

## **DEFENSE CONTRACT AUDIT AGENCY**

### **Preaward Survey of Prospective Contractor Accounting System**

As a Contractor you can prepare your staff and accounting system by familiarizing yourself with the requirements found in this DCAA audit program.

#### Purpose and Scope -

The major objectives of this audit are to obtain an understanding of the accounting system to appropriately complete the Preaward Survey of Prospective Contractor Accounting System, SF 1408, and to opine as to whether the design of the contractor's system is acceptable for the award of a prospective Government contract.

The Auditor will prepare a "Preaward Survey of Prospective Contractor Accounting System" (SF 1408) by completing the following audit steps:

1. Generally Accepted Accounting Principles. Through observation or discussion, verify that the contractor's accounting system is in accordance with GAAP. Determine if the contractor has or intends to have an accrual basis accounting system. (SF 1408, Section I)

2. Proper segregation of costs. Verify that controls exist to preclude direct charging of indirect expense and indirect charging of direct contract costs. (SF 1408, Section II, 2a)

3. Direct costs by contract. Verify that the contractor has either a subsidiary job costs ledger or account receivable ledger which accumulates costs by contract at a level of detail consistent with that used by the prospective contractor in its proposal. (SF 1408, Section II, 2b)

4. Allocation of indirect costs. Verify that the indirect costs are accumulated in logical groupings and determine that the groupings are allocated based on benefits accrued to intermediate and final cost objectives. Is the cost accounting system formally documented, with a written description of the contents of bases and pools? (SF 1408, Section II, 2c)

5. Accumulation of costs under general ledger control. Verify that the contractor's job cost ledger and other books of account are reconcilable and currently posted to the general ledger control accounts. (SF 1408, Section II, 2d)

6. Timekeeping system. Verify that labor is charged to intermediate and final cost objectives based on a timekeeping document (paper or electronic timecards) completed and certified by the employees and approved by the employees' supervisors. (SF 1408, Section II, 2e)

7. Labor distribution. Verify that labor cost distribution records are reconcilable to payroll records and that labor distribution records trace to and from the cost accumulation records in labor subsidiary or general ledger accounts. (SF 1408, Section II, 2f)

8. Interim determination of costs. Determine that the contractor posts contract costs at least monthly to books of account. (SF 1408, Section II, 2g)

9. Exclusion of Unallowables. Evaluate the contractor's plan to identify and exclude unallowable cost if the contract is awarded. (FAR 31.201-6) (SF 1408, Section II, 2h).

10. Costs by Contract Line Item: Can the system be expanded to the requisite level of detail, and does the contractor have procedures to determine what this level might be? (SF 1408, Section II, 2i)

11. Preproduction Costs (Applies primarily to manufacturing contracts): Are these costs routinely segregated to assist in repricing or follow-on contract pricing? (SF 1408, Section II, 2j)

12. Limitation of Costs: Can the interim indirect expense rates be readily calculated from the books of accounts, and are the interim rates routinely monitored?

Who is responsible for monitoring total contract expenditure against contract limitations on price or cost, and how frequently is this reviewed? Are controls in place to ensure compliance with the reporting requirements of FAR 52.216-16(g) or FAR 52.232-20? (SF 1408, Section II, 3a)

13. Billings (e.g. progress payments, public vouchers): Does the contractor have controls or procedures that would provide that interim billings of direct cost are prepared directly from the books

and records, excluding unallowable costs. Does the contractor 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? Can billings be reconciled to the cost accounts for both current and cumulative amounts claimed? (CAM 6-1006) (SF 1408, Section II, 3b)

14. Adequate, Reliable Data: Is the contractor's system capable of producing cost information at a sufficient level of detail for use in pricing follow-on contracts. (SF 1408, Section II, 4)

15. Accounting system in operation. Is the accounting system in full operation? If not, which portions are in operation and what is the status of implementing the full accounting system? (SF 1408, Section II, 5)