

Accounting Systems, Compliance and the Government Contractor

Government Contract Accounting Compliance Overview

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Most firms are introduced to the issue of accounting system compliance in association with their first preaward survey. Preaward surveys usually take place prior to award of the firm's first large prime contract with the federal government. When the prospective contract will require cost-based invoicing or reporting, an important part of the preaward survey is the accounting system review. As outlined in the Defense Contract Audit Agency (DCAA) publication entitled "Information for Contractors" dated January 2004, the purpose of this review is "to determine the adequacy and suitability of the contractor's accounting system and practices for accumulating costs under the type of Government contract to be awarded." (Publication DCAAP 7641.90, Chapter 2, Section 2-301)1

Contrary to the belief prevalent in many companies, the issue of accounting system compliance does not really revolve around the software itself. Certainly the functionality and capability of the software employed is key. Even more important, though, is the network of practices and procedures required for compliance. And most important of all are the

internal control mechanisms that monitor and enforce them.

Many integrated accounting software packages can be operated in a government contract compliant manner given a well-designed system of practices, procedures and internal controls. If a firm's software lacks a particular required control or feature, this can often be offset by a manual practice or procedure. If the software lacks several such features, it may seem easier to just do the work with a pencil and paper. However, manual systems are prone to lapses in consistency and communication not usually associated with automated systems.

When DCAA examines a contractor's system for compliance, they almost always start with the software. If the software system, as implemented, has sufficient cost recording, tracking, allocation, billing mechanisms and internal controls to give the government a level of confidence in the results, the rest of the review is often cursory. If the software permits, but does not enforce, compliant practices, then a detailed review of the supporting manual systems and practices will be necessary.

If these manual systems are found to be inadequate, then the overall “accounting system” will be determined unacceptable for award of the prospective contract. If the software does not permit compliant practices, then the manual systems will never even be reviewed.

Government contractor solutions from Deltek are among the very few that enjoy a presumption of compliance by government audit agencies even when not yet set up.

In any case, an inadequate accounting system may cause an award to be postponed until the company can acquire and implement a new system. The government audit agency will not develop the new system — correcting the deficient accounting system is the responsibility of the contractor. Once required corrective actions have been taken, the government audit agency, if requested by the contracting officer, will review the revised system.

Sometimes, a company may receive awards and be well into performance on multiple contracts before the compliance issue is raised. When this happens, the need for a new system can become more than just urgent. It can be a matter of survival.

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COMPLIANCE FOR THE DELTEK GCS PREMIER™ CLIENT

Deltek GCS Premier clients have a solid foundation for building a successful contract accounting future. And GCS Premier is time tested. GCS Premier and its predecessor product, Deltek System1, designed specifically for the unique needs of government contractors, have a compliance history dating back to 1983. More than 2,000 clients have used these systems to support cost collection, allocation, reporting and billing on government contracts. In all that time, no federal government contractor has ever failed to achieve compliance or acceptance of their system by DCAA using GCS Premier or System1. Satisfied and compliant Deltek clients range from the giants of the government contracting world like Lockheed Martin, Northrop Grumman and CSC to heavyweights in the government services community like SAIC, BTG and MVM, Inc.

GCS Premier clients also benefit from features and controls built right into the software that force critical practices into compliance. For example, most integrated accounting software packages have some form of cost allocation functionality. Some even support multi-tier structures with cascading allocations. Few, however, automatically classify pools by the government’s nomenclature and limit the allocation base to one of the choices acceptable under the Cost Accounting Standards like GCS Premier. It even monitors and automatically enforces complex labor laws such as the Service Contract Act or the Davis Bacon Act and is automatically recognized as capable of compliance by government audit agencies.

For the small to mid-sized federal government contractor, GCS Premier is the cost-effective solution.

THE SPECIFICS OF DELTEK GCS PREMIER COMPLIANCE

The accounting system evaluation checklist of the Standard Form 1408 includes 10 factors to be considered and evaluated as follows:

1. Proper segregation of direct costs from indirect costs
2. Identification and accumulation of direct costs by contract
3. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives
4. Accumulation of costs under general ledger control
5. A timekeeping system that identifies employees' labor by intermediate or final cost objectives
6. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives
7. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account
8. 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
9. 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
10. Segregation of preproduction costs from production costs

For the accounting system under review to be deemed acceptable, every one of these factors must receive an evaluation of "Yes" or "Not Applicable." Each function or feature required in the list above is a standard feature of GCS Premier — not optional, not "available at an additional cost," but standard.

In other words, all of the functionality required for government contract accounting compliance is built into GCS Premier, not added on. In every case, GCS Premier goes beyond the merely "acceptable" practice to complete Cost Accounting Standard compliance, a much more rigorous standard.

The accounting system review is only one of five sections of the checklist. The most important response for many firms is number 5, "Is the accounting system currently in full operation?" Any answer other than "(1) in operation" can be very problematic. Systems that are "(2) set up, but not in operation," "(3) anticipated" or "(4) nonexistent" are often met with severe skepticism.

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THE BOTTOM LINE

Government contract accounting compliance with a manual systems approach can be very expensive and time consuming. Noncompliance can be even more expensive. A system based on integrated cost accounting software with a design that enforces government compliant practices is the most cost-effective solution — for today and tomorrow. For the small to mid-sized federal government contractor, GCS Premier is that solution.

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Deltek is a global leader dedicated to delivering enterprise management software that meets the unique needs of project-focused organizations. With over two decades of experience, Deltek enables companies to maximize profitability and productivity, integrating all aspects of their businesses. More than 11,000 customers worldwide rely on Deltek to streamline operations, improve performance and win more business.

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