

DCAA Deficiency Findings

(An excellent reference to see what DCAA is looking for in an accounting system - and how they report deficiencies)

SEGREGATION OF COSTS:

Condition: The contractor's accounting system does not have controls in place to preclude the direct charging of indirect expenses and vice versa. In addition, the contractor does not have policies and procedures that address direct costs or indirect expenses (i.e., overhead and G&A as applicable) and the charging thereof. Finally, the contractor's chart of accounts does not adequately segregate unallowable costs per FAR 31.205 and contract provisions.

Recommendation: We recommend that the contractor develop accounting policies and procedures that address the segregation and charging of direct costs, indirect expense (e.g., overhead, G&A) and unallowable costs. We further recommend that the contractor establish specific account codes to capture unallowable costs.

JOB COST LEDGER:

Condition: The contractor's accounting system does not have a formal consolidated job cost ledger that can accumulate costs for direct labor and other direct costs on a current basis by contract even though the existing system has job cost capabilities utilizing combination P&L summary and job cost actual detail.

Recommendation: Rather than, piecing together the information from multiple reports, we recommend the contractor establish a formal job cost ledger and post costs to the job cost ledger on a current basis.

GENERAL LEDGER:

Condition: The contractor's general ledger is not adequate. We determined that the contractor's general ledger does not segregate costs in a logical fashion, clearly grouping homogeneous accounts together. The general ledger is not posted on a current basis and does not include a reference or audit trail between the entry and its source.

Recommendation: We recommend the contractor establish and maintain an adequate general ledger. An adequate general ledger requires the segregation of accounts in a logical fashion and a clear grouping of homogeneous accounts (i.e., separate accounts and groupings for direct costs, indirect costs (such as overhead and G&A), and unallowable costs). We recommend that costs be posted to the general ledger on a regular basis (at least monthly) and the general ledger include an audit trail referencing the source of the entries.

DETERMINATION OF INTERIM REPRICING:

Condition: The contractor does not maintain their books and records on a current basis and are not able to compute interim indirect rates.

Recommendation: We recommend that the contractor maintain their books and records on a current basis.

TIME KEEPING:

Condition: The contractor's timekeeping system is not adequate. We determined that the contractor is making entries on an excel based spreadsheet with no visibility to error/input correction and the policies and procedures do not require employees to provide an explanation when corrections are made to the timesheets.

Recommendation: We recommend that the contractor establish and maintain an adequate timekeeping system. The contractor should establish and maintain a sound system of control over the timekeeping system through the use of a controlled document or manual timesheet. We recommend that the contractor establish and comply with the following controls:

- Timesheets should be pre-printed with the employee's name and the appropriate pay period;
- Timesheets should be prepared in ink;
- Timesheets should be completed and totaled daily;
- Timesheets should only be signed by the employee and supervisor when completed;
- Timesheets should be corrected by crossing out errors without the use of whiteout, erasures, or scratch outs; and
- A brief explanation should be stated on timesheets when the employee has made corrections and initialed.

LABOR DISTRIBUTION:

Condition: The contractor does not maintain an adequate labor distribution system whereby labor hours and costs are accurately accumulated by individual contract/project numbers and by all direct and indirect functions. Specifically, we determined that the labor distribution does not:

- identify all direct and indirect activities/functions of the contractor;
- specify the account number/contract number to which the labor cost is identified;
- summarize labor hours incurred (labor distribution includes only labor dollars);
- contain totals by account number; and
- readily trace to the employee timesheets

Recommendation: We recommend the contractor establish a labor distribution that can accomplish the following:

- identify all direct and indirect functions of the company;
- specify the account number/contract number to which the labor cost is charged;
- indicate the labor charges (hours and dollars) by employee and, if applicable, by labor category or other level of detail;
- contain posting references; contain the date of the labor charges;
- contain totals by account number; and
- trace to employee timesheets

INDIRECT RATE STRUCTURE:

Condition: The contractor's accounting system does not support an indirect rate structure. We determined the interim indirect expense rates cannot be readily calculated from the books of accounts nor does the contractor monitor the indirect expense rates. The contractor has not computed indirect rates since 200X. We also determined that the contractor does not have formal written policies for the classification and allocation of indirect costs.

Recommendation: We recommend the contractor establish formal written policies for the classification of indirect expenses and a formal indirect rate structure that is used consistently. Once the contractor defines its criteria for indirect cost pools and bases, the indirect expense rates must be calculated, consistently applied, and routinely monitored. The contractor's accounting system must accumulate indirect costs in a manner that results in the segregation of indirect costs into account groupings that support their established rates.

SEGREGATION OF UNALLOWABLE COSTS:

Condition: The contractor's accounting system does not identify and segregate costs that are unallowable per FAR Part 31.2 and contract provisions. We determined that the contractor's accounting system does not include accounts for identifying, grouping and segregating unallowable costs from those costs that are allowable.

Recommendation: We recommend the following:

- The contractor establish written policies and procedures for the identification and exclusion of unallowable costs;
- The contractor modify the chart of accounts to provide separate accounts for the accumulation and segregation of unallowable costs; and
- The contractor group all unallowable accounts together (under a common account numbering scheme) within the chart of accounts and general ledger.

LIMITATION OF COSTS:

Condition: The contractor is not capable of complying with contract provisions related to limitations on costs.

Recommendation: We recommend that the contractor establish an accounting system that requires the following, in order to ensure their ability to comply with potential limitations on costs:

- A written description of the pool and base costs used to compute each indirect rates;
- Indirect cost pool must be grouped by pool and subtotaled; and
- Contract expenditures should be compared to the budget and monitored on a regular basis.

BILLINGS:

Condition: The contractor's accounting system does not ensure the accurate recording of costs on billings. The contractor's system does not have the controls or policies and procedures necessary to prepare accurate interim billings. We were unable to reconcile invoiced costs to the claimed current and cumulative costs as recorded in the books and records. In addition, the contractor does not have procedures to ensure that subcontractor and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor's payment request to the Government.

Recommendation: We recommend the contractor implement policies and procedures addressing contract billing. The policies and procedures should include the following:

- Billings must be prepared directly from the books and records (excluding unallowable costs);
- Invoices must reconcile to the claimed current and cumulative total costs as recorded in the books and records; and
- Billings and accounts payable must be monitored to ensure that subcontract and vendor costs are only included in billings if payment to the subcontractor or vendor will be made in accordance with the terms and conditions of the subcontract or invoice and ordinarily within 30 days of the contractor's payment request to the Government.