



Accounting System Requirements and Pre- Award Audits

Further information is available in the
Information for Contractors Manual under Enclosure 2

Objectives

- Define what triggers and who requests an accounting system audit
- Understand the details of DCAA's Pre-Award Accounting System audit program
- Discuss the DFARS 252.242-7006(c) and SF 1408 criteria
- Learn how to properly identify and segregate direct and indirect expenses
- Demonstrate forms of reconciliations from source documents to books of record
- Describe indirect pools, allocation bases and calculating indirect rates
- Explain why monitoring costs and having policies and procedures are essential for any size business!



Polling Question #1

True or False: I can submit a request for audit directly to my local DCAA office.

- a. True
- b. False

How to Get Started

- The Contracting Officer or DCMA requests the contractor to fill out the Pre-Award Survey to consider their readiness for cost-type contract awards
- Preaward Survey (SF 1408 Criteria)
 - Link: <https://www.dcaa.mil/Checklists-Tools/Pre-award-Accounting-System-Adequacy-Checklist/>
- DCAA is requested to evaluate **design** of Accounting System and report back to Contracting Office or DCMA

Contractor Qualifications

Responsible Prospective Contractor Criteria:

- Adequate financial resources to perform the contract
- Ability to comply with the required or proposed delivery or performance schedule, considering the firm's existing commercial and governmental business commitments
- A satisfactory performance record
- A satisfactory record of integrity or business ethics
- The necessary organization, experience, accounting, operational controls, and technical skills to perform the contract
- The necessary production, construction and technical equipment and facilities
- **Eligibility to receive the award under applicable laws and regulations**

Polling Question #2

What triggers a Pre-Award Accounting System Audit from DCAA?

- a. Contractor's first ever contract award
- b. Contract awards over \$10M
- c. Contractor's first cost reimbursable contract award
- d. Prior to every contract award

Pre-award Audit Objectives

- Evaluates **design** of Accounting System to determine if it is **acceptable** for prospective contract award
- Contractor should be prepared to **demonstrate** how accounting system design satisfies SF 1408 during audit fieldwork stage
- DCAA Pre-Award Accounting System Audit Program:
<https://www.dcaa.mil/Portals/88/Documents/Guidance/Directory%20of%20Audit%20Programs/17740%20Preaward%20Survey%20of%20Prospective%20Contractor%20Accounting%20System%20AP.pdf?ver=w0ujMZRuYOzWedf4w7EYVg%3d%3d>

Acceptable Accounting System

DFARS 252.242-7006(a)(1):

“a system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that—

- (i) Applicable laws and regulations are **complied** with;
- (ii) The accounting system and cost data are **reliable**;
- (iii) Risk of misallocations and mischarges are **minimized**; and
- (iv) Contract allocations and charges are **consistent** with billing procedures.”

Defining an Accounting System

DFARS 252.242-7006(a)(2):

“the Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions”

May include subsystems for specific areas such as:

- Billing
- Labor

DFARS 252.242-7006(c) System Criteria

The Contractor's accounting system shall provide for—

- 1) A sound internal control environment, accounting framework, and organizational structure.
- 2) Proper segregation of direct costs from indirect costs.
- 3) Identification and accumulation of direct costs by contract.
- 4) A logical and consistent method for the accumulation and allocation of indirect costs to intermediate and final cost objectives.
- 5) Accumulation of costs under general ledger control.
- 6) Reconciliation of subsidiary cost ledgers and cost objectives to general ledger.
- 7) Approval and documentation of adjusting entries.
- 8) Management reviews or internal audits of the system to ensure compliance with the Contractor's established policies, procedures, and accounting practices.
- 9) A timekeeping system that identifies employees' labor by intermediate or final cost objectives.
- 10) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.
- 11) Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.
- 12) Exclusion from costs charged to Government contracts of amounts which are not allowable in terms of Federal Acquisition Regulation (FAR) part 31, Contract Cost Principles and Procedures, and other contract provisions.
- 13) Identification of costs by contract line item and by units (as if each unit or line item were a separate contract), if required by the contract.
- 14) Segregation of preproduction costs from production costs, as applicable.
- 15) Cost accounting information, as required—
 - (i) By contract clauses concerning limitation of cost (FAR 52.232-20), limitation of funds (FAR 52.232-22), or allowable cost and payment (FAR 52.216-7); and
 - (ii) To readily calculate indirect cost rates from the books of accounts.
- 16) Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms.
- 17) Adequate, reliable data for use in pricing follow-on acquisitions; and
- 18) Accounting practices in accordance with standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, Generally Accepted Accounting Principles.

Standard Form 1408 Criteria

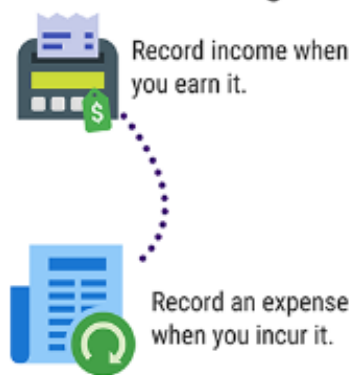
SECTION II - EVALUATION CHECKLIST			
MARK "X" IN THE APPROPRIATE COLUMN (<i>Explain any deficiencies in SECTION I NARRATIVE</i>)	YES	NO	NOT APPLI-CABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. ACCOUNTING SYSTEM PROVIDES FOR:			
a. Proper segregation of direct costs from indirect costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Identification and accumulation of direct costs by contract.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is final cost objective.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. Accumulation of costs under general ledger control.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
j. Segregation of preproduction costs from production costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION:			
a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. Required to support requests for progress payments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Generally Accepted Accounting Principles

Cash Accounting



Accrual Accounting



Journal Entries: Accounts Payable

Invoice for Purchased Materials:

Inventory \$750
 Accounts payable \$750

Invoice Received for Period Cost:

Operating expense \$250
 Accounts payable \$250

Invoice is paid:

Accounts payable \$1,000
 Cash \$1,000

Debit	Credit
\$750	\$750
\$250	\$250
\$1,000	\$1,000

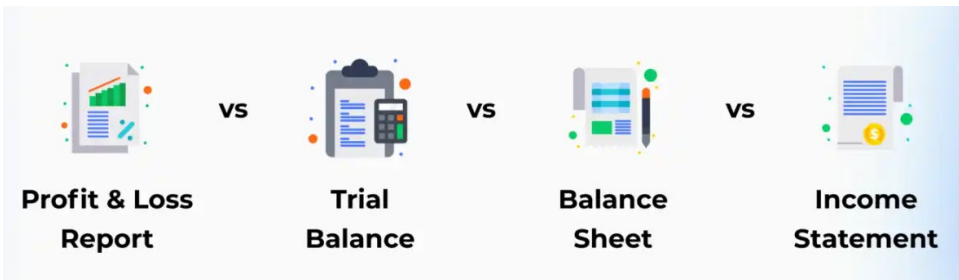


Chart of Accounts Example

- A chart of accounts (COA) lists all the general ledger accounts that an organization uses to organize its financial transactions systematically. Every account in the chart holds a number to facilitate its identification in the ledger while reading the financial statements.
- COA helps companies prepare, maintain, and monitor their financial accounts as per the standard accounting norms. It facilitates stakeholders to interpret a company's financial performance with ease.

Chart of Accounts	
Balance Sheet Accounts	
Acct No.	Account Type
1000	Assets
2000	Liabilities
3000	Owner's Equity
Income Statement Accounts	
Acct. No.	Account Type
4000	Revenue
5000	Direct Expenses
6000	Overhead Expenses
7000	G&A Expenses
9000	Unallowable Expense

Polling Question #3

All of the following are typically considered DIRECT COSTS, EXCEPT:

- a. Labor
- b. Subcontracts
- c. Material
- d. Rent

Proper Segregation of Direct Costs from Indirect Costs

DFARS 252.242-7006(c)(2) requires segregation of direct and indirect costs:

- Direct Cost is any cost that is identified specifically with a particular final cost objective.
- Indirect cost means 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



Identification and Accumulation of Total Costs by Contract

- The total cost of a contract is the sum of the direct and indirect costs allocable to the contract.
- While the total cost of a contract includes all costs properly allocable to the contract, the allowable costs to the Government are limited to pursuant to Part 31 and applicable agency supplements.
- Job costing is an accounting method designed to help you track the cost of individual projects and jobs.

Navy Contract: Internal Contract Number 0012			
Direct Labor Category	\$	Qty	Total
Engineer 1	\$ 25	208,000	\$ 5,200,000
Engineer 2	\$ 35	156,000	\$ 5,460,000
Engineer 3	\$ 50	104,000	\$ 5,200,000
<i>Total Engineering Labor</i>		<i>468,000</i>	<i>\$ 15,860,000</i>
Manufacturing 1	\$ 20	208,000	\$ 4,160,000
Manufacturing 2	\$ 25	156,000	\$ 3,900,000
Manufacturing 3	\$ 30	104,000	\$ 3,120,000
<i>Total Manufacturing Labor</i>		<i>468,000</i>	<i>\$ 11,180,000</i>
Direct Materials (Less Scrap)			
Type	\$	Qty	Total
Widget 1	\$ 100	25,000	\$ 2,500,000
Widget 2	\$ 500	15,000	\$ 7,500,000
Widget 3	\$ 1,000	5,000	\$ 5,000,000
<i>Total Materials</i>		<i>45,000</i>	<i>\$ 15,000,000</i>
Total Direct Costs			\$ 42,040,000
Applied Indirect Costs			
Engineering Overhead	30.00%		\$ 4,758,000
Manufacturing Overhead	28.00%		\$ 3,130,400
General and Administrative	5.50%		\$ 2,746,062
Total Applied Indirect Costs			\$ 10,634,462
Profit/ Fee	5%		\$ 2,633,723
Total Contract Costs			\$ 55,308,185

Allocation of Indirect Costs

- DFARS 252.242-7006(c)(4) requires a logical and consistent method for the accumulation and allocation of indirect costs to intermediate and final cost objectives.
- Identified with two or more final cost objectives or an intermediate cost objective.
- An indirect cost is not to be allocated to a final cost objective if other costs incurred for the same purpose in like circumstances have been included as a direct cost of any other final cost objective.

In general, indirect cost accounts fall into two broad categories:

- Overhead
- General and Administrative (G&A)

Overhead Expenses

- The number of indirect cost accounts in a single company can range from one to hundreds.
- The indirect structure needs to be tailored to your company and how it operates.

Manufacturing Overhead	
Description	Costs
Manufacturing equipment	\$ 240,000
Repair & overhaul	\$ 120,000
Product testing	\$ 50,000
Manufacturing R&D	\$ 40,000
Product enhancement or modifications	\$ 30,000
Subcontract administration	\$ 20,000
Packing, crating and shipping	\$ 35,000
Product technical support	\$ 10,000
Total Manufacturing Overhead Costs	\$ 545,000

Materials Overhead	
Description	Costs
Material purchased	\$ 400,000
Material shipping costs	\$ 50,000
Indirect labor	\$ 40,000
Receiving and inspection	\$ 20,000
Material storage and handling	\$ 15,000
Vendor & material quality assurance	\$ 30,000
Scrap sales revenues	\$ 25,000
Material inventory adjustments	\$ 10,000
Total Materials Overhead Costs	\$ 590,000

Engineering Overhead	
Description	Costs
Indirect labor and management cost	\$ 100,000
Expensive tooling & equipment	\$ 140,000
Indirect material & supplies	\$ 45,000
Employee related expenses	\$ 30,000
Downtime of direct employees when not working on a specific contract/job for	\$ 20,000
Total Engineering Overhead Costs	\$ 335,000

Service Overhead	
Description	Costs
On-site and off-site labor	\$ 100,000
Office building rent or leases	\$ 50,000
Project management	\$ 35,000
Divisional or regional management	\$ 25,000
Insurance	\$ 15,000
Depreciation	\$ 20,000
Property taxes	\$ 10,000
Utilities	\$ 5,000
Allocated Fringe	\$ 25,000
Total Service Overhead Costs	\$ 285,000

General and Administrative Expenses

- These are management, financial, and other expenses related to the general management and administration of the business unit as a whole.
- To be considered a G&A expense of a business unit, the expenditure must be incurred by, or allocated to, the general business unit.

<u>G&A Pool</u>	
<u>Description</u>	<u>Costs</u>
Senior executive staff (CEO, COO, VPs)	\$ 240,000
Human resources group (a portion)	\$ 25,000
Internal legal / general counsel	\$ 100,000
Internal accounting group	\$ 120,000
Corporate finance / FP&A group	\$ 70,000
Treasury group	\$ 90,000
Strategic planning group	\$ 90,000
Business development group	\$ 50,000
Bid and proposal (B&P) groups	\$ 40,000
Technology / IT group	\$ 20,000
External Professional fees such as legal, accounting, payroll processing fees, IT services	\$ 50,000
Public relations	\$ 30,000
Selling and marketing expenses	\$ 20,000
Bonuses for people who primarily charge their	\$ 25,000
Independent research and development (IR&D)	\$ 35,000
Travel in support of business development	\$ 15,000
Business insurance (general liability)	\$ 20,000
State & local taxes (not federal taxes!)	\$ 15,000
Conferences, business meetings	\$ 20,000
Dues and subscriptions	\$ 5,000
A proportionate share of total facilities costs	\$ 25,000
Allocated Fringe	\$ 45,000
Total G&A Pool Costs	\$1,150,000

Allocation Base Examples

Allocation bases vary based on a causal/ beneficial relationship within the expense pools and may include:

Overhead

- Direct Labor Dollars
- Direct Labor Hours
- Direct Material Dollars

G&A

- Total Cost Input (Total direct and indirect costs minus G&A)
- Value Added (Total Cost Input less subcontracts and direct materials)
- Single Cost Element (e.g. Direct labor dollars)

Terms and Definitions

Pool / Base Relationship

$$\begin{array}{l} \mathbf{R} \\ \mathbf{a} \\ \mathbf{t} \\ \mathbf{e} \end{array} = \frac{\mathbf{Pool - Expenses to be Allocated}}{\mathbf{Base - Benefit from the Expenses}}$$

Causal/Beneficial Relationship:

If it were not for the base, the pool expense would not be incurred.

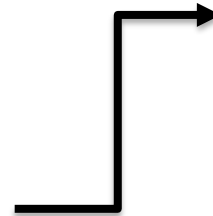
Accumulation of Costs under General Ledger Control

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12/15/23
Accrual Basis

General Ledger
As of December 15, 2023

Type	Date	Num	Name	Memo	Split	Amount	Balance
10100 - Checking							
Check	12/01/2023	476	Abercrombie, Kin...		11000 - Acc...	-711.15	55,641.39
Bill Pmt - Check	12/01/2023	477	Larson Flooring		20000 - Acc...	-2,700.00	52,230.24
Check	12/01/2023	478	Gregg O. Schneider	Reimburse...	12800 - Emp...	-62.00	52,168.24
Paycheck	12/01/2023	10070	Dan T. Miller		-SPLIT-	-1,325.15	50,843.09
Paycheck	12/01/2023	10071	Elizabeth N. Mason		-SPLIT-	-890.57	49,952.52
Paycheck	12/01/2023	10072	Gregg O. Schneider		-SPLIT-	-1,033.99	48,918.53
Deposit	12/02/2023			Deposit	-SPLIT-	4,706.01	53,624.54
Check	12/02/2023	479	CalOil Company		20600 - CalO...	-135.80	53,488.74
Payment	12/03/2023		Teschner, Anton...		11000 - Acc...	1,200.00	54,688.74
Transfer	12/05/2023			Funds Tran...	10300 - Sav...	25,000.00	79,688.74
Payment	12/05/2023	56321	Teschner, Anton...		11000 - Acc...	5,000.00	84,688.74
Bill Pmt - Check	12/05/2023	480	Thomas Kitchen &...	R 55-801	20000 - Acc...	-1,930.00	82,750.74
Bill Pmt - Check	12/05/2023	481	C.U. Electric		20000 - Acc...	-1,500.00	81,250.74
Bill Pmt - Check	12/05/2023	482	Manda Hotel		20000 - Acc...	-661.00	80,589.74



Timekeeping System

Project Timesheet

Company: Smith & Smith, Inc.
Employee Name: Katelyn Smith **Employee ID:** 7845
Start Date: 4/22/2024 **End Date:** 4/28/2024

Job Code/ Project ID	Project Description	Mon 4/22/2024	Tues 4/23/2024	Wed 4/24/2024	Thurs 4/25/2024	Fri 4/26/2024	Sat 4/27/2024	Sun 4/28/2024	Total
0009	Annual Leave	-	-	-	-	-	-	-	-
0010	Sick Leave	1.00	8.00	-	-	-	-	-	9.00
0011	Training	-	-	-	-	8.00	-	-	8.00
0012	Navy Project 0012	4.00	-	7.50	9.00	-	-	-	20.50
0013	Army Project 0013	3.00	-	2.50	-	-	-	-	5.50
0014	Air Force Project 0014	-	-	-	-	-	-	-	-
Daily Total		8.00	8.00	10.00	9.00	8.00	-	-	43.00

Employee Signature: _____ **Date:** _____
Supervisor Approval: _____ **Date:** _____

Intermediate
Cost
Objective

Final Cost
Objectives

Labor Distribution

Smith & Smith, Inc.
123 Main Street
King of Prussia, PA 19406

Period: 4/1/24- 4/30/24

Labor Distribution by Job Report

Job Code/ Project ID	Project Description	Employee	Regular Hours	Overtime	Total Hours	Hourly Rate	Labor \$
0012	Navy Project 0012	Katelyn Smith	131.00	3.00	134.00	\$ 25.00	\$ 3,350.00
		Amanda Johnson	134.00	10.00	144.00	\$ 30.00	\$ 4,320.00
		Tyler Jones	20.00	-	20.00	\$ 25.00	\$ 500.00
		Stephanie Williams	14.00	-	14.00	\$ 50.00	\$ 700.00
		David Brown	-	-	-	\$ 25.00	\$ -
		Tim Miller	-	-	-	\$ 25.00	\$ -
		Total Navy Project 0012	299.00	13.00	312.00		\$ 8,870.00
0013	Army Project 0013	Katelyn Smith	20.00	-	20.00	\$ 25.00	\$ 500.00
		Amanda Johnson	10.00	-	10.00	\$ 30.00	\$ 300.00
		Tyler Jones	130.00	10.00	140.00	\$ 25.00	\$ 3,500.00
		Stephanie Williams	130.00	10.00	140.00	\$ 50.00	\$ 7,000.00
		David Brown	-	-	-	\$ 25.00	\$ -
		Tim Miller	-	-	-	\$ 25.00	\$ -
		Total Army Project 0013	290.00	20.00	310.00		\$ 11,300.00
0014	Air Force Project 0014	Katelyn Smith	-	-	-	\$ 25.00	\$ -
		Amanda Johnson	-	-	-	\$ 30.00	\$ -
		Tyler Jones	-	-	-	\$ 25.00	\$ -
		Stephanie Williams	-	-	-	\$ 50.00	\$ -
		David Brown	128.00	-	128.00	\$ 25.00	\$ 3,200.00
		Tim Miller	168.00	-	168.00	\$ 25.00	\$ 4,200.00
		Air Force Project 0014	296.00	-	296.00		\$ 7,400.00

Job Code/ Project ID	Regular Hours	Overtime Hours	Total Hours	Labor Dollars
Navy Project 0012	299	13.00	312.00	\$ 8,870.00
Army Project 0013	290	20.00	310.00	\$ 11,300.00
Air Force Project 0014	296	-	296.00	\$ 7,400.00
Total Direct Labor	885	33.00	918.00	27,570.00

Interim Determination of Costs

Date	Account Title and Explanations	Ref	Amount (Rs.)	
			Debit	Credit
2016				
Aug. 3	Cash		80,000	
	Furniture		20,000	
	Owner's Equity_ Sardar Hamad (Reinvest by owner in the business)			100,000
5	Cash		10,000	
	Account Receivable		12,000	
	Sales (Cash and credit Sales)			22,000
6	Purchases		60,000	
	Cash			15,000
	Note Payable_ Ahmed Co. (Purchases by cash and credit from Ahmed)			45,000
9	Office Equipment		90,000	
	Cash			19,000
	Account Payable_ Waseem Shah (Purchase O. equipment on installments by Waseem)			80,000
21	Sales Return		12,000	
	Account Receivable (Goods return by credit customer)			12,000
30	Account Payable_ Waseem Shah		20,000	
	Cash (Paid 1 st installment to Waseem Shah)			20,000
Total			Rs. 313,000	Rs. 313,000

Posts at least monthly

Dual Entry Accounting

Exclusion of Unallowable Costs

DFARS 252.242-7006(c)(12) requires:

“Exclusion from costs charged to Government contracts of amounts which are not allowable in terms of Federal Acquisition Regulation (FAR) part 31, Contract Cost Principles and Procedures, and other contract provisions”

- Contractors should have written policies and procedures to identify and exclude unallowable costs.
- Unallowable costs need to be identified and excluded from any billings, claims, and proposals applicable to a Government contract.

Examples of Unallowable Costs

FAR 31.201-6 Accounting for Unallowable Costs:

“Costs that are expressly unallowable or mutually agreed to be unallowable, including mutually agreed to be unallowable directly associated costs, shall be identified and excluded from any billing, claim, or proposal applicable to a Government contract. A directly associated cost is any cost that is generated solely as a result of incurring another cost, and that would not have been incurred had the other cost not been incurred. When an unallowable cost is incurred, its directly associated costs are also unallowable.”

Examples Include:

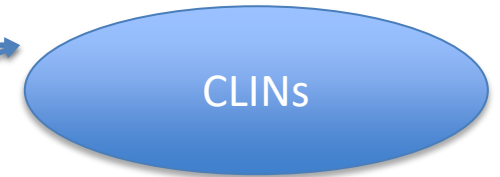
- FAR 31.205-8: Contributions or Donations
- FAR 31-205-14: Entertainment Costs (i.e.- holiday parties or company picnics)
- FAR 31.205-20: Interest and Other Financial Costs
- FAR 31.205-22: Lobbying and Political Activity Costs
- FAR 31.205-51: Costs of Alcoholic Beverages

Costs by Contract Line Item

- Line item: Captures the information about separately identifiable goods and services that the Government needs to purchase
- LIN: Line-Item Number is a numeric or alphanumeric format to identify a line item and are separately identifiable items are goods or services a person can identify and separate out from other items being acquired and those items can be delivered or performed individually. (*DFARS 204.71 uses the term CLIN*)
- Sub-CLINs (SLINs): Each line item may be subdivided into separate unique subsets using a parent- child structure. SLINs are used to facilitate tracking of performance, deliverables, payment, and contract funds accounting, or for other administrative purposes associated with a LIN. *See FAR 4.1005-1*
- Accounting systems needs to be able to expand beyond a project number (i.e.- CLIN, SLIN, ACRN)
- Each job needs to be expanded to the requisite level of detail as **determined by contract terms.**

CLIN Example

Contract Number: N00383-24-C-0012						
Smith and Smith, Inc. Internal Job Number: 0012						
Item No.	Supplies/ Services	Qty.	Unit	Unit Price	Amount	
0001	Widgets FFP PSC: AB12					
0001AA	Unpainted Widgets Part Number: ABC ACRN: AA	500	Each	50	\$	25,000
0001AB	Red Painted Widgets Part Number: ABC-R ACRN: AB	100	Each	100	\$	10,000
0002	Assembly and Maintenance of Engine CPFF PSC: CD34					
0002AA	Assembly of Engine CPFF ACRN: AC	2,080	Hours	\$ 75	\$	156,000
0002AB	Maintenance of Engine CPFF ACRN: AD	8,320	Hours	\$ 75	\$	624,000



Pre-production Costs

- **DFARS 252.242-7006(c)(14)** requires the contractor's accounting system must provide for the segregation of pre-production costs from production costs
- When the pre-production costs are commingled with production costs, **future estimates based on this historical data will be overstated.**

Pre-production Costs Might Include:

- Non-recurring manufacturing costs
- Tolling and design
- Setup costs
- Process improvement
- Research and Development
- Any costs not related to the per unit production

Note: If the contractor does not perform any manufacturing, this criteria does not apply.

Readily Calculated and Routinely Monitored Indirect Rates

Statement of Indirect Expenses				
Acct No.	Pool Expenses	Jan	Feb	March
6000	Engineering Indirect Labor	\$ 208,000	\$ 210,000	\$ 212,000
6001	Engineering Material	130,000	125,000	145,000
6002	Engineering Supplies	25,000	18,000	17,500
6003	Engineering Facility Rent	5,000	5,000	5,000
6004	Facility Utilities	2,500	1,800	1,500
6005	Engineering Fringe Expenses	3,750	3,750	3,750
	Total Engineering Pool	\$ 374,250	\$ 363,550	\$ 384,750
	Allocation Bases	Jan	Feb	March
5001	Engineering Direct Labor	\$ 1,313,580	\$ 1,215,324	\$ 1,315,040
	Engineering Overhead Rate	28.49%	29.91%	29.26%

Readily calculated using G/L accounts

Routinely monitored at least monthly

Polling Question # 4

What is the required MINIMUM day notice to reach out to your contracting officers with regards to reaching 75% of estimated total costs/ funded amounts

- a. 30 days
- b. 45 days
- c. 60 days
- d. 120 days

Limitation of Costs and Funds

- DFARS 252-242-7006(c)(15) requires Cost accounting information, as required:
 - (i) By contract clauses concerning:
 - FAR 52.232-20: Limitation of costs
 - 60-day notice, exceeding 75% of estimated **total costs**
 - FAR 52.232-22: Limitation of funds
 - 60- day notice, exceeding 75% of the total **funded amount**
 - FAR 52.216-7: Allowable costs and payment
 - Invoicing, cost reimbursement, prompt payments, and incurred cost submissions

Biggest takeaway: How are you monitoring your contract costs to ensure you provide proper notification to contracting officer

Contract Invoicing

DFARS 252.242-7006(c)(16) requires:

Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms

- Billings need to be based on current contract provisions. The total amount billed should not exceed any contract, work order, funding limitation, or any other contract ceiling amount.
- Interim billings (e.g. progress payments or public vouchers) of direct cost need to be prepared directly from the books and records, excluding unallowable costs.
- Procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor 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 request to the Government.
- A contractor needs to reconcile booked costs to billed costs.
- Important to brief contract to identify billing provisions, including but not limited to:
 - Restriction of billing frequency
 - Special withholding provisions
 - Contractual unallowable costs

Invoicing Example

Smith & Smith, Inc. 123 Main Street King of Prussia, PA 19406		Period: 4/1/24- 4/30/24	
Navy Contract: Internal Contract Number 0012			
Direct Labor Category	\$	Qty	Current Cumulative
			4/1/24- 4/30/24 1/1/24- Current
Engineer 1	\$ 25	154	\$ 3,850 \$ 15,850
Engineer 2	\$ 30	144	4,320 11,820
Engineer 3	\$ 50	14	700 15,700
Total Engineering Labor		312	\$ 8,870 \$ 43,370
Manufacturing 1	\$ 20	-	\$ - \$ 5,000
Manufacturing 2	\$ 25	-	- 7,500
Manufacturing 3	\$ 30	-	- 3,000
Total Manufacturing Labor		-	\$ - \$ 15,500
Direct Materials (Less Scrap)			
Type	\$	Qty	Current Cumulative
			4/1/24- 4/30/24 1/1/24- Current
Widget 1	\$ 100	100	\$ 10,000 \$ 40,000
Widget 2	\$ 500	200	100,000 400,000
Widget 3	\$ 1,000	300	300,000 800,000
Total Materials		600	\$ 410,000 \$ 1,240,000
Total Direct Costs			\$ 418,870 \$ 1,298,870
Applied Indirect Costs			
Engineering Overhead	30.00%	\$	2,661 \$ 13,011
Manufacturing Overhead	28.00%		- 4,340
General and Administrative	5.50%		23,184 72,392
Total Applied Indirect Costs			\$ 25,845 \$ 89,743
Profit/ Fee	5%	\$	22,236 \$ 69,431
Total Contract Costs			\$ 466,951 \$ 1,458,044

Smith & Smith, Inc. 123 Main Street King of Prussia, PA 19406		Period: 4/1/24- 4/30/24	
Labor Distribution by Job Report			
Job Code/ Project ID	Project Description	Employee	Regular Hours Overtime Total Hours Hourly Rate Labor \$
0012	Navy Project 0012	Katelyn Smith	131.00 3.00 134.00 \$ 25.00 \$ 3,350.00
		Amanda Johnson	134.00 10.00 144.00 \$ 30.00 \$ 4,320.00
		Tyler Jones	20.00 - 20.00 \$ 25.00 \$ 500.00
		Stephanie Williams	14.00 - 14.00 \$ 50.00 \$ 700.00
		David Brown	- - - \$ 25.00 \$ -
		Tim Miller	- - - \$ 25.00 \$ -
		Total Navy Project 0012	299.00 13.00 312.00 \$ 8,870.00

12/15/23 Accrual Basis		General Ledger As of December 15, 2023						
Type	Date	Num	Account	Memo	Split	Amount	Balance	
10100 - Checking							\$5,641.39	
Check	12/01/2023	476	Accommodate, Kris...		11000 - Acc...	-711.15	54,930.24	
Bill Pmt - Check	12/01/2023	477	Larson Flooring		20000 - Acc...	-2,700.00	52,230.24	
Check	12/01/2023	478	Gregg O. Schneider	Reimburse...	12800 - Emp...	-82.00	52,148.24	
Paycheck	12/01/2023	10070	Dan T. Miller		SPLIT-	-1,255.15	50,893.09	
Paycheck	12/01/2023	10071	Elizabeth N. Mason		-SPLIT-	-890.57	49,992.52	
Paycheck	12/01/2023	10072	Gregg O. Schneider		-SPLIT-	-1,033.99	48,958.53	
Deposit	12/02/2023			Deposit	-SPLIT-	4,706.01	53,624.54	
Check	12/02/2023	479	CalOil Company		20600 - CalO...	-135.80	53,488.74	
Payment	12/03/2023		Teschner, Anton...		11000 - Acc...	1,200.00	54,688.74	
Transfer	12/05/2023			Funds Tran...	10300 - Sev...	25,000.00	79,688.74	
Payment	12/05/2023	56321	Teschner, Anton...		11000 - Acc...	5,000.00	84,688.74	
Bill Pmt - Check	12/05/2023	480	Thomas Kitchen &...	R 55-001	20000 - Acc...	-1,938.00	82,750.74	
Bill Pmt - Check	12/05/2023	481	C.U. Electric		20000 - Acc...	-1,500.00	81,250.74	
Bill Dis - Check	12/06/2023	482	Hande Metal		20000 - Acc...	-860.00	80,390.74	

Reconciliation of current and cumulative account amounts to G/L

Other Procedures Performed During Audit

DFARS 252.242-7006(c) requires:

(8) Management reviews or internal audits of the system to ensure compliance with the Contractor's established policies, procedures, and accounting practices

Audit team will review and ask for examples of management reviews

(17) Adequate, reliable data for use in pricing follow-on acquisitions

Based on evidence obtained during audit fieldwork

(18) Accounting practices in accordance with standards promulgated by the Cost Accounting Standards Board (if applicable), otherwise Generally Accepted Accounting Principles (GAAP)



Examples of Noncompliance

- Contractors not making Interim (at least monthly) determination of costs charged through routine posting to books of account
- Failure to properly segregate direct and indirect costs
- Improper timekeeping
- Failure to exclude unallowable costs
- Inadequate billing (and payment) of subcontract costs

Frequently Asked Questions

- How do I get a DCAA approved government accounting system?
- How do I request a DCAA audit of my accounting system?
- Is QuickBooks or any other accounting software applications acceptable accounting system for federal contracting?
- When should I implement changes to my accounting system to be in compliance with the criteria discussed today?
- How do I know if I need to ensure my accounting system needs to follow criteria discussed today?

DCAA Internet Resources

- **Guidance**

- Audit Process Overview – Information for Contractors Manual
- Directory of Audit Programs
- Contract Audit Manual
- Select Area of Cost Guidebook (FAR 31.205 Cost Principles)
- Links to Acquisition Regulations



- **Checklists and Tools**

- Cost of Money Rates
- Incurred Cost Electronically (ICE) Model
- Contractor Submission Portal
- Adequacy Checklists - Preaward Accounting System, Contract Pricing Proposal, Forward Pricing Rate Proposal, Incurred Cost Submission, Termination Settlement Proposal.

- **Frequently Asked Questions For Contracting Officers, Contractors and COVID-19**

Small Business Outreach Survey

We would love to hear about your recent experience with the DCAA Small Business Program, as we are committed to providing the best guidance possible and strengthening our nation's Defense Industrial Base. By participating in our survey, you will help us improve our courses, content and provide you with even better support as we continue to grow our program.



Questions/Comments



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