State Designated as Florida’s Principal Provider of Business Assistance [§ 288.001, Fla. Stat.]

DCAA Compliant Accounting Systems

Helping Businesses Grow & Succeed
About Your Presenter

Jenny W. Clark

Solvability
A practice of Decosimo

With over 30 years experience in federal contracting and accounting software, Jenny has helped hundreds of small businesses with DCAA compliance, indirect rates, timekeeping, billing and reporting.

www.decosimo.com/solvability
Seminar Objectives

To provide you understanding of:

• Basic Contract Types
• Government Contracting Accounting
• DCAA Compliant Accounting Systems
Basic Contract Types

**Fixed Price**
- Fixed Scope of Work for Fixed Payment Amount
- Billing May be Fixed Monthly Amount or Milestones
- Used when the work to be performed is well defined
- Low risk for government, higher risk for Government
- Higher Fee % may apply
- Not typically subject to audit

**Time & Materials (T&M)**
- Hours times fixed billing rate
- Master contract with rates, annual rate increases
- Labor Categories define skills requirements
- Firm Fixed Price Level of Effort or Fixed Labor Rate = T&M
- Audits will check hours billed to hours in timesheets & payroll
Basic Contract Types

Cost Plus/Cost Reimbursable
- Reimbursed for Direct cost PLUS applied Indirect Costs plus FEE
- FEE is Profit
- Fixed Fee, Award Fee, Incentive Fee
- Allowable Cost and Funding Clause requires Incurred Cost Submission

IDIQ
- Indefinite Quantity, Indefinite Delivery
Government Contractor Accounting

- Typical Government Contractor Income Statement
- Indirect Rates from your Income Statements
- Unallowable Costs
Typical Government Contractor Income Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>10,000,000</td>
</tr>
<tr>
<td>Direct Labor</td>
<td>5,000,000</td>
</tr>
<tr>
<td>Fringe</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Overhead</td>
<td>1,917,500</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>841,750</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>740,740</td>
</tr>
<tr>
<td>Unallowables</td>
<td>20,000</td>
</tr>
<tr>
<td>Net Profit</td>
<td>720,740</td>
</tr>
</tbody>
</table>
Income Statement Components

Direct Labor

5,000,000

Additional Price Components

- Fringe: 841,750
- Overhead: 1,917,500
- G&A: 720,740
- Unallowables: 720,740
- Profit: 20,000

To your Customer:
Direct Labor is Deliverable
Other Costs are Taxes
Definition of Cost Elements

• Direct Costs
  – Specifically identifiable to contract
  – Required for performance of contract
  – Identified in proposal as direct costs
  – Billable to contract and customer

• Indirect Costs
  – Shared costs that apply to multiple contracts or activities
  – Cannot be identified to specific contract
  – Fringe – Payroll Taxes, Leave, Benefits
  – Overhead – Support costs for operations
  – General & Administrative (G&A) – Corporate

• Unallowable – interest and other specified costs
• Fee = PROFIT
Indirect Cost Pools & Rates

• Fringe Pool
  – Payroll Taxes 10%
  – Leave 10%
  – Benefits 10%

• Overhead Pool
  – Allocation of Facilities
  – Training, Supervision, Support Costs
  – Onsite vs Offsite
  – Varies significantly based on products/services

• G&A
  – Corporate 8% to 15%
Common Unallowable Costs

- Interest Expense
- Advertising except for recruitment
- Trade Shows
- Bad Debts
- Key Man Insurance
- Contributions
- Employee Morale (some exceptions)
- Entertainment costs
- Fines & penalties
- Lobbying and political activity costs
- Federal Corporate Income Taxes
- Travel in excess of per diems, etc.
- Goodwill
- Costs of alcoholic beverages

For more detail and a complete list, see FAR 31.205
## Typical Government Contractor Income Statement

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</tr>
<tr>
<td>Net Profit</td>
<td>720,740</td>
</tr>
</tbody>
</table>
## Multiplier/Rates/Factors

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Labor</td>
<td>100%</td>
<td>1.0000</td>
</tr>
<tr>
<td>Fringe</td>
<td>30.00%</td>
<td>0.3000</td>
</tr>
<tr>
<td>Overhead</td>
<td>38.35%</td>
<td>0.3835</td>
</tr>
<tr>
<td>G&amp;A</td>
<td>10.00%</td>
<td>0.1684</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>8.00%</td>
<td>0.1481</td>
</tr>
<tr>
<td>Labor Multiplier</td>
<td></td>
<td>2.0000</td>
</tr>
</tbody>
</table>
Which Indirect Rates Apply?

- Current
- Historical
- Projected
- Forecasted

Fiscal Year
Past Trends
Business Development
Budgeting & Planning
DCAA Compliant Accounting Systems

- SF1408 Form
- Requirements
- Issues
- Accounting Software
Preaward Survey of Prospective Contractor Accounting System Checklist

[FAR 16.301-3 states that a cost-reimbursement type contract may be used only when the contractor’s accounting system is adequate for determining costs applicable to the contract. If no information is available in the files to make this determination, a Preaward Survey of Prospective Contractor’s Accounting System (SF1408) can be requested from DCAA. Before requesting such an audit, it is a good idea to send this checklist to prospective contractor’s for completion to ensure they understand the requirements of the SF1408, and to ensure they are ready for DCAA to come in and perform an audit].

Instructions:
1. Mark “X” in the appropriate column.
2. On Page 2, provide a narrative describing how the current accounting system supports your response to each item. Be as descriptive as necessary
Issues

• Accounting system review is either Adequate or Inadequate
• RFP’s will say “approved accounting system” – which does not exist
• Prime Contractors also demand “approved accounting system”
Accounting System: Adequate or Inadequate

- You cannot request a DCAA Audit of your accounting system
  - ACO: Authorized Contracting Officer may request
  - DCAA very backlogged – unlikely to do audit
  - If you have Prime, Cost Plus Contracts they are more likely to do Pre-Award Audits and also Incurred Cost Submission Audits
RFP requires “approved” accounting system

- Software does not guarantee approval
- There is no such thing as “approved” accounting system
- Technically no FAR requirement for approval
- Submit request for review during the questioning period
- Discuss with the agency’s Small Business officers
Primes Demand Approved Systems

- Primes have more responsibility for their subs’ accounting and reporting due to flow-downs
- Small Businesses are exempt from:
  - CAS – Cost Accounting Standards
  - Business Systems Rules
- Must comply to be competitive
- Accounting Systems are:
  - a major priority and major expense
  - NEED professional government contracting accountants IN-HOUSE with training
- Request that they issue FIXED PRICE contracts to you
- Accepting a “Cost Reimbursable” contract may require Incurred Cost Submission reporting
Pre-Award Accounting Systems Survey SF 1408

- Generally Accepted Accounting Practices (GAAP)
- Proper Segregation of Costs
- Direct Costs by Contract-Job Cost
- Allocation of Indirect Costs
- Accumulation of Costs Under General Ledger Control
- Timekeeping System

- Labor Distribution
- Interim Determination of Costs
- Exclusion of Unallowables
- Costs by Contract Line Item
- Preproduction Costs
- Limitation of Costs
- Billings
- Adequate, Reliable Data
Pre-Award Accounting Systems Survey SF 1408

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Pre-Award Accounting Systems Survey SF 1408

- Direct Costs by Contract-Job Cost
- Allocation of Indirect Costs
- Interim Determination of Costs
- Exclusion of Unallowables

Avalanche Research, Inc.
Time by Job Detail
March 26 through April 1, 2012

<table>
<thead>
<tr>
<th>Date</th>
<th>Name</th>
<th>Billing Status</th>
<th>Duration</th>
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<tbody>
<tr>
<td>03/28/2012</td>
<td>Rachel Bugatti</td>
<td>Unbilled</td>
<td>4.00</td>
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<tr>
<td>03/29/2012</td>
<td>Rachel Bugatti</td>
<td>Unbilled</td>
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</tr>
<tr>
<td>03/30/2012</td>
<td>Rachel Bugatti</td>
<td>Unbilled</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000 SpaceTronics:1000-000 STI Prototype FP 50039 DirLbr</td>
<td>20.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03/28/2012</td>
<td>Bianca Ferrari</td>
<td>Unbilled</td>
<td>8.00</td>
</tr>
<tr>
<td>03/27/2012</td>
<td>Bianca Ferrari</td>
<td>Unbilled</td>
<td>2.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 1000 SpaceTronics:1003-000 STI Prototype F</td>
<td>20.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1000 SpaceTronics:1000-031 SpaceTronics FP 50039 DirLbr</td>
<td>10.00</td>
<td></td>
<td></td>
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</tbody>
</table>
- Timekeeping System
- Labor Distribution

<table>
<thead>
<tr>
<th>Customer/Job</th>
<th>Service Item</th>
<th>Payroll Item</th>
<th>Notes</th>
<th>M</th>
<th>W</th>
<th>Th</th>
<th>F</th>
<th>Su</th>
<th>Total</th>
<th>Billable?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Direct Labor Company Site</td>
<td>8.00</td>
<td>6.00</td>
<td>8.00</td>
<td>4.00</td>
<td></td>
<td>20.00</td>
<td></td>
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</tbody>
</table>

Pre-Award Accounting Systems Survey SF 1408

- Allocation of Indirect Costs
- Costs by Contract Line Item
- Preproduction Costs
- Limitation of Costs
- Billings
## Avalanche Research, Inc.
### Profit & Loss
#### January through December 2012

*Jan - Dec 12*

<table>
<thead>
<tr>
<th>Income</th>
<th>Amount</th>
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<tbody>
<tr>
<td>4 · Revenues</td>
<td>250,000.00</td>
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<tr>
<td>Total Income</td>
<td>250,000.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of Goods Sold</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 · Direct Costs</td>
<td>91,500.00</td>
</tr>
<tr>
<td>Total COGS</td>
<td>91,500.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Gross Profit</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>158,500.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expense</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>6B · Fringe Pool</td>
<td>21,900.00</td>
</tr>
<tr>
<td>6F · Facilities Expense</td>
<td>7,180.00</td>
</tr>
<tr>
<td>7 · Overhead Expenses</td>
<td>32,700.00</td>
</tr>
<tr>
<td>8 · G&amp;A</td>
<td>12,800.00</td>
</tr>
<tr>
<td>Total Expense</td>
<td>74,580.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Ordinary Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>83,920.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Income/Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Expense</td>
<td></td>
</tr>
<tr>
<td>8 · Unallowable Expenses</td>
<td>3,350.00</td>
</tr>
<tr>
<td>Total Other Expense</td>
<td>3,350.00</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Other Income</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-3,350.00</td>
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</tbody>
</table>
**Avalanche Research, Inc.**  
**Profit & Loss**  
January through December 2012

<table>
<thead>
<tr>
<th>Ordinary Income/Expense</th>
<th>Jan-Dec 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>4 · Revenues</td>
<td></td>
</tr>
<tr>
<td>1 · Contract Revenues</td>
<td></td>
</tr>
<tr>
<td>4001 · Government Revenue</td>
<td>250,000.00</td>
</tr>
<tr>
<td>Total 1 · Contract Revenues</td>
<td>250,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 4 · Revenues</td>
<td>250,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>250,000.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of Goods Sold</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>5 · Direct Costs</td>
<td></td>
</tr>
<tr>
<td>50 · Direct Labor</td>
<td></td>
</tr>
<tr>
<td>5039 · Direct Labor - Company Site</td>
<td>50,000.00</td>
</tr>
<tr>
<td>Total 50 · Direct Labor</td>
<td>50,000.00</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>51 · Direct NonLabor</td>
<td></td>
</tr>
<tr>
<td>5043 · Direct Travel</td>
<td>2,400.00</td>
</tr>
<tr>
<td>5044 · Direct Material</td>
<td>12,000.00</td>
</tr>
<tr>
<td>5045 · Direct Consultants</td>
<td>5,000.00</td>
</tr>
<tr>
<td>5046 · Other Direct Costs</td>
<td>100.00</td>
</tr>
<tr>
<td>5050 · Direct Subcontracts</td>
<td>22,000.00</td>
</tr>
<tr>
<td>Total 51 · Direct NonLabor</td>
<td>41,500.00</td>
</tr>
</tbody>
</table>

| Total 5 · Direct Costs   | 91,500.00 |
Accounting Software

QuickBooks

Unanet

Deltek Costpoint

Deltek First Essentials

Microsoft SL

Jamis

GHG, Spring Ahead, Replicon, Journyx, BigTime,

Proliant

MAS 90

PayChex

Outsourced Accounting

ADP

Paylocity

Procas

eFAACT
Accounting Software Considerations

• DCAA Compliant timesheet
• Expense reporting for Government Contractors
• Payroll
• DCAA Compliant Accounting software
• SOFTWARE does not make you DCAA compliant – how you run it is the COMPLIANCE part
• Cost Components
Accounting Software Considerations

• DCAA Compliant timesheet
  – Tracks revisions
  – Employee and Supervisor Approvals
  – INTEGRATES with Accounting Software
Accounting Software Considerations

• Expense reporting for Government Contractors
  – Uses federal per diem ceilings
  – Tracks Unallowable Costs
  – Tracks Credit Card Charging
  – INTEGRATES with Accounting Software
Accounting Software Considerations

• Payroll
  – Secure
  – Automated Payroll Tax reporting
  – Direct deposit
  – Electronic pay stubs
  – Integrate with Accounting System and online Timesheets
Accounting Software Considerations

- DCAA Compliant Accounting software
  - Structured Chart of Accounts
  - Job Costing
  - History and Reporting
  - Indirect rates calculated and applied
  - Managed by accountant who understands DCAA Compliance, billing requirements, indirect rate calculations
Accounting Software Considerations

- Components
  - Licensing or Usage Cost
  - Implementation Cost
  - Training during implementation
  - Post-implementation Support
  - Professional development
  - Flexibility for Growth
  - Maintenance & IT Costs
  - Integration with other systems and their costs
Accounting Software Considerations

• SOFTWARE does not make you DCAA compliant – how you run it is the COMPLIANCE part

• Components
  – Licensing or Usage Cost
  – Implementation Cost
  – Training
  – OnGoing Support
  – Maintenance
  – Integration with other systems and their costs
Accounting requirements for federal contracting are VERY SPECIFIC

DCAA performs reviews and audits

Primes requiring more from subs

Compliance includes:
  – System
  – Procedures
  – Staff
Questions??
Please Complete Workshop Evaluation