


WHAT MAKES AN ACCOUNTING SYSTEM COMPLIANT

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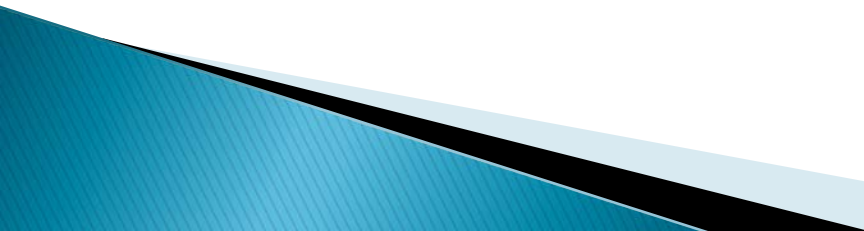
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OVERVIEW

- ▶ Separation of Direct and Indirect Costs
 - ▶ Identification of Direct Costs by Project/Task
 - ▶ Identification of Indirect Costs by Pool
 - ▶ Separation of Unallowable Expenses
 - ▶ Monitoring of Value vs. Spent
 - ▶ Recording Costs as Proposed/Billed
 - ▶ Traceability of Transactions Through Accounting System
 - ▶ Policies / Procedures
 - ▶ Other Notables
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Direct vs. Indirect

- ▶ Direct Expenses – Any cost that is identified specifically with any particular final cost objective.
 - Examples – Labor, Subcontractors, Travel, Materials
 - ▶ Indirect Expenses – means any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.
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Direct Costs

- ▶ **Contract Requirements**
 - Tasks or Line Items require costs to be captured not only by contract, but by each task and/or line item (CLIN)
 - May involve Work Breakdown Structure (WBS)
 - May require billing at lower levels
 - May require tracking cost/spending at lower levels
 - Ability to roll-up to contract level

Example of WBS

▶ Contract

▶ Task 1

- ▶ – Activity –1
- ▶ – Activity –2
- ▶ – Activity –3

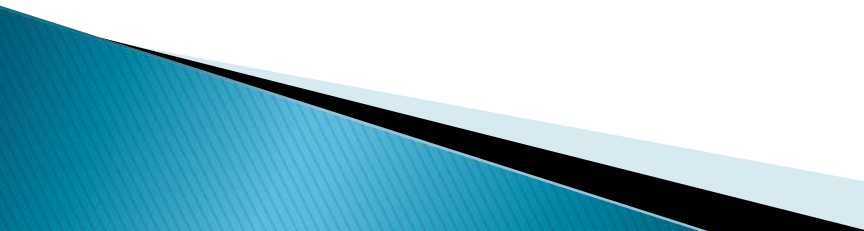
Task 2

- Activity –1
- Activity –2
- Activity –3


Task 3

- Activity –1
- Activity –2
- Activity –3

Indirect Expenses

- ▶ Examples include – Rent, Facility Expenses, Administrative Salaries, Fringe Benefits, etc.
 - ▶ Recovery of these costs through Indirect Cost Pools.
 - Fringe
 - Overhead
 - Subcontract Handling
 - Material Handling
 - General & Administrative (G&A)
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Indirect Cost Pools

- ▶ No prescribed method for recovery of indirect costs
 - ▶ DCAA strongly prefers that all cost receive an allocation
 - ▶ Establish method
 - ▶ Remain consistent with method
 - ▶ Ability to calculate on interim basis
 - ▶ Some contracts require Incurred Cost Submission (FAR 52.216-7) Allowable Cost & Payment Clause
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Unallowable Costs

- ▶ Unallowable cost” means any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract to which it is allocable.
- ▶ Examples –
 - Federal Corporate Taxes, Bad Debt, Entertainment, Donations/Contributions, Interest Expense
 - FAR 31.205

Allowable vs. Unallowable

- ▶ Reasonable
- ▶ Allocable
- ▶ Terms of the Contract
- ▶ A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported – FAR 31.201–2 (d)

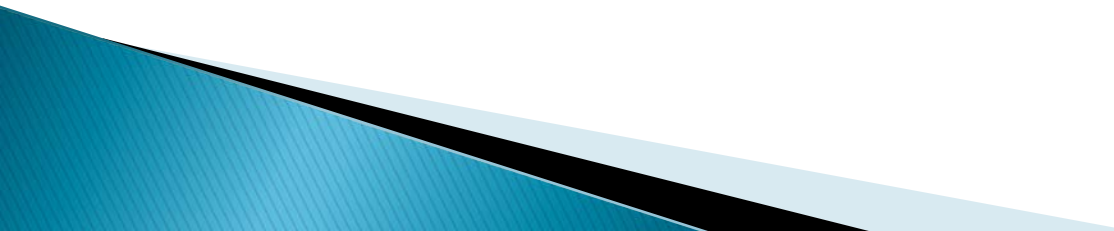
Monitoring Values

- ▶ Track Amounts Billed against Funded/Contract Value
- ▶ Notify when 75% – 85% against Funded Value
- ▶ Monitoring Ceilings established within the Contract
 - By Cost Element or Labor Category
 - Ceilings on Indirect Rates

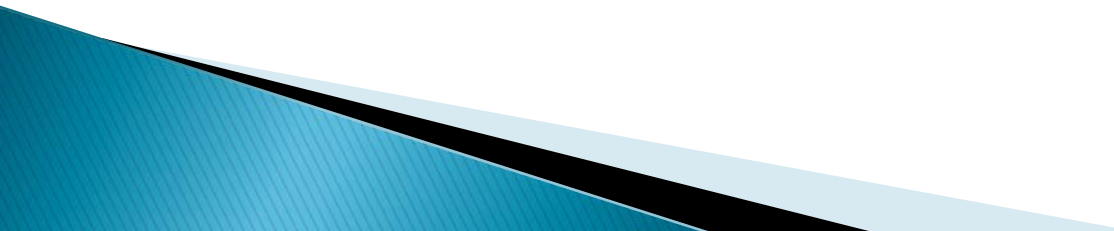
Consistency

- ▶ Remain consistent with classification of costs
- ▶ Recording costs in similar manner as proposed and billed
 - CAS 401 Estimated & Recording
 - Classification of Direct vs. Indirect Costs
 - Application of Indirect Costs

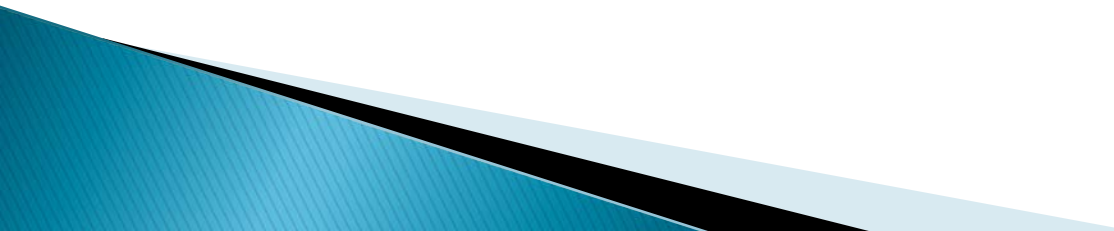
Traceability

- ▶ Flow of transactions through accounting system
 - Labor from Timesheet to Payroll Records – Same Labor to Job Cost Report – Same Labor to Billing (Cost Plus or T&M Contract)
 - Accounts Payable – Vendor Invoice to Vendor Payment to Job Cost to Billing
 - ▶ Approval Processes
 - ▶ Accounting Procedures
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Policies / Procedures

- ▶ Labor / Timekeeping
 - ▶ Travel
 - ▶ Bonus
 - ▶ Purchasing
 - ▶ Credit Card
 - ▶ Employee Handbook
 - ▶ Overall Accounting Policy
 - Document Accounting System
 - Basic Description of Process
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Other Compliance Areas

- ▶ Payment of Vendors in a Reasonable Timeframe
 - ▶ Adequate Documentation
 - ▶ Labor Tracking/Reporting
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Conclusion

- ▶ Most accounting systems can be designed to:
 - Separate Direct from Indirect
 - Capture Direct Costs by Contract/Task/CLIN, etc.
 - Breakdown of Indirects by Cost Pool
 - Segregation of Unallowable Costs
- ▶ Possible manual calculations:
 - Indirect Rate Calculations
 - Job Cost Reports with Indirect Application
 - Contract Reports & Billing – Combined at Contract Level

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