Financial Management Guide for Government Contractors

Overview

You are a Government Contractor or wish to be a Government Contractor. Congratulations. It is important you know that the challenges facing government contractors today are complex, and difficult for a "generalist" to handle alone.

Your accountants and financial management team knowing just Generally Accepted Accounting Principle is not enough. They have to become experts in the applications of variety of standards and rules, including the Federal Acquisition Regulations, Cost Accounting Standards, DCAA Audit Manual, relevant OMB Circulars, respective agency regulations such as DFARS, AIDAR etc. You see, winning government contract is just the beginning of a long process of remaining on top of the business to ensure profitability.

The Government requires approval of your accounting system. They will want you to provide assurance that your system is consistent with Government regulated accounting procedures (FAR, DFARS, CFR, DCAA, GAAP). Here is the simple fact: If your company has won a government contract you will have to be able to remain compliance with the Defense Contract Audit Agency (DCAA).

DCAA or a Government Auditor is likely to come knocking at your doors to give full accounting of the bills you sent the Government. If you do not, you face the following risks:

- Mischarging could result in criminal penalties
- Costs being disallowed and your firm losing a lot of money
- Being prevented from bidding for future Government contracts
- Reputation damage by being charged with fraudulent billings to Government.

There are some important steps that you can take to ensure that you and your company will not have any problems if and when you face an audit. In order to show your compliance, your company needs to have documented policies and procedures that are strictly followed. You must also have a system in place that keeps track of hourly labor charges.

Costs need to be collected and accumulated separately in different sections such as direct and indirect costs, accounting costs, billing costs, human resource costs, to name a few. These costs need to be documented at all times so that your company stays on top of all monies. Your firm should prepare a report for these costs at least on a monthly basis.

DCAA reported this to US Congress:
In FY 2011, DCAA audited $19 billion of costs incurred on contracts and reviewed 2,681 forward pricing proposals amounting to $103 billion. Approximately $3.5 billion in net savings were reported as a result of audit findings. When compared to the $600 million expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately $5.80 for each dollar invested.

Your firm does not want to be a part of the $3.5 billion in net savings to the Government because of audit findings by DCAA. Avoid the mistakes and pitfalls by turning to experienced experts.

Cost Accounting and the Cost Accounting Standards

Cost accounting relates directly to a business and its managers. Hence the practice varies greatly from company to company and even from department to department within the same company. Cost accounting is not governed by general rules and principles such as the Generally Accepted Accounting Principles (GAAP). Businesses usually choose a general method such as standardized, activity-based, lean, etc.

For government contractors, cost accounting standards (CAS) were put into place due to the difficulty the previous lack of standards posed for conducting general internal audits of defense contractors. These standards also assured agreement and integrity in understanding and applying cost to Government contracts.

A Government contractor will probably need to submit a disclosure statement, which is "a written description of a contractor’s cost accounting practices and procedures." [48 CFR 9903.202-1(a)]. Though what needs to be included in this disclosure statement depends on a few factors, including the value of the contract. The disclosure statement must be complete and compliant. Basically, it must not only properly explain the contractor’s cost accounting practices, but these practices must also be compliant to the cost accounting standards (CAS). The disclosure statement will be reviewed by the contract auditor. In the Department of Defense (DOD), the cost accounting standards (CAS) are audited by the Defense Contract Audit Agency (DCAA).

In the case where you, as a contractor, is not compliant to these standards, a revised disclosure statement will need to be provided outlining the changes that will be made as well as the impact those changes will make on the contract costs within sixty (60) days from the time the disclosure statement was found to be non-compliant.

Though it may seem like a headache to comply to these standards when your business may already have its own cost accounting practices that differ from the cost accounting standards, it is easiest to become familiar with these standards so to facilitate the procurement of a federal contract. You can also feel good to know that the costs in your business’ bid will be judged in a manner that is uniformed with other bidders.

DCAA Preaward Surveys

When you are in the running to win a government contract the DCAA will perform a preaward survey of your business to determine if it is capable of performing all the duties that the contract entails. Their main focus will be on two categories. First, they will want to ensure that if your company is awarded the contract that it has the financial means to complete all the tasks that
are required. Second, they want to check if your accounting system is good enough to keep track of all the costs properly that are required by the contract.

*Preaward Financial Survey*

To determine if your company is financially viable to complete the contract the DCAA will want to look at certain documents to include cash flow forecasts, the company’s financial history, financial reports given to stockholders and banks, SEC filings, any loan agreements with statements showing your good standing, and employee federal payroll tax returns. After fully reviewing this information the auditor will make their recommendations of whether they feel that your company is financially stable enough to fulfill the contract. If your company is considered not to be financially viable, you will be notified immediately and you will be told what you need to do to correct the deficiencies that the auditor found.

*Preaward Accounting Survey*

A DCAA preaward accounting survey will consist of the auditor determining if your company’s accounting system for accumulating costs complies with what the government requires when awarding a contract. The preaward survey is not as in depth as an actual audit, it will be limited to the auditor getting a working knowledge of your accounting system to see if it is acceptable under the governments standards for cost accumulation.

If your accounting system is deemed unacceptable for use the auditor will notify your company and the DCAA along with recommending solutions so that your accounting system will become acceptable. It is up to you to make the necessary adjustments to your accounting system to make it acceptable. Once you have followed through on the auditor's recommendations you will need to contact the DCAA so they can perform a follow up audit.

*DCAA Pre-award Audits of Accounting Systems*

Contracting officers request a Preaward Audit in order to understand the accounting system which is being used by a government contractor. Many government contractors are stupefied to find out that their accounting system isn’t adequate, even if the books are being meticulously kept.

For the DCAA, it isn’t enough just to keep good records though. The DCAA wants to make sure that government contractors are keeping accurate records in a reliable manner. The DCAA Preaward Survey will be looking at the government contractor’s accounting in four areas:

- Proper tracking and segregation of costs
- Billing and timekeeping systems
- Internal controls
- Accounting performed in accordance with GAAP

The SF 1408 evaluation checklist gives a detailed list of what DCAA auditors are looking for in an accounting system. However, this is not the only system used to determine whether a contractor’s accounting system is adequate. The DCAA auditor must determine whether the accounting system will be able to give reasonable information in terms of cost projection for the completion of the project.
Potential government contractors should be aware that their present accounting system is taken into use. However, it is acceptable to DCAA to plan for the use of a different accounting system if the contract is awarded. This is because DCAA realizes that the contractors’ current projects might not require such a detailed accounting system as a government project.

In this case, the contractor must be able to show in the Preaward Audit that the accounting plan is operable. That means that it can quickly be put into use and that the employees are capable of using it. Unless you are hiring outside help for the DCAA Preaward Audit, it is recommended that you simplify the requirements by already having the accounting system planned for use during the DCAA contract in use.

If the accounting system used by the contractor is not DCAA satisfactory, DCAA will notify the contractor as well as the procurement official. While DCAA often will recommend how to correct any deficiencies with the accounting system, it is up to the contractor to fix the problems and come up with a new accounting system. A new Pre-award Audit can be requested once these deficiencies have been corrected.

In some situations, a DCAA Preaward Audit is not done of the accounting system. However, an audit of the accounting system can still be performed even after the contract has been awarded. Also, even if you pass a DCAA Preaward Audit and are granted a government contract, always be prepared for additional auditing at any time. The DCAA auditor may decide to initiate another audit if he/she decides that additional auditing is necessary to make sure the contract is being fulfilled.

**DCAA Accounting System Requirements**

DCAA auditors are not just looking to see if a contractor’s accounting system meets a checklist. The DCAA auditor takes under consideration the Generally Accepted Accounting Principles, or GAAP, and will perform various tests to make sure that the accounting system is in accordance. Here are the areas that a DCAA auditor will be looking at:

*Controls*

It is crucial that a contractor have full control to direct charging of all indirect expenses and vice versa. It is very helpful if the contractor can show, via flowchart or other diagram, how the expense flows from the order to the actual purchase requisition. With service expenses, a contract or letter of engagement is very helpful to show whether the costs are direct or indirect.

*Job Cost Ledger*

The contractor is required by DCAA to have a subsidiary job-cost or accounts receivable ledger. This ledger must accumulate costs by the contract at the level that was in the contractor’s DCAA proposal.

*Pools*

All indirect contract costs must be grouped logically together. Further, these groups, or pools, must be assigned based on the benefits to other pools or to other contracts.
General Ledger

All costs must be accumulated under the control of a general ledger. This general ledger must be in agreement with the general ledger.

Timekeeping System

Even though the requirement of a timekeeping system seems simple, this is usually a problem for contractors. DCAA regulations require that all employees prepare timesheets and the timesheets must be signed by the employee and his/her supervisor.

Labor Distribution System

DCAA requires that a labor distribution system allocate direct and indirect labor costs to objectives and to the employee. The labor distribution must also adhere to a payroll system and the general ledger.

Monthly Posting

Contractors are required by DCAA auditors to post costs at least on a monthly basis. This includes all costs including direct and indirect.

Exclusion of Unallowable Costs

Not all costs are allowable by DCAA and the contractor must exclude them using a system. It is not enough simply to not list these costs. FAR Part 31 defines which costs are allowable and which are unallowable.

Segregation of Costs

Some DCAA contracts require that the contract’s costs can be identifiable by item and unit as though each item were part of a separate contract. For example, manufacturing contracts may be required to segregate costs by preproduction.

Interim Billing

According to DCAA, interim billing must be prepared by contractors of direct costs, other than unallowable costs.

Full Operational Capacity

The DCAA auditor will determine whether the accounting system is in full operational capacity. In some cases, the contractor may not be using the accounting system proposed for the contract and the DCAA auditor will report this. The auditor will then determine whether the proposed accounting system is acceptable and may recommend that a follow-up DCAA accounting audit be performed.

12 Elements for Non-Major Contractors
For non-major contractors, there are twelve (12) key elements that you must pass. These are must have items, no exceptions. In order for an accounting system to be approved it must demonstrate the ability to:

- Segregate direct costs from indirect costs;
- Accumulate contract costs by cost element by contract, project, task or cost objective for each cost element (labor, materials, subcontracts, other direct costs, fringe, overhead and G&A);
- Maintain an adequate timekeeping system;
- Maintain adequate labor and accounts payable distribution systems;
- Account for unallowable costs and exclude such costs from billings, claims and proposals;
- Make certain direct costs and indirect costs are controlled by the general ledger;
- Capture pre-contract costs separately;
- Maintain homogeneous indirect cost pools and allocate indirect costs to contracts, projects, tasks or cost objectives based on a beneficial, causal and equitable basis;
- Comply with financial clauses like the Limitations of Costs/Funds and Progress Payments clauses;
- Make interim accumulation of costs in the books of account, at least monthly;
- Track costs by contract line item and;
- Provide reliable historical accounting data for follow-on procurements.

These 12 items only touch the surface. There are many underlying complexities and implications to the key items.

**Is Software the Answer?**

Many companies will offer software that they will claim will make your company DCAA compliant just by installing it. However, this is not the case. Your company still has to keep policies and procedures in place in order to keep employees on the right track. There is no use of investing in the software if employees do not follow company rules to ensure compliance.

What the software that is available does for a company is help to keep track of various reports that the DCAA wants to see during an audit. These include comprehensive time and labor reports, effective cost cutting and allocation methods, and an easy to follow chart of accounts. What is important to remember is that the software is to be used as a device to aid in your company’s compliance not to supplant any rules and regulations that you have already put in place to keep compliant.

Business Executives usually ask the question whether their QuickBooks is compliant. The answer is **No; QuickBooks is not compliant by itself.** There is not a single accounting system software package out there that is compliant by itself, contrary to what sales people may have to say. Further, there is no such thing as a DCAA approved accounting system software package. DCAA does not approve products or services of any kind. It only determines adequacy of a contractor’s accounting system as implemented and consistently applied.

Again, there is much more to compliance than the software. First, the software system must be properly implemented with segregation of direct and indirect costs, proper pooling of indirect costs, proper and consistent job costing and proper accounting of unallowable costs to name a
few. In addition, the contractor must maintain adequate policies, procedures and internal controls such as timekeeping and labor reporting.

Without proper internal controls your accounting system is guaranteed to fail the test no matter what software you use. Finally, the personnel that perform the accounting function must be properly trained in the policies/procedures and government contract accounting in general. If the personnel do not consistently apply these procedures and sound government contract accounting practices, the software and the internal controls will not matter, you will fail the test.

QuickBooks

QuickBooks is an easy to use and actually a pretty decent project accounting system for small businesses. If it is properly set up and the accounting practices employed are sound and consistently followed, QuickBooks can be DCAA compliant.

But in order to make QuickBooks compliant, there are a number of enhancements that must be made. First, QuickBooks must be set up to segregate direct from indirect costs. It must pool the indirect costs into homogenous indirect cost pools. The standard is the three rate system, fringe, overhead and G&A. Most small businesses can get by with just two, fringe and G&A.

After this is complete, then contractors need to develop the policies that are required to meet FAR and DCAA audit requirements. This is a manageable list. At a minimum a small business contractor needs to maintain the following policies and procedures and apply them on a consistent basis. These include:

- Direct vs. indirect costing defining when a cost is direct and indirect
- Timekeeping and labor reporting consistent with DCAA requirements
- Indirect cost pools, allocation bases and indirect rate calculations
- Accounting for unallowable costs
- Project reporting consistent with the Limitations of Funds clause and invoicing clauses
- Invoicing especially invoicing under cost reimbursable contracts if applicable
- Purchasing, subcontracting, materials inventory if applicable
- Fixed asset capitalization and depreciation if applicable
- Others as circumstances may warrant

Finally, the contractor must resolve the items that QuickBooks simply does not handle well. Overall QuickBooks is a decent project accounting system if properly set up. But it does fall short in a number of areas. The main short fall is project reporting. Simply put, QuickBooks does not do a good job at electronic timekeeping for government contracts, it does not provide the necessary detail in its project reporting module and it does not calculate overhead rates. These are the major short falls. There are some minor ones as well.

A contractor can overcome these short falls by implementing enhancements. Such as generating templates that report on the information DCAA requires. The main one is a project report that shows costs by cost element by current period, year to date and contract inception to date. This report needs to include a full allocation of indirect costs and needs to be compared to the project funding.

The enhancements could be completed manually, but a better solution is an automated solution. A contractor could create its own from scratch, but there are many such solutions available in
the commercial market place. These solutions are intelligent templates that download QuickBooks data, calculate overhead rates and offer a variety of project reports acceptable to DCAA to fulfill the Limitations of Funds clause and other related clauses. Most offer a labor distribution tool as well. There are a number of these packages including ICAT, Gov-Calc, Rates Plus, EFAACT, etc. Each has its strengths and weaknesses. Each has its own unique approach. Some are simple to implement while others are more advanced. The more advanced packages offer more capabilities. Application selection should be based on your own unique circumstances selecting the package that works best for you. And of course there are others.

Also contractors need to set up their systems to record transactions by person or labor category and make certain the project system reconciles to the general ledger each month. This is a matter of good set up and consistently following sound project accounting practices. Failure to meet this test is a failure for sure.

Another short fall is QuickBooks does not accrue payroll. It is very important that payroll, direct and indirect labor be recorded in the period incurred not necessarily the period paid. There are work around for this and JS Morlu, LLC can provide the necessary solutions.

Making QuickBooks DCAA compliant is certainly a possibility with proper set up, internal controls and enhancements. These tasks are not overwhelming. It can be done less than a week's time. And this is good news for small businesses, as there really is not a very plausible alternative available to small businesses. The next viable solution is to move up the chain to a more robust integrated government contract accounting system such as JAMIS or Deltek. These are industry leaders with a comparable price tag. These systems are excellent for government contracting and are typically more than most small businesses can handle in my opinion.

**Deltek GCS Premier**

Deltek GCS Premier is the most trusted, proven accounting and project management software solution designed specifically for small to mid-sized businesses who sell services to the government.

JS Morlu, LLC experts have more than 15 years with Deltek, with one of our experts being a former Deltek employee and an original tester of the Deltek Cost Point. You have the option of leasing or owning Deltek GCS Premier as well as the use of our professionals for complete installation and ongoing support.

Deltek GCS Premier provides everything your organization needs, from accounting, payroll, project management, compliance monitoring and reporting. With GSC Premier from Deltek, government contractors can more effectively manage projects and financials comply with Cost Accounting Standards (CAS), The Federal Acquisition regulations (FAR) and DCAA requirements.

Key Features and Benefits:

- Report in real-time
- Eliminate manual process
- Increase project awareness
- Integrate for accuracy
Training Employees about DCAA Timesheet Regulations

Time keeping is important in Government contracting. Your DCAA timesheet may be one of the most demanding tasks when it comes to surviving an audit. However, it isn’t enough for just you to understand the DCAA timesheet regulations. Many firms fail audits because of problems their employees make. This can be avoided with a good training program.

The first thing that your company should have a policy in place that covers timecards, which states in effect that it is the employee’s job to ensure that their timecards are accurate and if they are not they could face disciplinary action through the company or by any relevant government regulations. Employees need to understand about their DCAA timesheets is that they, the employees, are responsible for them. No one else is allowed to fill in his or her timecards. After clocking in and out, the employees must turn over the DCAA timesheets to a supervisor for approval. The timesheets will then be signed by the employees and the supervisor.

If an employee is out on travel status, then the employee’s supervisor has the right to prepare the DCAA timesheets. However, when the employee returns, the employee must submit his/her timesheets and attach them to the ones which the supervisor prepared. Only if the employee is away for extended authorized periods of time is the supervisor allowed to complete the employee’s DCAA timesheets.

It is important that employees understand that it is their job to keep accurate DCAA timesheets to a minimum of 1/10 of an hour. If they fail to do this, then they are subject to disciplinary action as part of the company policy. Even though your employees are responsible for their own timesheets, you as a business owner is responsible for making sure that they comply with DCAA timesheet regulations. If a DCAA auditor finds some discrepancy or error in the timesheets, then you are the one to blame.

Remember that the most important part of your DCAA audit has to do with timesheets and accurate cost-tracking methods. In order to make sure that you are in compliance with DCAA timesheet regulations, you will need to train your employees and make sure that they understand the rules and policies as well as the consequences.

If you are using DCAA software for your timesheets, you must also make sure that all your employees are trained on how to use it. When choosing your software, you will want to take into consideration whether or not it has a training program included and how easy the DCAA timesheets software is to use. Timekeeping can become very complicated because of overtime, employees offsite, and other issues. The DCAA has many different training courses on their website, which can help with DCAA timesheets compliance.

Remember that, even if you are familiar with DCAA timesheets regulations, it doesn’t mean your employees are. Make sure they are trained so you don’t fail your DCAA audit because of timesheet problems.
Indirect Cost Rates when dealing with federal contracts in general

Direct cost rates are rates that can easily be quantified within a contract. They include the cost of materials, wages of workers directly assigned to a project, subcontractors, etc. while indirect rates are rates that cannot be calculated without great effort.

You may need to calculate an indirect rate if you are awarded a federal contract (or grant) in which cost is reimbursed. It is a manner of assuring fair and equitable reimbursing across different businesses and organizations. Indirect rates are used for Incurred Costs Proposals.

Indirect cost rates are also known as indirect rates or Facility and Administrative rates (F&A rates). Though the Federal Acquisition Regulations (FAR) will recognize indirect rates grouped in any logical manner, they usually fall into one of three categories:

- **Employee benefits**: Costs involved in benefits of the employees, such as health benefits, paid leave, employee pension plans, etc.
- **Overhead costs**: Costs involved with running the company. Including research and development, shared facility costs, heat and electricity, etc.
- **General & Administrative costs (G&A costs)**: Costs associated with the management of the business. This includes office space, salaries for management where management overlooks more than one project, salaries of workers that are shared between projects, etc.

If your business needs to know its indirect rate in order to receive a federal grant or contract, the specialist handling your contract should contact the proper organization as it becomes clear that your organization may be receiving the contract or grant. This indirect rate should be valid for one year. After this, a new rate may need to be calculated. Watch your indirect rate to ensure that billed indirect equaled actual at the end of the period, as a major difference could affect the subsequent rate and therefore your cost structure. It is recommended you contact an accountant with experience with federal contracts to prepare an indirect proposal.

Many factors will affect your indirect rate, some of these are:
- The type of business
- The size of your business
- How old your business is
- Where your business is located

Indirect rates when dealing with the Defense Contract Audit Agency (DCAA)

Federal Acquisition Regulations (FAR) stipulates that you are required to submit your proper Incurred Cost Proposal within six (6) months of the end of your business’ fiscal year. If you fail to submit this proposal, the Defense Contract Audit Agency (DCAA) will remind you several times until it becomes due. Once it becomes due, the Defense Contract Audit Agency (DCAA) could decide to make a unilateral recommendation based on historical indirect rates for similar contractors, or other factors. It is in your advantage to avoid this and take the steps necessary before this is to happen.

After an adequate Incurred Cost Proposal has been received, an audit will be performed, the results of which will be discussed with your business.
It is important that the data you submit in your Incurred Cost Proposal is accurate. Mischarging could result in criminal penalties. Consulting an Accountant with federal contracts who has experience with incurred rates is in your best interest to make sure that your proposal is not only correct, but to your best advantage.

**Documentation and Period of Record Keeping**

Clients usually ask us as to what types of documents to maintain and for how long. The Code of Federal Regulations (48 CFR 4, Subpart 4.7 - Contractor Records Retention) provided the answers, as indicated below. It is important that the accounting, human resources and financial management team of your firm are knowledgeable of these stipulations.

Supporting Documentation is CRITICAL in Government contracting or else your firm will form part of the statistics of the $3.5 billion net savings reported by DCAA. It is so important to maintain adequate records and fully document the costs incurred as well as business purpose. **Credit card statements simply will not fly in an audit.** Must have receipts, must document consultants and legal charges with agreements and require your consultants to detail the charges on their invoices. If you are involved with automobile expense must document the business usage with mileage logs or similar documentation. Need written plans or policies for any bonuses, etc.

**Applicability**

(a) This subpart applies to records generated under contracts that contain one of the following clauses:

(1) Audit and Records—Sealed Bidding (52.214-26).

(2) Audit and Records—Negotiation (52.215-2).

(b) This subpart is not mandatory on Department of Energy contracts for which the Comptroller General allows alternative records retention periods. Apart from this exception, this subpart applies to record retention periods under contracts that are subject to Chapter 137, Title 10, U.S.C., or 40 U.S.C. 101, et seq.

**48 CFR 4.704 - Calculation of retention periods**

(a) The retention periods in 4.705 are calculated from the end of the contractor's fiscal year in which an entry is made charging or allocating a cost to a Government contract or subcontract. If a specific record contains a series of entries, the retention period is calculated from the end of the contractor's fiscal year in which the final entry is made. The contractor should cut off the records in annual blocks and retain them for block disposal under the prescribed retention periods.

(b) When records generated during a prior contract are relied upon by a contractor for certified cost or pricing data in negotiating a succeeding contract, the prescribed periods shall run from the date of the succeeding contract.

(c) If two or more of the record categories described in 4.705 are interfiled and screening for disposal is not practical, the contractor shall retain the entire record series for the longest period prescribed for any category of records.

**48 CFR 4.705 - Specific retention periods**
The contractor shall retain the records identified in 4.705-1 through 4.705-3 for the periods designated, provided retention is required under 4.702. Records are identified in this subpart in terms of their purpose or use and not by specific name or form number. Although the descriptive identifications may not conform to normal contractor usage or filing practices, these identifications apply to all contractor records that come within the description.

48 CFR 4.705-1 - Financial and cost accounting records

(a) Accounts receivable invoices, adjustments to the accounts, invoice registers, carrier freight bills, shipping orders, and other documents which detail the material or services billed on the related invoices: Retain 4 years.

(b) Material, work order, or service order files, consisting of purchase requisitions or purchase orders for material or services, or orders for transfer of material or supplies: Retain 4 years.

(c) Cash advance recapitulations, prepared as posting entries to accounts receivable ledgers for amounts of expense vouchers prepared for employees' travel and related expenses: Retain 4 years.

(d) Paid, canceled, and voided checks, other than those issued for the payment of salary and wages: Retain 4 years.

(e) Accounts payable records to support disbursements of funds for materials, equipment, supplies, and services, containing originals or copies of the following and related documents: remittance advices and statements, vendors' invoices, invoice audits and distribution slips, receiving and inspection reports or comparable certifications of receipt and inspection of material or services, and debit and credit memoranda: Retain 4 years.

(f) Labor cost distribution cards or equivalent documents: Retain 2 years.

(g) Petty cash records showing description of expenditures, to whom paid, name of person authorizing payment, and date, including copies of vouchers and other supporting documents: Retain 2 years.

48 CFR 4.705-2 - Pay administration records

(a) Payroll sheets, registers, or their equivalent, of salaries and wages paid to individual employees for each payroll period; change slips; and tax withholding statements: Retain 4 years.

(b) Clock cards or other time and attendance cards: Retain 2 years.

(c) Paid checks, receipts for wages paid in cash, or other evidence of payments for services rendered by employees: Retain 2 years.

48 CFR 4.705-3 - Acquisition and supply records

(a) Store requisitions for materials, supplies, equipment, and services: Retain 2 years.

(b) Work orders for maintenance and other services: Retain 4 years.

(c) Equipment records, consisting of equipment usage and status reports and equipment repair orders: Retain 4 years.

(d) Expendable property records, reflecting accountability for the receipt and use of material in the performance of a contract: Retain 4 years.
(e) Receiving and inspection report records, consisting of reports reflecting receipt and inspection of supplies, equipment, and materials: Retain 4 years.

(f) Purchase order files for supplies, equipment, material, or services used in the performance of a contract; supporting documentation and backup files including, but not limited to, invoices, and memoranda; e.g., memoranda of negotiations showing the principal elements of subcontract price negotiations (see 52.244-2): Retain 4 years.

(g) Production records of quality control, reliability, and inspection: Retain 4 years.

(h) Property records (see FAR 45.101 and 52.245-1): Retain 4 years.

**Government Contract Audits**

Any audit can be cause for anxiety. Being familiar with the various types of audits that may be conducted, however, will help a contractor be prepared. When an audit is to occur, a contractor should: (1) be aware of why the audit is a requirement, (2) understand what the auditor will be looking for, and (3) request an entrance and exit conference with the auditor to avoid any misunderstandings.

**Contacting DCAA**

DCAA is available to answer any questions or concerns you may have regarding accounting system adequacy. Please note that only the Government may request a formal DCAA accounting system review.

**Be Prepared and Stay Informed**

**Be Prepared**

It is up to you to be prepared for the DCAA. You know when you are going to be bidding on government contracts, so why not get everything you need in order before you bid on any contracts? This will save you time and money in the long run and make any preaward surveys go much smoother than if you are trying to get your company in compliance at the same time as being surveyed. That will only reflect badly on your company and perhaps decrease your chances of winning a government contract in the future if your company becomes known to DCAA auditors as one that does not have it together. Become familiar with the process and you will find that it is not as daunting a process as it appears.

** Remain Informed**

When you or your company do business with the government it is important that you know all of the ins and outs. It is up to you to stay on top of any changes that DCAA makes in how it operates. One additional resource that you can use is to get a copy of the DCAA Contract Audit Manual (CAM). This is an instructional manual for auditors that work for the government and discusses the standards of how to conduct an audit and what to look for. This manual is available for free download online and due to its size, over a thousand pages, it is easier stored on a computer than on your desk.

Just by following a few simple steps and ensuring that your company and employees adhere to the standards that are set by your company and by the government you should not have any problems when facing an audit.

Contact JS Morlu, LLC Today!
Reference Materials

As a good start, you can access and read the following reference materials from DCAA (www.dcaa.mail) Website:

Audit Guidance

- Open Audit Guidance
- Standard Audit Programs

Publications

- Contract Audit Manual
- FAR Cost Principles Guide
- How to Request an Audit
- Criteria for Adequate Contract Pricing Proposals
- Incurred Cost Adequacy Checklist
- Incurred Cost Electronically
- Information for Contractors Preaward Survey of Prospective Contractor Accounting System Checklist