



Cost Accounting System Compliance for Government Contractors

Project Cost with Microsoft Dynamics GP



ISV Software Solutions
Microsoft Business Solutions



PROJECT COST BY OLYMPIC SYSTEMS, INC.

Cost Accounting System Compliance for Government Contractors

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Introduction

Companies that desire to conduct business with federal government agencies are subject to a wide range of special rules and regulations that commercial businesses do not experience.

Due to the uniqueness of these rules and regulations the federal government requires that these businesses undergo a review of their cost accounting system prior to contracts being awarded.

This paper is intended for managers of companies who are looking for a deeper understanding of the Pre-Award Survey process and to understand how Project Cost along with Microsoft Dynamics GP can provide an excellent operating platform for your business.

This paper will discuss:

1. The two major categories of information requested in the Pre-Award Survey
 - a. Financial Capability Audit
 - b. Accounting Systems Survey
2. The role of Microsoft Dynamics GP
3. Certified ISV Solutions
4. Project Cost with Microsoft Dynamics – GP Contribution
5. Review of Standard Form 1408 Section II – Evaluation Check List
6. Other resource sites and reference documents

Cost Accounting System Compliance -Pre-Award Survey

A pre-award survey is an evaluation of a prospective contractor's ability to perform a proposed contract, usually made by the contract administration office for particular government agency issuing the contract. These surveys may cover technical, production, quality assurance, financial capability, accounting system, and other considerations. In the case of Department of Defense contracts, that agency is the Defense Contract Audit Agency (DCAA) however, each federal agency has an audit authority.

This discussion is concerned with two categories of information that may be requested in a Pre-Award Survey – the first deals with the contractor's financial capability to perform the contract and the other deals with the adequacy of the accounting system to accumulate the type of cost information required by the contract.

Financial Capability Audits

Financial capability audits are performed to determine if the contractor is financially capable of performing on Government contracts. The type of financial information examined consists of such data as:

- (1) Financial statements, reports issued to stockholders, lending institutions, and SEC filings,
- (2) Cash flow forecasts,
- (3) Loan agreements and evidence showing compliance with these agreements,
- (4) Aging of accounts receivable and payable,
- (5) Financial history of the contractor and affiliated concerns
- (6) Employee payroll tax returns (Federal).

Based on this information, the auditor will make a recommendation regarding whether or not a contractor has sufficient financial resources to perform the contract.

Accounting System Surveys - General

The pre-award accounting system survey is used to determine whether a prospective contractor's accounting system is designed in accordance with Generally Accepted Accounting Principles applicable in the contractor's circumstances. These surveys are conducted based on requirements specified in GSA Standard Form 1408.

The evaluators' assessment and narrative comments are written on the front side of the form. The requirements and Evaluation Checklist are shown on the back side of the form.

It is important to note that the evaluator's assessment is not based on the brand of accounting software used, but rather on the implementation of the accounting systems and the procedures used to insure accurate data for cost and pricing purposes.

This means that it is possible to implement very capable accounting software badly to create an unacceptable accounting system. It is also possible to implement an acceptable accounting system with very little software.

The role of accounting software in the accounting system design is to reduce data preparation costs, improve accuracy, improve the quality of cost and pricing presentations, and to improve an auditor's ability to determine that cost and pricing proposals have been prepared using appropriate and consistent cost accounting techniques.

Microsoft Dynamics GP Contribution

Microsoft Dynamics GP is a comprehensive financial accounting and business management system built on Microsoft's technology platform that meets GAAP standards for accounting practices. The core package offers a wealth of 'out-of-the-box' functionality including; General Ledger, Accounts Payable, Accounts Receivable, Inventory Control, Fixed Asset Management, Invoicing, and Purchase Order Processing.

Microsoft makes use of Independent Software Vendor (ISV) Solutions to augment or extend the functionality of their core accounting package. ISV solutions are developed to meet specific industry or business needs.

Certification of ISV Solutions

Microsoft has a certification program for ISV solutions called 'Certified for Microsoft Dynamics' (CfMD). This certification process provides customers with the confidence that this software solution is ready to deploy for specific industry and business needs, is tested to meet Microsoft's highest standards, comes recommended by other companies in the industry and is backed by financially viable companies.

Project Cost has passed the Certified for Microsoft Dynamics certification and maintains the CfMD Logo compliancy by recertifying every 2 years.

Project Cost's Contribution

Accuracy & Consistency: Project Cost allows users to efficiently and accurately charge costs to the appropriate Project and Task and the resulting correct General Ledger account. Limits imposed at the task level prohibit charges to incorrect cost categories. Users do not need to understand account coding requirements. By selecting the correct Project and Task the proper account coding is achieved.

Ease of Use: Project Cost extends standard Dynamics GP accounting transaction forms making assignment of Project and Task codes to all or portions of an accounting transaction both efficient and accurate. Reduced costs are achieved by single entry processing, fewer keystrokes, and easily understood and consistent extension of Dynamics GP processes.

Reduced Cost: Project Cost reduces costs with lower installation and training costs, fewer keystrokes, and fewer errors and corrections.

Reconciliation of Sub-Ledgers: Project Cost provides automated reconciliation between the General Ledger and the Project Cost Transaction Sub-Ledger. This makes the auditing of requirements 2b and 2d less difficult, quicker, and less costly.

Perfect Audit Trail: Project Cost provides a perfect audit trail between each Dynamics GP transaction, each GL transaction, and the associated Project Cost transaction. Project Cost also records the changes for each time and expense transaction, including those that are eventually deleted. This makes it easy to prove that users did not enter time before the work was performed or to identify transactions that may have been changed without appropriate review and justification.

Consistency: Project Cost supports cost accounting guidelines that require that cost based contracts consistently use identical costing techniques and policies across bid and proposal documents and invoices for products and services.

Together, Project Cost and Microsoft Dynamics GP can deliver a comprehensive business management system for Government Contractors.

Standard Form 1408 Section II Evaluation Checklist

A PDF of the SF1408 is available as a part of the Olympic Project Cost Sure Step Program, and is also available on our web site: <http://www.projectcost.net/whitepapers.aspx>.

Following are discussions of key elements.

Item 1 “Except as stated in section I narrative, is the accounting system in accord with Generally Accepted Accounting Principles applicable in the circumstances?”

Through observation or discussion, the auditor will verify that the contractor’s accounting system is in accordance with GAAP.

Item 2 (a thru j). The Accounting System Provides for:

Item 2a. Proper Segregation of Direct Cost from Indirect Cost.

Verify that procedures and controls exist to insure the proper segregation of cost. The accounting system must identify accounts for both direct and indirect costs.

Item 2b. Identification and Accumulation of Direct Cost by Contract.

Verify that the contractor has either a subsidiary project ledger or accounts receivable ledger with accumulates cost by contract at a level of detail consistent with that used by the contractors proposal.

Item 2c. A Logical and Consistent Method for Allocation of Indirect Cost to Intermediate and Final Cost Objectives.

Verify that procedures and controls exist to accumulate indirect cost in logical groupings and determine that the groupings are allocated based on benefits accrued to the intermediate and final cost objectives. Consistent is the key word in this requirement. Cost Accounting Standards require that costs be consistently categorized as direct or indirect and that they be allocated to direct costs consistently across contract types and types of final cost objectives.

Item 2d. Accumulation of Cost Under General Ledger Control.

Verify that the project ledger is reconcilable and currently posted to the general ledger.

Item 2e. A Timekeeping System that Identifies Employees’ Labor by Intermediate or Final Cost Objectives.

Verify that Labor is charged to intermediate and final cost objectives based on timekeeping documents (either paper or electronic timecards) completed and certified by the employees and approved by the employees’ supervisors.

Item 2f. A Labor Distribution System that Charges Direct and Indirect Labor to the Appropriate Cost Objectives.

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.

Item 2g. Interim (at least monthly) Determination of Costs Charged to a Contract Through Routine Posting of Books of Account.

Determine that the contractor post contract cost at least monthly to books of account.

Item 2h. Exclusion from Cost Charged to Government Contracts of Amounts Which are not Allowable in Terms of FAR31, Contract Cost Principles and Procedures or Other Contract Provisions.

Verify the contractor's plan to identify and exclude unallowable cost if the contract is awarded. The FAR identifies some costs as expressly unallowable: e.g., bad debts (FAR 31.205-3); contingencies (FAR 31.205-7); contributions or donations (FAR 31-205-8); and entertainment (FAR 31.205-14), and requires that they be excluded from proposals and billings.

Additionally, costs mutually agreed to be unallowable between the contractor and the contracting officer also may not be proposed or billed. DCAA will determine if the accounting system identifies these expressly unallowable costs and segregates them in the books of records. While these costs may be legitimate business expenses, they will not be accepted by the U.S. Government as allowable contract costs. FAR 42.709 authorizes contracting officers to assess a penalty if a contractor claims an expressly unallowable cost in (1) the final indirect cost rate proposal or (2) the final statement of costs incurred or estimated to be incurred under a fixed-price incentive contract.

Item 2i. Identification of Cost by Contract Line Item and by Units (as if each unit or line item were a separate contract) if Required by the Proposed Contract.

Some contracts require that the cost of certain items be readily identifiable. In such cases, DCAA will review a contractor's accounting system to determine if a contractor can comply with such requirements.

Item 2j. Segregation of Preproduction Cost from Production Cost.

While this applies primarily to contracts that involve Engineering Design & Manufacturing - the auditor will verify that procedures and controls exist to insure that the accounting system is able to segregate these costs.

Item 3 (a & b). The Accounting System Provides Financial Information:

Item 3a. Required by Contract Clauses Concerning Limitation of Cost (FAR 52.232-20/21) or Limitation on Payments (FAR 52.216-16)

Verify that the interim indirect expense rates can be readily calculated from the books of accounts, and that the interim rates routinely monitored.

Item 3b. Required to Support Request for Progress Payments.

Verify that procedures and controls exist that would provide that interim billings of direct cost are prepared directly from the books and records, excluding unallowable costs. Also verify that billings can be reconciled to the cost accounts for both current and cumulative amounts claimed.

Item 4. Is the Accounting System Designed, and are the Records Maintained in Such a Manner that Adequate, Reliable Data are Developed for use in Pricing Follow-on Acquisitions?

The auditor will verify that the contractor's system is capable of producing cost information at a sufficient level of detail for use in pricing of follow-on contract.

Item 5. Is the Accounting System Currently in Full Operation?

The auditor will verify the operating status of the accounting system. 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 Pre-Award Survey Prospective Contractor Accounting System

| | | |
|--|--|---|
| PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM | SERIAL NO. <i>(For surveying activity use)</i> | OMB Control Number: 9000-0011 Expiration Date: 1/31/2017 |
| | PROSPECTIVE CONTRACTOR | |

Public reporting for this collection of information is estimated to average 24 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Regulatory Secretariat (MVCB), Office of Acquisition Policy, GSA, 1800 F Street, NW, Washington, DC 20405.

SECTION I - RECOMMENDATION

1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT

YES NO *(Explain In 2. NARRATIVE)*

YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER CONTRACT AWARD *(Explain In 2. NARRATIVE)*

2. NARRATIVE *(Clarification of deficiencies, and other pertinent comments, if additional space is required, continue on plain sheets of paper.)*

IF CONTINUATION SHEETS
ATTACHED - MARK HERE

| | | | |
|------------------------------------|---|--|--|
| 3. SURVEY MADE BY | a. SIGNATURE AND OFFICE <i>(Include, typed or printed name)</i> | b. TELEPHONE NO. <i>(include area code)</i> | c. DATE SIGNED |
| | <div style="background-color: #e0e0ff; height: 20px;"></div> | <div style="background-color: #e0e0ff; height: 20px;"></div> | <div style="background-color: #e0e0ff; height: 20px;"></div> |
| 4. SURVEY REVIEWING OFFICIAL | a. SIGNATURE AND OFFICE <i>(Include typed or printed name)</i> | b. TELEPHONE NO. <i>(include area code)</i> | c. DATE REVIEWED |
| | <div style="background-color: #e0e0ff; height: 20px;"></div> | <div style="background-color: #e0e0ff; height: 20px;"></div> | <div style="background-color: #e0e0ff; height: 20px;"></div> |

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Previous edition usable

STANDARD FORM 1408 (REV. 1/2014)
Prescribed by GSA FAR (48 CFR) 53.209 -1(f)

SECTION II - EVALUATION CHECKLIST

| MARK "X" IN THE APPROPRIATE COLUMN <i>(Explain any deficiencies in SECTION I NARRATIVE)</i> | YES | NO | NOT APPLICABLE |
|---|-----|--------------------------|--------------------------|
| 1. EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES? | X | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. ACCOUNTING SYSTEM PROVIDES FOR: | | | |
| a. Proper segregation of direct costs from indirect costs. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Identification and accumulation of direct costs by contract. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is final cost objective.) | X | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Accumulation of costs under general ledger control. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| j. Segregation of preproduction costs from production costs. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION: | | | |
| a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16). | X | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Required to support requests for progress payments. | X | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS? | X | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? (If not, describe in Section I Narrative which portions are (1) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent.) | X | <input type="checkbox"/> | <input type="checkbox"/> |

Other Resources:

The Defense Contract Audit Agency website: <http://www.dcaa.mil/>

Provides access to reference information and other resources from the Department of Defense.

GSA Forms website: <http://www.gsa.gov/Portal/gsa/ep/formslibrary.do?formType=SF>

The GSA-Forms Catalog provides citizens and businesses with a common access point to thousands of federal agency forms. It provides users with the ability to search for federal forms needed to interact with the Federal Government.

DCAA Information for Contractors – available on our website

<http://www.projectcost.net/whitepapers.aspx>.

This document has been prepared by the DCAA to assist contractors in understanding applicable requirements and to help ease the contract audit process.

The information contained in this document represents the current view of Olympic Systems on the issues discussed as of the date of publication. Because Olympic Systems must respond to changing market conditions, this document should not be interpreted to be a commitment on the part of Olympic Systems and Olympic Systems cannot guarantee the accuracy of any information presented after the date of publication.

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