



FEATURE



## DCAA — What Is It? And How Can You Comply?

[By Curt Finch, CEO, Journyx]

What is DCAA?

The Defense Contract Audit Agency (DCAA), under the authority, direction, and control of the United States as represented by the Secretary of Defense, performs all contract audits for the United States Department of Defense (DoD). DCAA also provides contract audit services to some other government agencies.

Today, the DCAA consists of approximately 4,000 people located at more than 300 field audit offices throughout the world. Much more data is available at [www.dcaa.mil](http://www.dcaa.mil).

The purpose of the agency, simply put, is to avoid the purchase of \$300 hammers and \$1,000 toilet seats. Business services companies, such as software and management consultancies, that sell project management and other services to government agencies need to comply with a number of DCAA requirements if they want to avoid failing an audit. As taxpayers, we should all be thrilled that our government has put processes in place to avoid overpayment and being defrauded.

As business owners selling to the federal government, however, these procedures complicate the process for winning and performing on government contracts tremendously, especially for smaller firms. Luckily, there are consultancies (such as Lunarline in Washington, D.C.) and technologies (such as Journyx) that can assist with meeting these requirements.

Lunarline, for example, provides a DCAA compliance kit with consulting services to make your company compliant after you've won a contract from the government. Journyx provides web-based project time tracking and cost accounting software available as an online-hosted service to assist with certain important portions of the DCAA compliance regulations set.

In order to be compliant with DCAA and be able to pass a potential audit, your company must have documented policies and procedures which are followed to the letter, as well as a system that charges labor

for hourly time (which could conceivably be on paper but in practice rarely is), certain accounting and billing system properties, and employees that are trained in certain aspects of compliance (such as tracking their time on a daily basis).

Costs (especially hourly labor costs) must be allocated and accumulated separately by various categories, including direct versus indirect, and per contract. Indirect costs (such as the costs of accounting, billing and payroll, and HR and benefits personnel) must be consistently documented and allocated across the direct-cost items. Reports must be generated at least monthly. Unallowable expenses must be identified and excluded by policy.

There are many, many regulations to comply with that explain how to estimate projects, bid on them, bill for them, and allocate costs for them.

Here is an excerpt from one of many DCAA documents, "DCAAP 7641.90 Information for Contractors":

### 2-302.2 Recommended Timekeeping Policy

- a. The supervisor should approve and cosign all timecards.
- b. The supervisor is prohibited from completing an employee's timecard unless the employee is absent for a prolonged period of time on some form of authorized leave. If the employee is on travel status, the supervisor for the employee may prepare a time sheet. Upon his or her return, the employee

should turn in his/her time sheet and attach it to the one prepared by the supervisor.

c. The guidance should state that the nature of the work determines the proper distribution of time, not availability of funding, type of contract, or other factors.

d. The company policy should state that the accurate and complete preparation of timecards is a part of the employee's job. Careless or improper preparation may lead to disciplinary actions under company policies as well as applicable Federal statutes.

If your eyes glazed over while reading that, you're not alone.

The DCAA offers about 75 different courses you can take, some of them online, that enable you to learn how to comply. This is what makes consultancies like Lunarline so attractive. They already know all the answers and how they would apply to your company.

Many software vendors will claim that their software will make you DCAA compliant. While they probably help, however, software alone will not accomplish this. For example, even if you have time sheet software that enables daily entry of time, that doesn't mean your employees will use it. The company policies and procedures must also be in place and enforced in order for the software to be effective.

The Federal Acquisition Regulations (FAR), are a series of regulations issued by the



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Federal government that concern the requirements of contractors for selling to the government, the terms under which the government obtains ownership, title, and control of the goods or services purchased, and rules on specifications, payments, and conduct and actions regarding solicitation of bids and payment of invoices. Many of the DCAA documents found at [www.dcaa.mil](http://www.dcaa.mil) refer to FAR.

The FAR consists of tens of thousands of pages and two parts: the general acquisition regulations that govern all transactions with the government in general, and the specific regulations issued by a specific Federal agency that govern transactions with that agency. One of the best-known examples of the latter is the Defense Federal Acquisition Regulation Supplement (DFARS), which is used by the Department of Defense.

The purpose of the FAR is to specify exactly how the government is to acquire a particular product or service, how it is to be judged in terms of quality and price, and to ensure that the government does not pay for certain prohibited expenses such as the costs of lobbying and financing. The FAR is also intended to prevent kickbacks, undue influence, corruption, and other misconduct. It may also include requirements for purchases to be made in the United States, for large organizations to use smaller ones (including women- and minority-owned and disadvantaged business enterprises) as subcontractors, to not discriminate against certain classes of people, to engage in certain practices such as minority hiring and

affirmative action, and other requirements depending on the type of contract and its dollar value.

DCAA regulations are often very specific about how adherence to FAR will be audited.

An additional term often used is CAM. This stands for the *DCAA Contract Audit Manual*. It is an instruction book for auditors who work on behalf of the government. It is available at [www.dcaa.mil/cam/Chapter\\_00\\_-\\_Introduction\\_to\\_the\\_DCAA\\_Contract\\_Audit\\_Manual.pdf](http://www.dcaa.mil/cam/Chapter_00_-_Introduction_to_the_DCAA_Contract_Audit_Manual.pdf) and is also thousands of pages long. It discusses standards for auditing, how to plan for an audit, cost accounting standards, auditing of estimates and proposals, statistical sampling techniques for audits, who can obtain audit reports, how they're distributed, and what they should look like.

If all this sounds daunting, that's because it is. However, many small companies pass DCAA audits all the time, and there are people and technologies that can help you do so. Like most things in business, it's cheaper to solve the problems in advance of an audit when the pressure and time criticality of the exercise are less onerous.

It is important to remember that one of the most critical portions of a DCAA audit concerns detailed labor and cost center tracking. Technology solutions can automate the costly process of capturing and reporting contract-specific data and provide critical supporting documentation for DCAA audits. Defense contractors must have labor systems with the following internal controls:

- Effective method to monitor the overall integrity of the system;
- Effective employee awareness training program;
- Effective procedures for labor approvals; and
- Effective procedures for labor cost accounting (cost accounting standards, contract terms).

Getting a system in place to monitor these issues is a requirement if you intend to sell services to the government. The sooner you start, the better.

**About the Author**

Curt Finch is the CEO of Journyx ([pr.journyx.com](http://pr.journyx.com)), a provider of web-based software located in Austin, Texas, that tracks time and project accounting solutions to guide customers to per-person, per-project profitability. Journyx has thousands of customers worldwide and is the first and only company to establish Per Person/Per Project Profitability (P5), a proprietary process that enables customers to gather and analyze information to discover profit opportunities. In 1997, Curt created the world's first Internet-based timesheet application — the foundation for the current Journyx product offering. Curt is an avid speaker and author, and recently published *All Your Money Won't Another Minute Buy: Valuing Time as a Business Resource*.

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