



Elements of a DCAA Compliant Accounting System

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Finance Webinar Series

- 8/5/25 - [Mastering Indirect Rates](#)
- 8/12/25 - [DCAA Audits](#)
- 8/19/25 - [Finance for the Small Government Contractor](#)
- 8/26/25 - [Pricing for Government Contractors](#)

Content

1. Why Do I Need a Compliant Accounting System
2. Auditor's Judgement
3. Definitions
4. Key Components
5. Audits
6. How to be Prepared for an Audit
7. Common Deficiencies

Why Be Compliant?

Required by Cost-Type Contracts

FAR Clause 52.216-7

Prime Contractor May Require

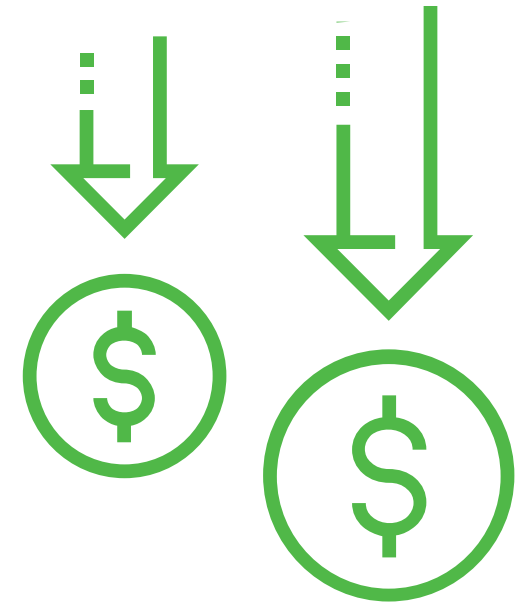
Competitive on Future Bids

Management Tool

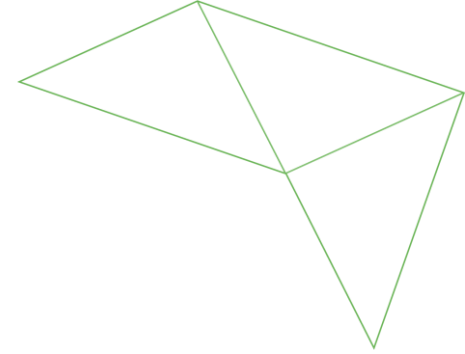
Claims/Requests for Equitable Adjustments

Auditor's Judgment

- ***Anything*** can cause an accounting system to fail
- Judgment will vary between auditors
- Perception is critical
- Using key phrases and words with auditor to show understanding of compliance
- Be prepared to use the auditor's "lingo"



Definitions – FAR 2.101



Direct Costs

Costs that can be identified specifically with a particular final cost objective

Indirect Costs

Any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives or with a least one intermediate cost objective

Unallowable Costs

Any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable

Key Components

- Segregation of Direct and Indirect Costs
- Segregation of Direct Costs by Contract and/or task (depending on contract requirements)
- Collection of Indirect Costs by Cost Pool
- Segregation of Unallowable Costs
- Labor Tracking System
- Monitoring Against Contract Value
- Recording Costs as Proposed / Billed
- Traceability of Transactions through the Accounting System
- Reconciliation of General Ledger to Job Cost Ledger
- Ability to Calculate Indirect Rates
- Policies / Procedures



Segregation of Costs

Segregation of Costs handled through the Chart of Accounts

- Account Number Range for:
 - Direct
 - Each Cost Pool (Fringe, Overhead, G&A, etc)
 - Unallowable Costs

Segregation of Projects and Tasks usually handled with a Job Cost Ledger

- Can be built into Chart of Accounts, but is not recommended

Labor Tracking

Solid Timekeeping Procedures

- Controlled timesheets
- Record all hours worked on a daily basis (not in advance)
- Audit trail of corrections/changes
- Signatures and approvals

Accounting System Visibility

- Reports of labor by person and/or by charge code
- Flows through the system to General Ledger and Job Cost
- Flows through to Billing, if billable
- Traceable back to payroll

Monitoring Contract Value

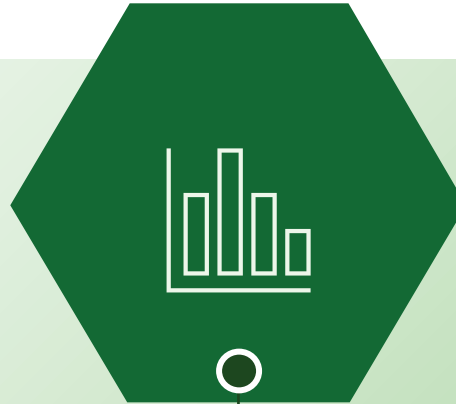
- Ability to track Billed against Funded and/or Contract Value
- FAR 52.232-20 – ***Limitation of Costs***
 - Notify the CO when the Contractor has a reason to believe that:
 - ✓ Inception to date costs are expected to be greater than a certain threshold (between 75% and 85%) of estimated costs within the next 30 – 90 days; or
 - ✓ Total costs at completion will be greater than or substantially less than previously estimated costs.
- FAR 52.232-22 – ***Limitation of Funds***
 - ✓ Written notice to the CO is required when the contractor has reason to believe that inception to date costs are expected to be greater than a certain threshold (between 75% and 85%) of funds allotted to contract within the next 30 – 90 days.
 - ✓ In addition, sixty days prior to the end of the contract schedule, the contractor is required to provide written estimate of any additional funds required and when the funds would be required.
 - ✓ If, after written notice, additional funds are not allotted to contract by CO, the contractor is not obligated to perform or incur additional costs and CO will terminate contract.

Collecting Costs As Proposed

Cost Pools *proposed* vs.
actual Cost Pools



Consistent Treatment of
Costs



Treatment of Direct vs.
Indirect

Tracing Costs Through the System

- Source document such as timesheet or vendor invoice
- Reviewing Edit Reports and Journals
- Verifying costs recorded on General Ledger
- Verifying costs recorded on Job Cost Ledger
- Flowing the costs through the billing
- Reviewing proof of payment

Job Cost to General Ledger

- Separate General Ledger and Job Cost Ledgers must be reconciled
- For QuickBooks, Company P&L compared to P&L by Job
- All direct costs must be associate with contract/task
- Ability to print Job Cost Reports (P&L by Job)

Calculate Indirect Rates

- Ability to Calculate Indirect Rates
- Application of Indirect Rates to Projects
- Compare Provisional Rates to Actual Rates
 - Impact on Billing
- Submitted Invoices for Rate Adjustment

Policies/Procedures

- Accounting Policy
 - Documenting accounting system, indirect rates, cost collection, etc.
- Policy on Unallowable Costs
- Labor / Timekeeping Policy
- Travel Policy
- Purchasing Policy
- Bonus



Accounting System Audits

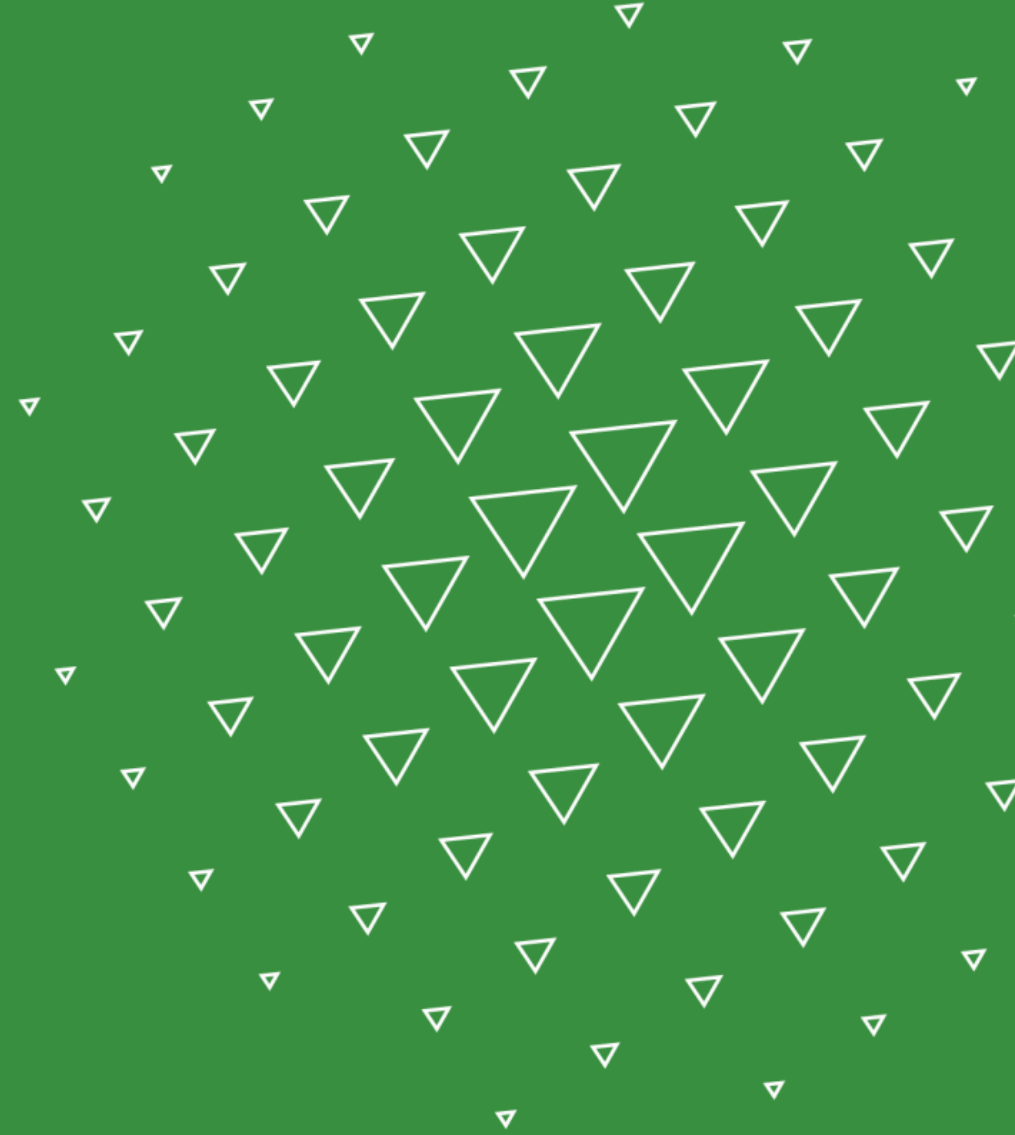
- Triggered by Proposal Submission
- Contracting Officer Requests
- Pre Award - Must demonstrate design is acceptable
- Post Award - Must show system is working as designed
- Standard Form 1408

How to Prepare for Audit

- Review Standard Form 1408
- Review/Complete DCAA Internal Control Questionnaire (ICQ)
- Review DCAA's Audit Program for Accounting System
- Review Company Policies/Procedures
- Perform Internal Audit
 - Sample Transactions
 - Sample Billings
 - Review Contract Files
 - Verify Timesheets Signed/Approved

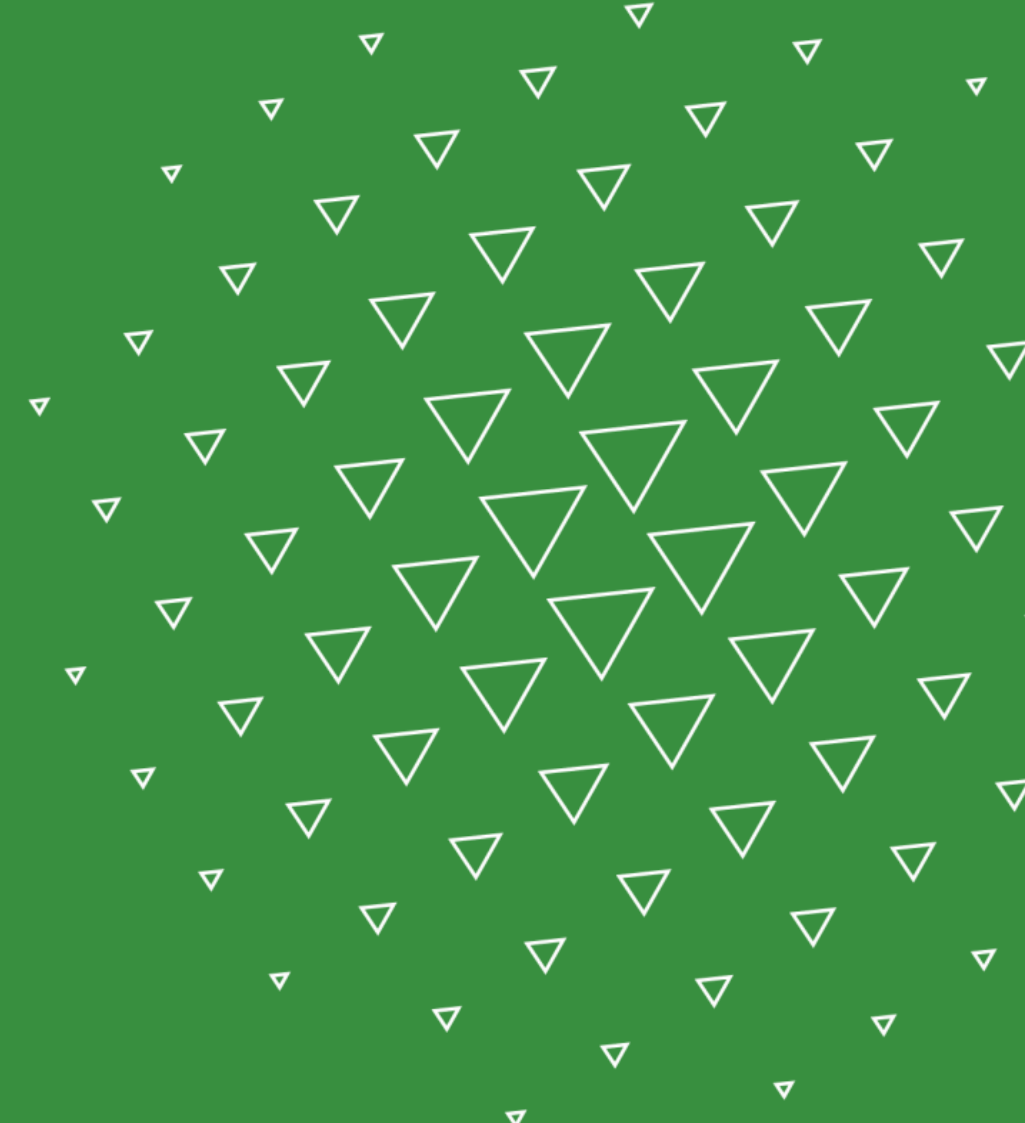
Other Inadequate Areas

- Not Paying Vendors in 'Reasonable Time'
- Inadequate Documentation
- No timecards for officers and owners
- All time is not reported (Total Time)
- Not following Generally Accepted Accounting Principles (Accrual Accounting)
- Total of job cost reports does not reconcile to income statement
- Funding and cost limitations are not correct
- No billing to cost reconciliation is performed
 - Direct
 - Indirect Rate Variance
- No contract briefing cards



Q&A

Contact us at info@pci.us for more information!



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