Adequate Accounting Systems for Government Contractors

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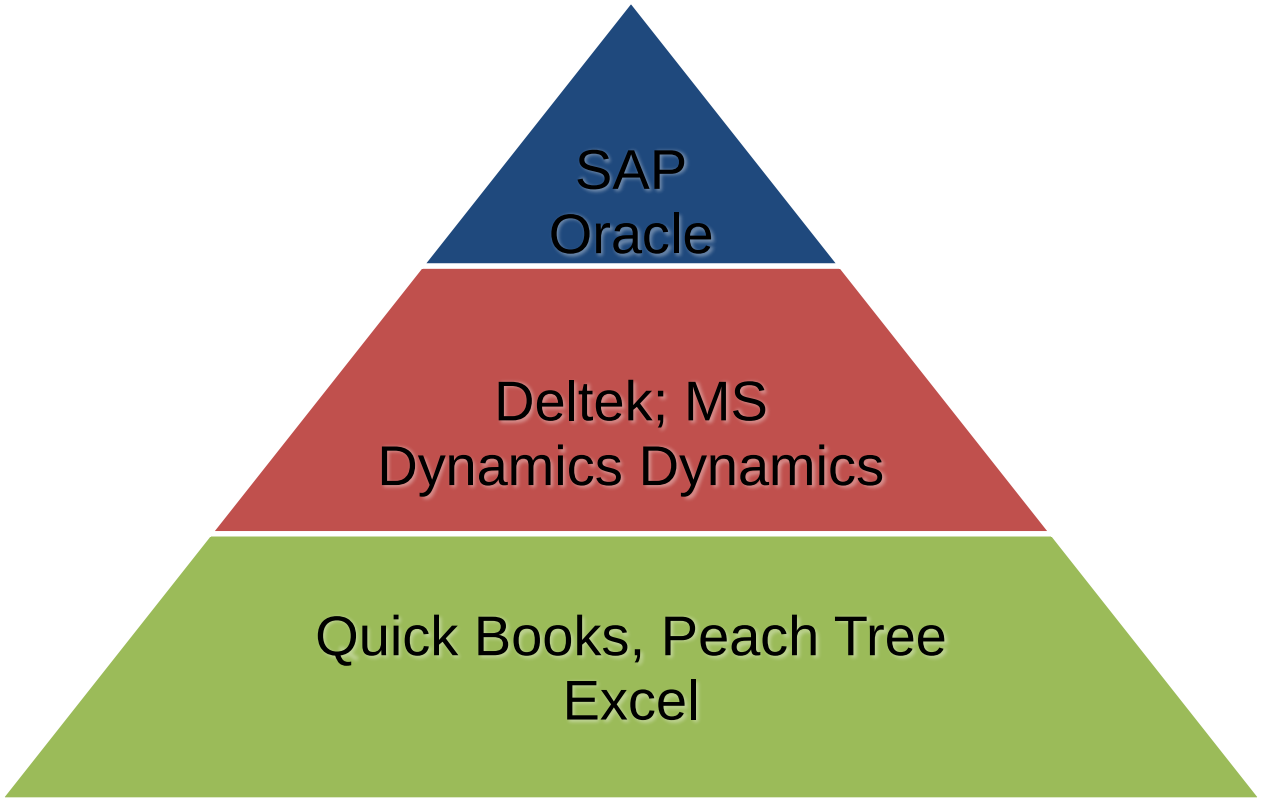
Systems Using Which Software are Adequate?

Hierarchy of Accounting Software



Yea, but will it create a NASA form 533 on time?

Agenda

I. FAR 16.301-3 Requirement

II. Adequate Accounting Systems

- Elements of an Adequate System
- DCAA Review

III. Labor Charging

- Penalties for Labor Mischarging

IV. Wrap up/Questions??

FAR 16.301-3 Requirement

"**Requires** that a contractor's accounting system be adequate for determining costs applicable to the contract prior to the award of a cost reimbursable contract, grant, SBIR, or BAA. An adequate accounting system is not an evaluation criterion. It is a **basic contract requirement** with a pass/fail determination. "

"A contract vehicle may only be awarded to an offeror who is determined to have an adequate accounting system by the Defense Contract Audit Agency (DCAA)."

What is an Adequate Accounting System?

- Conforms With Generally Accepted Accounting Principles (GAAP)
- Produces Equitable Results - Verifiable
- Applicable to The Contemplated Contract(s)
- Is Capable of Being Consistently Followed

A basic requirement of your accounting system that the audit will test for is the accrual basis of accounting

SF 1408

Adequate Accounting Systems for Government Contractors

PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM	SERIAL NO. *(For surveying activity use)*	OMB No.: 9000-0011 Expires: 10/31/97
	PROSPECTIVE CONTRACTOR	

Public reporting burden for this collection of information is estimated to average 24 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to FAR Secretariat (VRS), Office of Federal Acquisition and Regulatory Policy, GSA, Washington, DC 20405; and to the Office of Management and Budget, Paperwork Reduction Project (9000-0011), Washington, DC 20503.

SECTION I - RECOMMENDATION

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPCTIVE CONTRACT

☐ YES ☐ NO *(Explain in 2. NARRATIVE)*

☐ YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER CONTRACT AWARD *(Explain in 2. NARRATIVE)*

2. NARRATIVE *(Clarification of deficiencies, and other pertinent comments,. If additional space is required, continue on plain sheets of paper.)*

IF CONTINUATION SHEETS ATTACHED - MARK HERE ☐

	a. SIGNATURE AND OFFICE *(Include typed or printed name)*	b. TELEPHONE NO. *(include area code)*	c. DATE SIGNED
3. SURVEY MADE BY			
4. SURVEY REVIEWING OFFICIAL	a. SIGNATURE AND OFFICE *(Include typed or printed name)*	b. TELEPHONE NO. *(include area code)*	c. DATE REVIEWED

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Previous edition usable

STANDARD FORM 1408 (REV. 9-88)
Prescribed by GSA
FAR (48 CFR) 53.209-1(f)

SECTION II - EVALUATION CHECKLIST

MARK "X" IN THE APPROPRIATE COLUMN *(Explain any deficiencies in SECTION I NARRATIVE)*	YES	NO	NOT APPLICABLE
1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES?			
2. ACCOUNTING SYSTEM PROVIDES FOR:			
a. Proper segregation of direct costs from indirect costs.			
b. Identification and accumulation of direct costs by contract.			
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is a final cost objective.)			
d. Accumlation of costs under general ledger control.			
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.			
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.			
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.			
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.			
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.			
j. Segregation of preproduction costs from production costs.			
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).			
b. Required to support requests for progress payments.			
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 ACQUISITONS?			
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.)			

GSA FORM 1408 (REV. 9-88) **BACK**

What is an Adequate Accounting System?

- Proper segregation of direct costs from indirect costs *(What are Direct, What are Indirect?)*
- Identification and accumulation of direct costs by contract *(i.e. Job Cost Ledger)*
- A logical and consistent method for allocation of indirect costs to intermediate and final cost objectives *(Understand Cost Accounting Standards)*
- Accumulation of costs under general ledger control *(Chart of Accounts)*
- A timekeeping system that identifies employees' labor by intermediate or final cost objectives *(Does your Accounting System Include a Timekeeping System?) (Are Manual Timekeeping Systems ok?)*
- A labor distribution system that charges direct and indirect labor to the appropriate cost objectives *(Describe Your Policies and Procedures)*

Notice that the focus is on Accounting System not Accounting Software

What is an Adequate Accounting System?

- Interim (at least monthly) determination of costs charged to a contract through routine posting to books of account
- Exclusion from costs charged to Government contracts of amounts that are not allowable pursuant to Federal Acquisition Regulation (FAR) Part 31, Contract Cost Principles and Procedures, or other contract provisions
- Identification of costs by contract line item and units if required by the proposed contract *(Can You Track Costs to Task Orders as well as the Contract?)*
- Segregation of preproduction costs from production costs

Notice that the focus is on Accounting System not Accounting Software

Common Problems Encountered During Accounting System Reviews

- Unallowable costs not accounted for separately *(Adhere to Written Policy and Procedure)*
- No cumulative labor distribution and/or job cost ledgers
- No written policies and procedures *(One of Most Important Areas Looked at by DCAA)*
- Inadequate timekeeping system *(Do You Have Written Timekeeping Policies and Procedures?)*

Notice that the focus is on Accounting System not Accounting Software

Common Problems Encountered During Accounting System Reviews

Timekeeping Responsibilities

- Recording Time on A Daily Basis
- Recording Time on The Timecard (Ink)
- Project Numbers, Contract Number, etc…
- Changes To The Timecard
- Recording All Hours-Whether Paid or Not
- Signing The Timecard

Common Problems Encountered During Accounting System Reviews

Timekeeping System

- No official system in place
- No written instructions/policies/procedures
- System not linked to accounting system
- Recording of direct charges only
- Recording by direct-type personnel only
- All hours worked are not recorded
- Improper timecard preparation

Labor Charging System

Adequate Accounting Systems for Government Contractors

Why is a timekeeping system so important to the government?

- Many contracts are labor intensive, with preponderance of contract cost comprised of labor charges
- Labor charging systems are often the easiest to manipulate by the fewest number of people
- History of timekeeping fraud with government contractors

Labor Charging System

Why is a timekeeping system so important to the government?

- Adequate timekeeping systems are critical in gaining government's trust in company's ability to ensure proper charging and billing of labor costs to government programs
- Inadequate timekeeping system will damage creditability of customer and raise specter of added audit oversight or investigation
- Deficiencies and irregularities in timekeeping systems have led to more criminal investigations of government contractors than any other type of anomaly found in an accounting system
- Anytime DCAA notes significant timekeeping deficiencies during an audit, the audit scope will be expanded and possible referrals of suspected irregular conduct to government investigative agencies are likely especially if those deficiencies have gone undetected for a long period

Objectives of Timekeeping System

Ensure that proper and reliable contract labor costs, identified as either direct or indirect, are billed to government via a system of accurate, timely, and complete posting of labor hours on individual employee timecards

What procedures do government auditors expect to be in place to ensure accurate labor charges to contracts?

- Employee is given correct project or time charge number via work authorization before work commences
- Time cards/sheets provided to employee at beginning of pay period
- Time cards/sheets are pre-coded with pay period, name, etc.
- Timesheet access controlled; no more than one timesheet provided to employee for each pay period

What procedures do government auditors expect to be in place to ensure accurate labor charges to contracts?

- Employee has control or possession of timesheet
- Employees prepare timesheets daily, in ink—especially important for direct employees
- Supervisors or other personnel do not prepare timesheets for employees (unless out due to sickness, etc.)
- Employees make corrections (in ink) on original timesheet that allows audit trail—no white-out, but clear identification of corrected entry

What procedures do government auditors expect to be in place to ensure accurate labor charges to contracts?

- Management approval of timesheet corrections noted
- Explanation of timesheet corrections provided on timesheet or attached document
- Timesheets not filled out or signed in advance of time worked
- All time worked recorded whether paid or not (unless immaterial or non-routine)

What procedures do government auditors expect to be in place to ensure accurate labor charges to contracts?

- Time in and time out if required by timesheet
- Timesheet signed by employee at end of pay period
- Paid absences charged to correct indirect code
- Indirect duties (training, meetings, etc.) properly charged
- Timesheets collected by appropriate official and reviewed; supervisory signature noted on timesheet

DCAA Audit Procedures for reviewing Timekeeping accuracy

- Floor checks and employee interviews:
  - Select sample of employees and conduct "surprise" onsite review of those employees at work
  - Usually conducted with company official present
  - Interview employee and review timesheets for accuracy
  - Review timekeeping policies
- After payroll period end, verify data noted on timesheets during interview to payroll and labor distribution records

Penalties for Labor Charging offenses

False Claims Act

18 U.S.C 287 – Criminal proceedings:

- Submission of claim for payment knowing claim is false
- Intent must be proven
- Penalty may include fines and prison terms

Penalties for Labor Charging offenses

False Claims Act

31 U.S.C 3729 – Civil proceedings:

- No proof of intent required
- Generally reckless disregard of truth
- Civil penalties of not less than $5,000 and not more than $10,000, plus three times amount of damages government sustains
- Example: submission of public voucher which contains unsupported labor charges

Penalties for Labor Charging offenses

False Statement Act

18 U.S.C. 1001

- Contractor willfully makes false statement knowing it contains false information
- Includes falsification of accounting data such as timesheet, billing data, etc.
- Certification of indirect costs that knowingly contain unallowable costs covered
- Government may seek criminal or civil remedy
- Fines, penalties & possible prison sentences

Penalties for Labor Charging offenses

Major Fraud Act of 1988

18 U.S.C. 1031

- Covers contracts/subcontracts exceeding $1 million
- Obtaining money or property from United States by means of false or fraudulent pretenses, representations, or promises in any procurement of property or services as prime or sub with U.S.
- Fined up to $1 million, or imprisoned up to 10 years, or both

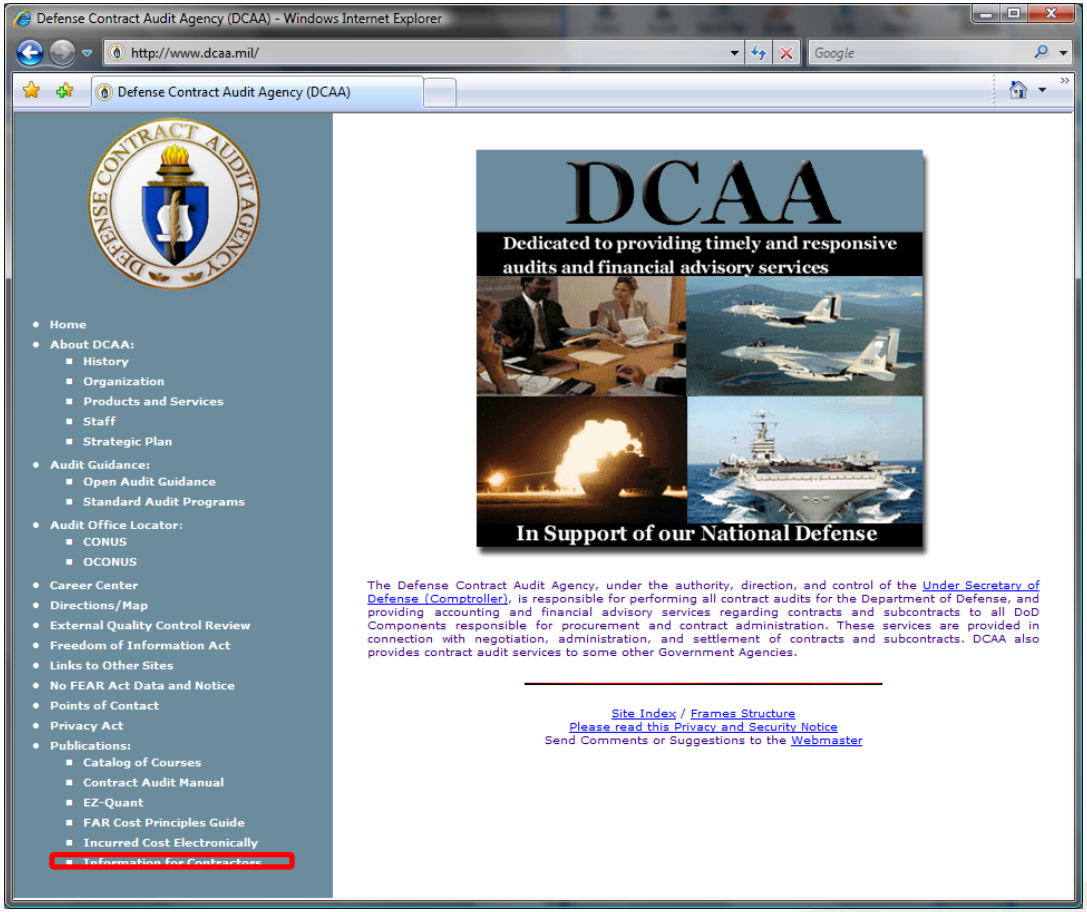
Questions to Ponder…

- Do all employees know how to prepare a timesheet
- Are all employees aware of fines and prison terms associated with falsification of labor charges
- Do you have written timekeeping procedures that are up to date
- Do you have a varied mix of contract types
- Are your employees given the independence to prepare and correct their own time charges
- Do your supervisors review all time sheets when submitted
- Do you perform your own internal floor checks to determine if employees are correctly preparing time sheets
- Do your employees know what project/task they are working on

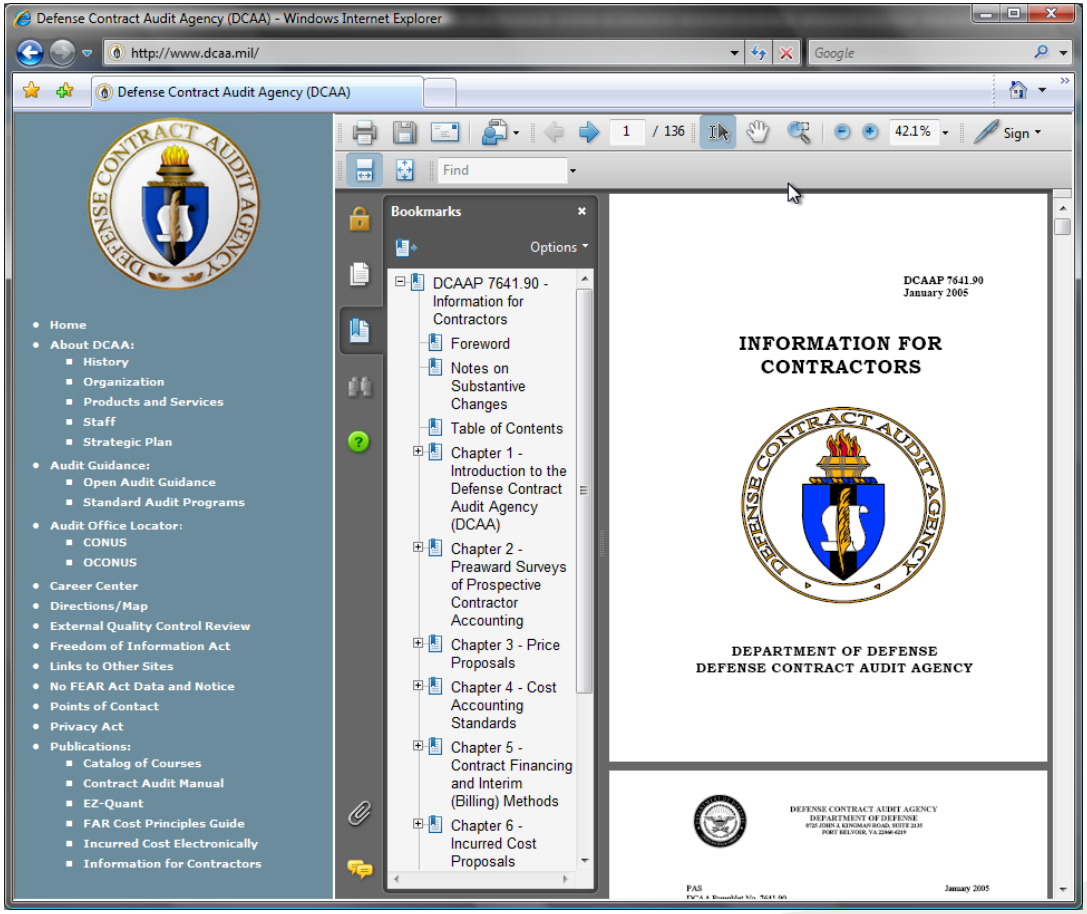
Information For Contractors

Adequate Accounting Systems for Government Contractors

http://www.dcaa.mil



http://www.dcaa.mil - Information For Contractors (PDF)



Questions?

Thank You

For More Information…

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