

## PM World Today Featured paper – November 2006 DCAA – What is it? How can you comply?

*By Curt Finch*

What is DCAA? The Defense Contract Audit Agency (DCAA), under the authority, direction, and control of the United States under the Secretary of Defense, performs all contract audits for the United States Department of Defense (DoD). DCAA also provides contract audit services to some other government agencies. Today, the DCAA consists of approximately 4,000 people located at more than 300 field audit offices throughout the world. Much more data is available at [www.dcaa.mil](http://www.dcaa.mil).

The purpose of the agency, simply, is to avoid the purchase of \$300 hammers and \$1,000 toilet seats. Business services companies, such as software and management consultancies, that sell project management and other services to government agencies, need to comply with a number of DCAA requirements if they want to avoid failing an audit. US taxpayers should all be thrilled that the US government has put processes in place to avoid overpayment and fraud.

As business owners selling to the US federal government, however, these procedures complicate the process for winning and performing on government contracts tremendously, especially for smaller firms. Luckily, there are consultancies (such as Lunarline in Washington, D.C. or AimSourcing in Austin, Texas) and technologies (such as Journyx) that can assist with meeting these requirements. Lunarline, for example, provides a DCAA compliance kit with consulting services to help make a company compliant after it has won a contract with the US government. Journyx provides web-based project time tracking and cost accounting software available as an online hosted service to assist with certain important portions of the DCAA compliance regulations.

In order to be compliant with DCAA and to be able to pass a potential audit, a company must have documented policies and procedures that are followed to the letter. The contractor must also employ a system that includes labor charges for hourly time (which could conceivably be on paper but in practice rarely is), certain accounting and billing system properties, and employees trained in certain aspects of compliance (such as tracking their time on a daily basis).

Costs (especially labor hour costs) must be allocated and accumulated separately by various categories, including direct versus indirect, and per contract. Indirect costs (such as the costs of accounting, billing and payroll, human resources (HR) and benefits personnel) must be consistently documented and allocated across the direct cost items. Reports must be generated at least monthly. Unallowable expenses must be identified and excluded by policy.

There are many, many regulations to comply with that explain how to estimate project costs, bid on contracts, allocate costs, and invoice the government.

Here is an excerpt from one of many DCAA documents, [DCAAP 7641.90 Information for Contractors](#):

## **2-302.2 Recommended Timekeeping Policy**

- a. The supervisor should approve and co-sign all timecards.
- b. The supervisor is prohibited from completing an employee's timecard unless the employee is absent for a prolonged period of time on some form of authorized leave. If the employee is on travel status, the supervisor for the employee may prepare a time sheet. Upon his or her return, the employee should turn in his/her time sheet and attach it to the one prepared by the supervisor.
- c. The guidance should state that the nature of the work determines the proper distribution of time, not availability of funding, type of contract, or other factors.
- d. The company policy should state that the accurate and complete preparation of timecards is a part of the employee's job. Careless or improper preparation may lead to disciplinary actions under company policies as well as applicable Federal statutes

If your eyes glazed over while reading that, you are not alone.

The DCAA offers about 75 different courses, some of them on-line, that enable contractors and potential contractors to learn how to comply. This is what makes consultancies so attractive. They already know all the answers and how they would apply to your company.

Many software vendors will claim that their software will make you DCAA compliant. While they probably help, software alone will not accomplish this. For example, if you have time sheet software that enables daily entry of time, that doesn't mean your employees will use it. The company policies and procedures must also be in place and enforced in order for the software to be effective.

The Federal Acquisition Regulations (FAR), are a series of regulations issued by the US Federal government that concern the requirements of contractors for selling to the US government, the terms under which the government obtains ownership, title and control of the goods or services purchased. The FAR also contain rules on specifications, payments, conduct and actions regarding solicitation of bids and payment of invoices. Many of the DCAA documents found at [www.dcaa.mil](http://www.dcaa.mil) refer to FAR.

The FAR consists of tens of thousands of pages and consists of two parts: the general acquisition regulations that govern all transactions with the US government in general, and the specific regulations issued by a specific US federal agency that govern transactions with that agency. One of the best-known examples of the latter is the Defense Federal Acquisition Regulation Supplement (DFARS) which is used by the US Department of Defense.

The purpose of the FAR is to specify exactly how the government is to acquire a particular product or service, how it is to be judged in terms of quality and price, and to ensure that the government does not pay for certain prohibited practices such as cost of lobbying or cost of financing. These rules are also to prevent kickbacks, undue influence, corruption and other misconduct. It may also include requirements

for purchases to be made in the United States, for large organizations to use smaller ones (including women- and minority-owned and disadvantaged business enterprises) as subcontractors, to not discriminate against certain classes of people, to engage in certain practices such as minority hiring and affirmative action, and other requirements depending on the type of contract and its dollar value.

DCAA regulations are often very specific about how adherence to FAR will be audited.

An additional term often used is CAM. This stands for the DCAA Contract Audit Manual. It is an instruction book for auditors who work on behalf the government. It is available at [http://www.dcaa.mil/cam/Chapter\\_00\\_-\\_Introduction\\_to\\_the\\_DCAA\\_Contract\\_Audit\\_Manual.pdf](http://www.dcaa.mil/cam/Chapter_00_-_Introduction_to_the_DCAA_Contract_Audit_Manual.pdf) and is also thousands of pages in length. It discusses standards for auditing, how to plan for an audit, cost accounting standards, auditing of estimates and proposals, statistical sampling techniques for audits, who can obtain audit reports, how they're distributed and what they should look like.

If all this sounds daunting, that's because it is. However, many small companies pass DCAA audits all the time and there are people and technologies that can help you do so. Like most things in business, it's cheaper to solve the problems in advance of an audit when the pressure and time criticality of the exercise are less onerous.

It is important to remember that one of the most critical portions of a DCAA audit concerns detailed labor and cost center tracking. Technology solutions can automate the costly process of capturing and reporting contract-specific data and provide critical supporting documentation for DCAA audits. Defense contractors must have labor systems with the following internal controls:

- \* Effective method to monitor the overall integrity of the system;
- \* Effective employee awareness training program;
- \* Effective procedures for labor approvals; and
- \* Effective procedures for labor cost accounting (cost accounting standards, contract terms).

Getting a system in place to monitor these issues is a requirement if you intend to sell services to the government. The sooner you start, the better.

**About the Author:**



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*Curt Finch is the CEO of Journyx (<http://pr.journyx.com>), a provider of Web-based software located in Austin, Texas, that tracks time and project accounting solutions to guide customers to per-person, per-project profitability. Journyx has thousands of customers worldwide including American Airlines, Bayer, BlueCross BlueShield, AC Nielsen and many others. Journyx is the first and only company to establish Per Person/Per Project Profitability (P5), a proprietary process that enables customers to gather and analyze information to discover profit opportunities. In 1997, Curt created the world's first Internet-based timesheet application - the foundation for the current Journyx product offering. Curt has managed development teams creating enterprise-level software solutions since 1985, with a focus on project accounting..*