



Defense Contract Audit Agency

Small Business Outreach

April 28, 2009

Presentation Overview



- | Where to Get More Information
- | DCAA Background and History
- | Accounting System Requirements
- | Forward Pricing – Proposals
- | Incurred Cost



Where to Get More Information



- **Audit Guidance**
 - Open Audit Memorandums and Audit Guidance Standard
 - Audit Programs
- **DCAA Publications**
 - Information for Contractors (Pamphlet No. 7641.90)
 - Incurred Cost Electronic Model
 - DCAA Contract Audit Manual (CAM)
- **Links to Other Web Sites** - DCMA, DFAS etc.

www.dcaa.mil



Defense Contract Audit Agency (DCAA) - Microsoft Internet Explorer

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Address <http://www.dcaa.mil/>



- What's New
- About DCAA
- Audit Guidance
- DCAA Publications
- Freedom of Information Act
- Links to Other Web Sites
- DCAA Points of Contact
- Job Opportunities
- Audit Office Locator

DCAA

Dedicated to providing timely and responsive audits and financial advisory services



In Support of our National Defense

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DCAAP 7641.90
January 2005

INFORMATION FOR CONTRACTORS

■ About DCAA
■ Directions/Map
■ Audit Guidance
■ **DCAA Publications**
 Information for Contractors
 Incurred Cost Electronically (ICE) Model
 DCAA Contract Audit Manual
 FAR Cost Principles Guide
 Directory of DCAA Offices
 DCAA Catalog of Courses
 EZ-Quant
■ Freedom of Information Act
■ Privacy Act
■ Links to Other Web Sites
■ DCAA Points

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Downloading (1.02 MB of 2.14 MB) : <http://www.dcaa.mil/dcaap7641.90.pdf> Internet



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- Audit Guidance
- DCAA Publications
 - Information for Contractors
 - Incurred Cost Electronically (ICE) Model
 - DCAA Contract Audit Manual
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 - Report on Activities
 - DCAA Catalog of Courses
 - EZ-Quant
- Freedom of Information Act
- Links to Other Web Sites

Information for Contractors

DCAAP 7641.90

January 2001

CHAPTER	TITLE
Foreword	Information for Contractors
Chapter 1	Introduction to the Defense Contract Audit Agency
Chapter 2	Preward Surveys
Chapter 3	Price Proposals
Chapter 4	Cost Accounting Standards
Chapter 5	Contract Financing and Interim (Billing) Methods

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DCAA Background

DCAA Background & History



- | Established in 1965
- | Separate Agency of the Department of Defense
- | Reports to the DoD Controller General
- | Provides services to all DoD Components
- | Provides all necessary contract audits for DoD
- | Provides accounting and advisory services for DoD and other non-DoD Agencies

COMMON AUDITS EXPERIENCED BY CONTRACTORS



- | Accounting/Billing System
- | Financial Capability
- | Labor Charging System
- | Forward Pricing Proposals
- | Claims or Terminations
- | Incurred Costs

Pricing Policy



FAR 15.402 - *Pricing Policy* states:

“Contracting Officers must --

(a) Purchase supplies and services from **responsible sources** at **fair and reasonable prices...**”

- | Responsible Sources – FAR 9.1
- | Fair and Reasonable Prices – FAR 15.402

Responsible Contractors



FAR 9.103 – *Responsible Contractors* states:

“Purchases shall be made from, and contracts shall be awarded to, **responsible prospective contractors** only.”

General Standards



FAR 9.104-1 – Prospective Contractor must have:

- a) **Adequate financial resources**
- e) Necessary organization, experience, **accounting and operational controls**, and technical skills...

Obtaining Information



FAR 9.105-1 – Obtaining Information

“...the contracting officer shall obtain **from the auditor** any information required concerning prospective contractors' **financial competence and credit needs**, the **adequacy of their accounting systems**, and these systems' suitability for use in administering the proposed type of contract .”



The Accounting System

ACCOUNTING SYSTEM



The auditor must determine if the accounting system provides costs that:

- è Conform with GAAP
- è Produces equitable results that can be verified
- è Are applicable to the contemplated contract(s)
- è Are consistently applied

ACCOUNTING SYSTEM AUDITS



SB contractors must have *developed* a system that is operable, though not necessarily in use.

. . . be able to demonstrate this new system to the auditor and be ready to implement the system prior to incurring any costs on the Government contract . . .

ACCOUNTING SYSTEM



Guidance

USE STANDARD FORM (SF) 1408:

Types Of Contract Costs



- **DIRECT COSTS** – those costs that can be identified specifically to a contract
- **INDIRECT COSTS** – those costs that cannot be directly identified to a single contract but identified with two or more contracts “allocated”

SF 1408



- | Segregation of direct from indirect costs
- | Identification & accumulation of direct costs by contract
- | Indirect Costs-logical/consistent allocation method
- | Accumulation of costs under GL control
- | Timekeeping system identifying employee's labor by cost objective

SF 1408



- | A labor distribution system charging direct & indirect labor to the appropriate cost objectives
- | Interim (at least monthly) determination of contract costs
- | Exclusion of unallowable costs (FAR Part 31 or other contract provisions)
- | Identification of costs by contract line item and units (if required)
- | Segregation of preproduction costs from production costs

Indirect Cost Allocation



Example

Account Description	Account #	Amount
O/H Salaries	101	\$ 22,000
FICA	201	\$ 8,109
FUTA	202	\$ 241
SUTA	203	\$ 903
Workers Comp	301	\$ 1,500
Gen Liability Insurance	302	\$ 3,000
Indirect Travel	400	\$ 500
Office Supplies	500	\$ 250
Furniture (Depreciation)	600	\$ 450
Total (Pool)		<u>\$ 36,953</u>
Direct Labor (Base)	100	\$ 84,000
Overhead Rate		<u><u>44%</u></u>

Labor Charging



- | Recording Time Daily
- | Recording Time on the Timecard (In Ink)
- | Project Numbers, Contract Numbers, etc...
- | Changes to the Timecard

Timekeeping Policies . . .



- | Supervisors should approve and cosign all timecards.
- | The supervisor is prohibited from completing an employee's timecard.
- | Nature of work determines the time charge; time charging is not based on available funding, contract type, etc.

Accounting System Audits



Contracting Officer may request audit . . .

- | Contractor submits a proposal for a cost-type contract
- | Contractor is awarded a cost-type contract
- | Contractor submits proposal under firm fixed price contract with progress payments

Accounting System Audits



- | If accounting system is unacceptable, DCAA will notify contractor and procurement official of system deficiencies.
- | DCAA will **not** develop an acceptable accounting system for contractor.



Proposals

Proposals - Guidance



- | FAR 15.408, Table 15-2, provides instructions
- | Chapter 3 of DCAA's "Information for Contractors (DCAAP 7641.90)"
- | Provide Data in Electronic Format
- | Adequate Proposal = Expedited Audit

Proposal – Basic Requirements



- | Cost Element Breakdown
- | Proposal - Indexed and Referenced
- | Identification of Incurred Costs
- | Narrative for Basis of Estimate
- | Direct Materials - Consolidated BOM & Basis of Estimate (BOE)

Proposal – Basic Requirements



■ **Direct Labor**

- Basis of Estimate of Labor Hrs
- Basis for Labor Rates
- Escalation Factors (If Proposed)

■ **Indirect Costs**

- Clear Explanation of Rate Development
- List of Expenses Comprising the Pool
- Is the Selection of Base Equitable?

What To Expect from the Auditor



- Proposal Reviewed for Adequacy
- Entrance Conference
- Auditor Will Review Proposal Using Applicable Auditing Standards
- Exit Conference
- Audit Report Issued to the Contracting Officer
- Contractor May Request Copy of Audit Report from the Contracting Officer



Incurring Cost

Flexibly Priced (Sub)Contracts



- | CPFF
- | CPIF
- | CPAF
- | Cost Reimbursable
- | Cost Sharing
- | FPI
- | Fixed Price Re-Determinable
- | T&M
(Billed Amounts)
- | Labor-Hour (Billed Amounts)

Incurred Cost Audits



Express an opinion whether costs are:

- è Reasonable
- è Allocable
- è Allowable
- è In accordance with GAAP & CAS, if applicable
- è Not prohibited by the contract, statute, regulation, or previous agreement with the contracting officer

Allowable Cost & Payment Clause

(FAR 52.216-7)



- | Requires the contractor to submit an incurred cost proposal with 6 months of its fiscal year-end
- | Requires a signed “Certificate of Indirect Costs”

Incurring Cost Submissions Adequacy Review



DCAAP No. 7641.90

- Includes proposed rates and supporting incurred cost data
- Separate schedule for EACH pool/rate
- Contractor may use its internal reports
- Encouraged to submit electronically



Questions?