

DCAA Audits

An Overview

Audit Rights (FAR 52.215-2)

... shall have the ***right to examine and audit all records and other evidence*** sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract.

Audit Rights (FAR 52.215-2)

Availability

Until 3 years after final payment under this contract or for any shorter period specified in Subpart 4.7 . . .

Audit Categories

- Before contract award
- After contract Award

Before Contract Award

- Pre-award Survey
- Cost/Price Proposal
- Forward Pricing Proposal

Post Contract Award Audits

- Incurred Cost
- Billing Audit
- Provisional Billing Rates
- Floor Checks/Employee Interview
- Contract Termination Claims

Major Contractor Audits

- Cost Accounting Standards
- Business System
 - Accounting System
 - Billing System
 - Material Management System
 - Estimating System

Pre-Award Survey Audit

#1 In accordance with GAAP

- Accrual basis; not cash basis
- Accrual accounts (receivable-payable)

2a. Proper Cost Segregation

- Direct Cost
 - ✓ Incurred for contract performance
- Indirect Cost
 - ✓ All other costs
 - ✓ Overhead
 - ✓ General and Administrative

2b Accumulation of Direct Costs by Contract

- Collect direct cost for each contract
- Separate cost by cost element
 - ✓ Direct Labor
 - ✓ Direct Subcontract/Materials
 - ✓ Direct Travel
 - ✓ Other Direct Costs
- Job Cost Ledger Report

2c Allocate Indirect Costs Methodology

- Each contract must absorb its fair share of indirect cost
- Accomplished by indirect rates
- Indirect pool
- Indirect base

2c. Indirect Rates

$$\text{Indirect Rate} = \frac{\text{Pool of Expenses}}{\text{Allocation Base}}$$

$$\text{Overhead} = \frac{\text{OH Expenses}}{\text{Direct Labor}}$$

$$\text{G\&A} = \frac{\text{G\&A Expenses}}{\text{Total Cost Incurred}}$$

2d Accumulation of Cost Under General Ledger Control

- Subsidiary accounts reconcile to the control account
- Labor distribution, job cost ledger, etc. reconcile to the general ledger

2e Timekeeping

- Log work effort to:
 - ✓ Contracts
 - ✓ Indirect labor
 - ✓ Paid time off

2e Timekeeping

- Good system will provide:
 - ✓ Daily entry of time
 - ✓ Employee certifies and submits
 - ✓ Supervisory approval
 - ✓ Error correction with audit trail

2f Labor Distribution

- Converts labor hours to \$\$s
- Summarizes labor \$\$s by labor account
 - ✓ Direct labor by contract
 - ✓ Indirect Labor
 - Supervision
 - Admin
 - Meetings/cleanup/training
 - ✓ Paid time off

2g Routine Posting

- At least monthly
 - Bank reconciliation
 - CC reconciliation
 - Labor distribution
 - Billings

2h Unallowable Cost

- Some costs are unallowable
- FAR Part 31.205 Cost Principles
 - Address particular expenses
 - Make certain costs unallowable
 - Cannot be claimed in government billings
- UA cost should be identified at the source
- Collected/segregated in GL as UA

2i Contract Line items

- Contract may identify the scope
 - CLIN (Contract Line Item Number)
 - Task Order
 - Units

When required, it is done through:

- Adding a job in QuickBooks

2j Segregation of Preproduction Cost

- Identify and accumulate pre-production cost
- Cost of design and development of products
- These costs are not incurred in production phase
- Cannot be included in follow-on proposals

3a Limitation of Cost and Payments

- FAR 52.232-20 Government pays up to the estimated cost
- Contractor notifies govt. when it approaches 75% of estimated cost
- Submit revised estimate to completion
- FAR 52.216-7 Allows billings for recorded costs paid at time of invoice, or
- Contract cost paid in ordinary course of business (within 30 days)
- Plus allowable indirect costs

3b Progress Payments

- Used on fixed-price contracts when allowed
- Consider price ceilings
- Bill only allowable percentage of costs incurred (set by contract, usually 80%)
- Don't bill for payments received by other means (cost reimbursable)
- No more frequent than monthly

Billing Notes

- Maintain contract briefs for billings:
 - Funding/ceiling limits
 - Restrictions on frequency
 - Withholding provisions
 - Contractual U/A cost
 - Reconcile booked cost to billed cost

4 Designed and Maintained to Support Follow-on Contracts

- Historical costs are complete
- Data is reliable
- Reports can be generated to support pricing actions in a consistent manner
- And in the level of detail required by the solicitation

Billings Audit – Paid Vouchers

- Purpose is to perform limited current period tests on selected paid vouchers
- Designed to verify that cost billed to auditable Government contracts are allowable, allocable, and reasonable
- Results of the testing supports the incurred cost audit for the fiscal year in which the voucher was audited

Billings Audit – Steps

- Not delinquent in payment of costs incurred
- Auditor will review the aging of payables schedule
- Auditor will select some direct charge items and trace back to payments

Billings Audit – Steps

- Verify labor charges
- Trace labor charges to timecard/system
- Verify labor charges agree with contract requirements

Billings Audit – Steps

- Verify Other Direct Costs billed
- Trace back to accounting records
- Review supporting docs for reasonable charges and UA cost

Billings Audit – Steps

- Review cost element details in the SF 1034 and SF 1035 to ID unusual items
- Auditor will discuss with you, and might test source docs

Billings Audit – Steps

- T&M/Labor-hr contracts – will ensure rates are billed per contract schedule
- Verify employee qualifications match contract specifications
- Subcontracts billed per contract terms

Billings Audit – Steps

- Trace material billed to records and supporting documentation
- Verify costs are allowable and reasonable
- Materials meet contract requirements

Billings Audit – Steps

- Compare billed amounts to contractor bank statements/EFT (Revenue)
- Note any over/under
- Over billings should be refunded or offset next billing (within 30 days)
- Notify the paying office for authorization
- Significant (>\$50K) and >30 days; expect to remit interest
- Coordinate insignificant differences with the paying office or ACO

Billings Audit – Steps

- Monitor your subcontract billings
 - Ensure the sub's billings are consistent with work scope
 - Ensure only allowable costs incurred by the sub are in *your* billings to the government
 - Subcontractor updates year end indirect rates