accounting System

The Federal Acquisition Regulation, more commonly known as the FAR, is the principal set of rules or the “code” of federal procurement. The main principles of FAR include meeting the buyer’s needs in terms of cost, quality, and timeliness; minimizing administrative operating costs; ensuring integrity, fairness, and openness; and fulfilling other public policy objectives. Specifically, it is FAR Part 31, that governs the contract cost policies and procedures, and provides guidance for establishing a government compliant accounting system.

The Defense Contract Audit Agency (DCAA), under the authority, direction, and control of the Under Secretary of Defense, performs all contract audits for federal agencies as appropriate. The purpose of these audits is to assure that satisfactory controls are in place to prevent wasteful, careless, inefficient, and fraudulent practices by government contractors. Today, the DCAA employs more than 4,000 auditors and has over 300 Field Audit Offices and sub-offices throughout the United States and overseas.

These complex and time consuming audits encompass the contractor’s entire operation, and only partly include:

- Examining and analyzing accounts, documents, time records, costs, expenses, business practices, and other evidence in accordance with the DCAA Contract Audit Manual, Generally Accepted Government Auditing Standards, the Federal Acquisition Regulation, and other applicable requirements.
- Evaluating the adequacy of internal controls, policies, procedures, and performance;
- Identifying and evaluating activities contributing to, or having an affect on, proposed or incurred costs of federal contracts;
- Reporting suspected fraud or other irregularities to the proper authorities.

The ability to quickly respond to an auditor’s requests with accurate, complete information in a form satisfying DCAA requirements is vital for a successful audit. Consequently, it is imperative for contractors to have strong internal controls, automated timekeeping and activity based costing, explicit billing and cost records, detailed records of transactions for several years, and the processes to produce these records on short notice.

A proper accounting system is critical to satisfying government auditors and providing the information necessary for planning, budgeting, proposals, and maximization of cost recovery.



The key elements of a government compliant accounting system are:

- Proper segregation of direct and indirect costs.
- Identification of a final or intermediate cost objective, usually in the form of a job, project or task.
- Identification and accumulation of direct costs by contract/grant under a job order cost system. Subsidiary cost records for each individual contract should also be available. Direct costs must be identified by contract line item.
- Accumulation of costs must be controlled by the general ledger.
- Identification or accumulation separately of unallowable costs pursuant to FAR Part 31.
- There must be a logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives.
- The timekeeping system must identify employee labor by intermediate or final cost objectives, and maintained on a daily basis within the accounting system.
- The labor distribution system must charge direct and indirect labor to appropriate cost objectives and provide an interim (at least monthly) determination of costs charged to a contract through routine posting of books of account. This requires a monthly accrual basis closing of the books.
- FAR requires the books to be kept on a GAAP basis.

In addition to these elements and the detailed requirements that go along with each, the company must have written policies and procedures for accounting system controls, time reporting procedures, and planning and budgeting processes.

As previously noted, your accounting system must be compliant with the FAR regulations in order to satisfy the government auditors, specifically FAR 31. Various Federal government departments and agencies perform numerous audits of one type or another. If

the department or agency does not have an audit function, they will contract with the Defense Contract Audit Agency (DCAA) to perform various types of audits. Some of the more common are:

- Pre-award accounting system audit
- Annual cost submission of indirect rates
- Financial capability audit
- Budget proposal audit
- Post award audit
- Contract close out

The DCAA has recently focused more on pre-award and budget proposal audits. In other words, they are auditing the costs before monies are spent rather than historical costs. This approach makes a lot of sense for the government to try and reduce fraud and abuse.

The pre-award accounting system audit is now a pass or fail audit. If your accounting system fails, you can possibly lose the award. You will have time to cure any deficiencies but this can delay your award for months. In any type of audit, if the DCAA determines there are deficiencies in the accounting system's ability to identify and accumulate costs, the company can be stopped from billing which can cause serious cash flow problems.

Once your company obtains its first government contract, it is important to update and maintain your accounting system regularly for maximum efficiency. Upon request for documents by the DCAA for an audit, the company is expected to produce records within three business days. If records are not produced in this time period, the accounting system can be rendered inadequate which can result in a potential loss of the contract/grant or billing delays.

If you are going to do business with the government, it is critical for your accounting system to be able to withstand an audit. Though the accounting system is very often the last thing addressed when submitting a proposal, it is much more cost effective to set it up properly on the front end rather than wait for the government auditors to come.

Microsoft Solutions for Government Contractors

Microsoft Dynamics AX is Microsoft's multi-industry offering for larger enterprises serving both public and private sector customers. PVBS, long recognized as Microsoft's top solution provider for Government Contractors, bridges the gaps between commercial and government requirements to allow companies with both commercial and government businesses maintain one ERP solution.

Microsoft Dynamics AX for Government Contractors,

a DCAA-compliant solution that gives government contractors so much more than what they have been relegated to use in the past. Having one ERP system in place where you can maintain unique chart of accounts at the business or divisional level, nevertheless able to map those accounts at the corporate level, creates substantial benefits. This flexibility makes it easy to set up indirect cost pools which can be allocated among business units. Now that there is an enterprise ERP solution that is designed to handle commercial and government business, the efficiencies and possibilities are endless.

Core Elements of an Adequate Government Contractor's Accounting System

Microsoft Dynamics AX for Government Contractors has been developed with the goal of providing effective FAR and CAS compliance features.

Core Elements of GovCon Accounting System	AX GovCon
■ Conforms with Generally Accepted Accounting Principles (GAAP)	✓
■ Produces equitable results verifiable	✓
■ Applicable to the contemplated contract(s)	✓
■ Is capable of being consistently followed	✓
■ Provides proper segregation of direct costs from indirect costs	✓
■ Identifies and accumulates direct costs by contract	✓
■ Provides a logical and consistent method for allocation of indirect costs to intermediate and final cost objectives	✓
■ Allows accumulation of costs under general ledger and project ledger control	✓
■ Identifies employees' labor by intermediate or final cost objectives	✓
■ Has a labor distribution system that charges direct and indirect labor to the appropriate cost objectives	✓
■ Interim (at least monthly) determination of costs charged to a contract	✓

<ul style="list-style-type: none"> ■ Able to exclude from costs charged to Government contracts of amounts that are not allowable 	✓
<ul style="list-style-type: none"> ■ Identify costs by contract line item and units if required by the proposed contract 	✓
<ul style="list-style-type: none"> ■ Functionality to manage compliance with limitation of cost (FAR52.232-20), limitation of funds (FAR52.232-22), or allowable cost and payment (FAR52.216-7) 	✓
<ul style="list-style-type: none"> ■ Calculation and reporting of indirect cost rates from the books of accounts 	✓
<ul style="list-style-type: none"> ■ Workflow to define how a documents flow through the system by indicating who must process and approve it in accordance with internal controls 	✓

With the government contracting functionality available for Microsoft Dynamics AX, corporations now have the opportunity to provide state-of-the-art functionality across the enterprise while serving each business's specific needs.

SBS Group and our industry technology partner, Pleasant Valley Business Solutions (PBVS) have created an overview of the critical functionality needed for compliance and accounting in the government contracting market. PVBS offers Microsoft Dynamics solutions that are created specifically for high-growth and large government contractors in order to help these companies better manage and optimize their Federal Government contracts.

SBS Group is a national Microsoft master VAR (Value Added Reseller) and Gold Certified Partner. Over the past 25 years, we have been recognized as a Microsoft Partner of the Year, Inner Circle Member and a 2014 Microsoft President's Club Member. The company is headquartered in Edison, New Jersey and operates offices across the United States. For more information, please visit SBS Group's website at <http://www.sbsgroupusa.com>. Follow us on LinkedIn at <http://www.linkedin.com/company/sbs-group>, on Twitter at <http://twitter.com/sbsgroup> and find us on Facebook at <http://www.facebook.com/SBSGroupUSA>.

**Companies Grow.
Revenues Grow.
Opportunities Grow.**

*We'll make sure your
business systems grow with you.*

From local offices across North America, SBS Group provides business management solutions to help growing companies meet their **operational, financial, regulatory, and technical challenges**. Through a proven process of Discovery, Analysis, Design and Delivery, we leverage **ERP, CRM, Business Intelligence, and Office Productivity** technology to build, deploy, and support innovative systems in your **data center or in the Cloud**.

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