



DCAA

DEFENSE CONTRACT AUDIT AGENCY

Accounting System Requirements

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Agenda

- Identify differences between pre and post award accounting system audits
- Examine the elements of the SF1408
- Identify the applicable related DFARS criteria
- Wrap Up

Distinguishing between Pre-Award & Post Award Accounting System Requirements

Pre-Award	Post Award
<ul style="list-style-type: none"> - Conducted prior to contract award 	<ul style="list-style-type: none"> - Conducted after contract award
<ul style="list-style-type: none"> - Conducted in accordance with requirements of FAR 9.106 	<ul style="list-style-type: none"> - Examine compliance with system criteria in DFARS 252.242-7006, Accounting System Administration
<ul style="list-style-type: none"> - Request contractor complete Pre-Award Accounting System Checklist 	<ul style="list-style-type: none"> - Performed at the request of DCMA/Contracting Office
<ul style="list-style-type: none"> - DCAA evaluates design of accounting system to determine acceptability for future award 	<ul style="list-style-type: none"> - DCAA tests accounting methods, procedures, & controls for compliance

SF 1408



DCAA Preaward
Survey



SF 1408

Acceptable Accounting System

- DFARS 252.242-7006(a)(1) defines an acceptable accounting system as:
 - *A system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that—*
 - *Applicable 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.*

- DFARS 252.242-7006(a)(2) defines an accounting system as:
 - *The Contractor's system or systems for accounting methods, procedures, & controls established to gather, record, classify, analyze, summarize, interpret, & present accurate & timely financial data for reporting in compliance with applicable laws, regulations, & management decisions.*

Proper Segregation (SF1408 2a)

- DFARS 252.242-7006(c)(2) requires proper segregation of direct costs from indirect costs
- Direct Cost: any cost that is identified specifically with a particular final cost objective
- Indirect cost: 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 & Accumulation (SF1408 2b)

- DFARS 252.242-7006(c)(3) requires identification and accumulation of direct costs by contract
- Direct costs are not limited to items that are incorporated in the end product
- No final cost objective shall have allocated to it as a direct cost any cost that has been included in an indirect cost pool
- Direct costs of the contract shall be charged directly to the contract

Total Contract Costs

(SF1408 2b)

- The total cost of a contract is the sum of all direct and indirect costs allocable to the contract
- The allowable costs to the Government are limited to those allocable costs that are allowable pursuant to Part 31 and applicable agency supplements
- Allowable and unallowable costs are covered in FAR 31.201-2 and FAR 31.201-6

Indirect Costs (*SF1408 2c*)

- 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
- Covers a wide variety of cost categories and the costs involved are not all incurred for the same reasons
- DFARS 252.242-7006(c)(4) requires a logical and consistent method for the accumulation and allocation of indirect costs

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Indirect Cost (*SF1408 2c*)

- The number of indirect cost accounts in a single company can range from one to hundreds
- The contractor should tailor its indirect rate structure based on how the company operates
- In general, indirect cost accounts fall into two broad categories:
 - Overhead
 - General and Administrative (G&A)

Overhead

- Costs related to support of specific operations
- Examples include:
 - Material Overhead
 - Manufacturing Overhead
 - Engineering Overhead
 - Site Overhead

General and Administrative

- Management, financial, and other expenses related to the general management and administration of the business unit as a whole
- Examples of G&A expenses include:
 - Salary and other costs of the executive staff of the corporate or home office
 - Salary and other costs of services as legal, accounting, public relations, and financial offices
 - Selling and marketing expenses

Allocation Base

- Indirect costs should be allocated based on benefits accrued to intermediate and final cost objectives
- Allocation base must be reasonable
- Relationship must exist between the selected allocation base and the pool costs
- Example: training costs

Allocation Base

Typical allocation bases for Overhead and G&A are:

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)

Timekeeping (*SF1408 2e & f*)

- Labor should be charged to intermediate and final cost objectives based on a timekeeping document completed and certified by the employees and approved by the employees' supervisors
- Employees should fill out timesheet on a daily basis and include all hours worked including uncompensated overtime
- Labor cost distribution records should reconcile to payroll records
- Labor distribution records should trace to and from the job cost ledger and general ledger accounts
- DFARS 252.242-7006(c)(9) & (10)

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Indirect Rates (SF1408 2g)

- Interim rates should be routinely monitored
 - May vary depending on contractor structure
 - May include target, actual or provisional billing rates
- Interim (at least monthly) determination of costs charged to a contract through routine posting of books & accounts
- Provisional billing rates should be approved prior to billing
- DFARS 252.242-7006(c)(5), (6), (7), (11)

Allowability (SF1408 2h)

- FAR 31.201-2(a): A cost is allowable only when the cost complies with all of the following requirements
 - Reasonableness
 - Allocability
 - Standards promulgated by the CAS Board / GAAP
 - Terms of the contract
 - Any limitations set forth in subpart 31.2
- DFARS 252.242-7006(c)(12)

Contract Terms (*SF1408 2h*)

- Specific types of cost are often addressed in a contract or request for proposal (RFP)
- Contract terms can only be more restrictive than the other factors that must be considered in determining cost allowability, not less. In other words, the contract terms cannot allow a cost that is:
 - Unreasonable
 - Improperly measured, assigned and allocated to the contract
 - Unallowable in accordance with specific cost principles

Costs by Contract Line Item (SF1408 2i)

- DFARS 252.242-7006(c)(13) requires:
“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”
- Accounting system needs to be able to expand beyond a top level project number
- Each job needs to be expanded to the requisite level of detail as determined by contract terms
- Audit teams brief contracts to determine this level
- Recommend PCO discussion on terms

Cost Accounting Information

DFARS 252.242-7006(c)(15) requires the system provide:

“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”

- Routine monitoring of interim rates
- Contractor required to monitor total contract expenditures against limitations on price or cost

DODGARs Reviews



Summary of 32
CFR 34.11

- Applicable if prospective award is a cooperative agreement or grant
- DOD Grant and Agreement Regulations (DoDGARs) - 32 CFR 34
- 32 CFR 34.11 includes the Standards for Financial Management systems

Summary

- Acceptable accounting system required for cost-reimbursable type contracts or fixed priced contracts that provide for progress payments based on cost
- Contractors must prepare a summary & demonstrate how the accounting system is designed and meets requirements of SF 1408
- DCAA evaluates the system design in a pre-award
- Contractors are responsible for demonstrating their system complies with requirements
- Separate criteria for cooperative agreements,

DCAA Customer Satisfaction Survey

- DCAA Public Website – Customers tab
(www.dcaa.mil)
- Survey Link:
<https://www.surveymonkey.com/r/B3KZCHC>



Questions/Comments



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