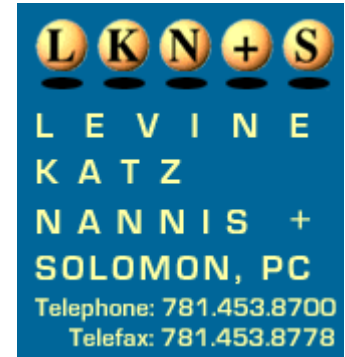
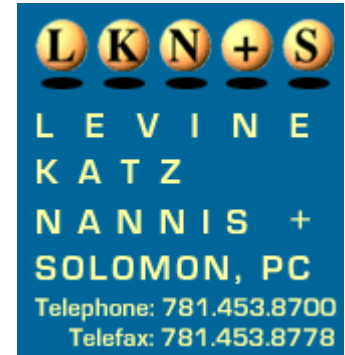


GOVERNMENT ACCOUNTING REQUIREMENTS

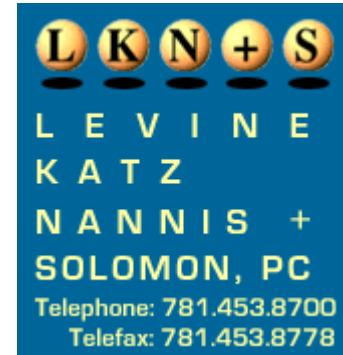


- **Basic Accounting Systems**
- Time Reporting
- DCAA Encounters



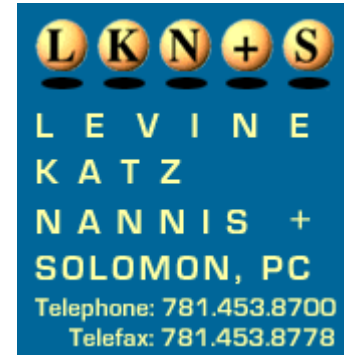
CRITICAL ELEMENTS OF AN ACCOUNTING SYSTEM

- ***Designed in Accordance with GAAP***
- ***Proper Segregation of Direct and Indirect Costs***
- ***Identification and Accumulation of Direct Costs by Contract***
- ***Logical and Consistent Method for the Allocation of Indirect Costs***
- Accumulation of Costs under General Ledger Control
- ***A Timekeeping System of Employee's Time Charges***
- Labor Distribution of Direct and Indirect Labor
- Interim Determination of Costs Charged to Contracts
- ***Exclusion of Unallowable Costs***
- Identification of Costs by Contract Line Item or by Units
- Segregation of Preproduction Costs



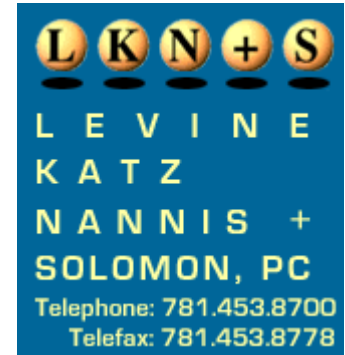
DESIGNED IN ACCORDANCE WITH GAAP

- FAR 31.201-2(a)(3) requires when considering allowability:
 - “A cost is allowable only when the cost complies with all of the following requirements:
 -(3) standards promulgated by the CAS Board, *if applicable*; otherwise, generally accepted accounting principles and practices appropriate to the particular circumstances.”



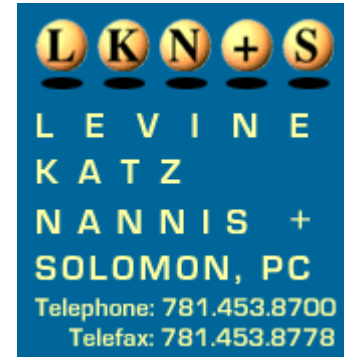
PROPER SEGREGATION OF DIRECT AND INDIRECT COSTS

- A government contractor's accounting system must identify accounts in its chart of accounts for direct costs and indirect costs
- The system must identify what costs are direct. Once the criterion is defined, it must be consistently applied



INDIRECT RATE SYSTEMS

- Single Rate System
- Two Rate System
- Multiple Rate System

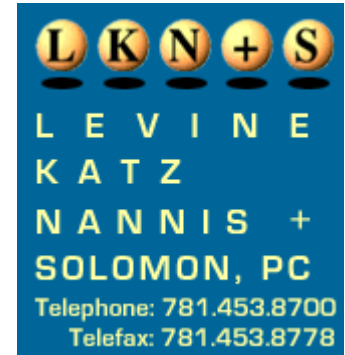


How is an Indirect Expense Rate Calculated?

INDIRECT COST POOL
ALLOCATION BASE

Equals

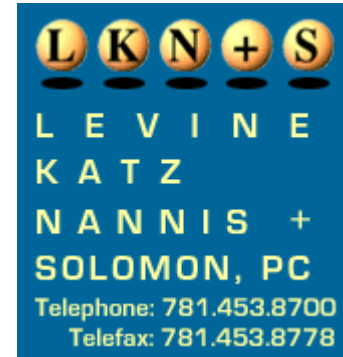
INDIRECT EXPENSE RATE



What is a Good Rate for a Government Contract?

- **Cannot Compare one Company to another!**
- **Companies have Different Rate Structures**
- **Composition of the Pool and Base are Different**
- **Company Location has Impact on Rates**
- **Type of Business has Impact on Rates**

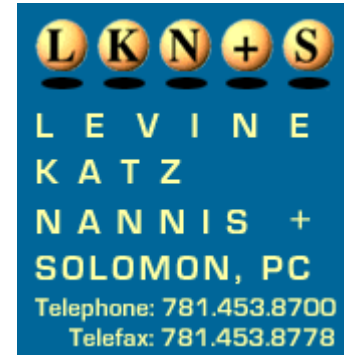
THERE IS NO GOOD RATE FOR A GOVERNMENT CONTRACT



Unallowable Costs per FAR Part 31

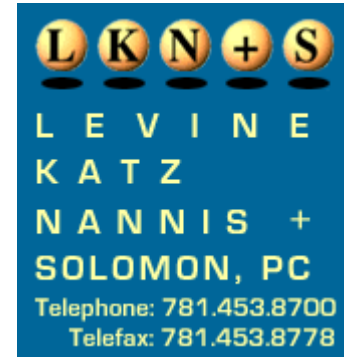
- Contributions
- Interest Expense
- Entertainment
- Fines & Penalties
- Other Unallowable Costs (reference FAR Part 31 and Agency Supplements)

***It's OK to Incur Unallowable Expenses
They must be accounted for and withdrawn***

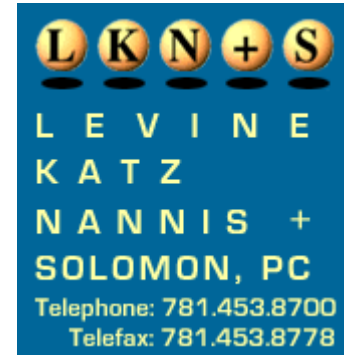


GUIDANCE FOR THE ALLOWABILITY OF COSTS

- DCAA - FAR Cost Principles Guide (www.dcaa.mil)
- DCAA Contract Audit Manual (CAM) chapter 7 Selected Areas of Costs (www.dcaa.mil)
- FARSITE – FAR Part 31.205-xx (<http://farsite.hill.af.mil/VFFARA.HTM>)



- Basic Accounting Systems
- **Time Reporting**
- DCAA Encounters

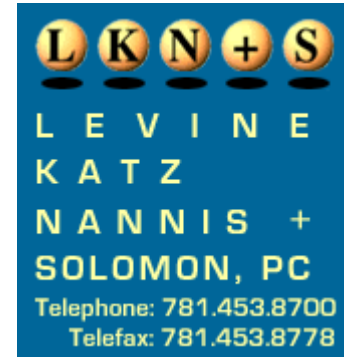


TIMEKEEPING SYSTEM FOR ALL EMPLOYEES

- A government contractor's accounting system must have the ability to track employee's time spent on each work activity

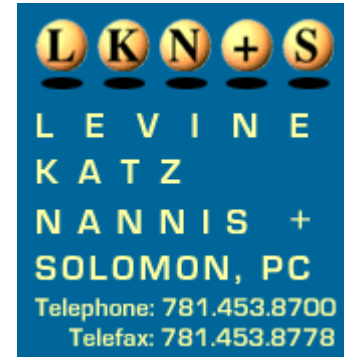
TIMEKEEPING IS CRITICAL!!

Unlike other contract costs, labor is not supported by external documentation



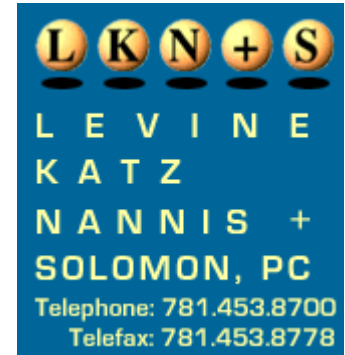
EFFECTIVE INTERNAL CONTROLS FOR TIMEKEEPING

- Segregation of Duties and Responsibilities
- Clear Policies and Procedures
- Maintenance of Internal Controls
- Constant Communication to Employees

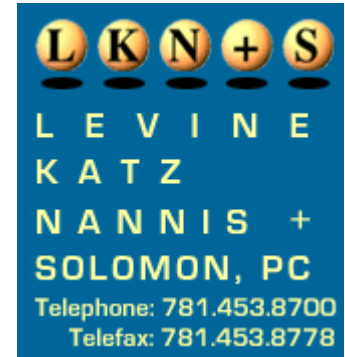


TIME SHEETS ARE ABSOLUTELY REQUIRED

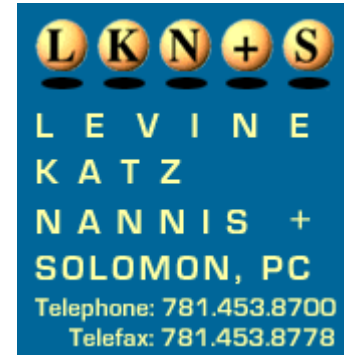
- ❖ SHOULD REPORT BASED ON THE PAY PERIOD,
- ❖ ALL HOURS NEED TO BE REPORTED
- ❖ IF SALARIED AND WORK IN EXCESS OF 40 HOURS
 - ❖ PERCENTAGE OF EFFORT-UNCOMPENSATED OVERTIME
- ❖ IF HOURLY PAY BASED ON HOURS WORKED



- Basic Accounting Systems
- Time Reporting
- **DCAA Encounters**



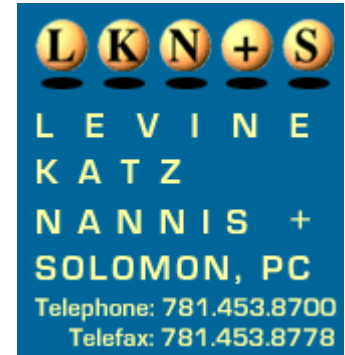
- **Pre-Award Audits**
 - Accounting System Survey
 - Financial Capability Assessment
 - Cost or Price Analysis
- **Contract Performance Audits**
 - Incurred Cost Audits
 - Labor Floor Checks
 - Voucher Review



PROCEDURES FOR ACCOUNTING SYSTEM SURVEYS

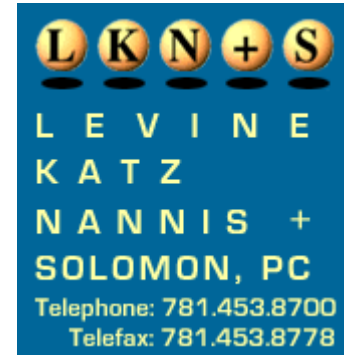
- Review of Chart of Accounts
- Review of Policies and Procedures
- Discussions with Contractor Personnel
- Copies of Timecards and Timekeeping Procedures
- Walkthrough of Transactions
- Explanation of Indirect Rate Calculations

PROCEDURES DO NOT INVOLVE DETAILED TRANSACTION TESTING. THE PROCEDURES ARE ONLY USED TO DETERMINE THE SUITABILITY OF THE SYSTEM FOR GOVERNMENT CONTRACTS



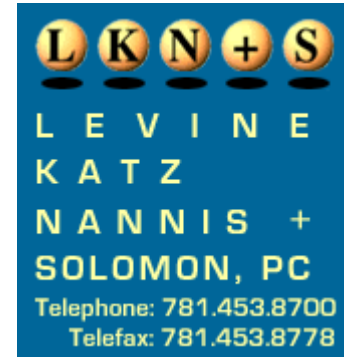
COMMON ACCOUNTING SYSTEM DEFICIENCIES

- Use of Cash Basis Accounting
- No Job Order Cost Ledger or Accounting
- No Labor Distribution Reports
- Unallowable Costs not Accounted For
- No Written Policies and Procedures
- No Timekeeping Procedures
- No Time Cards



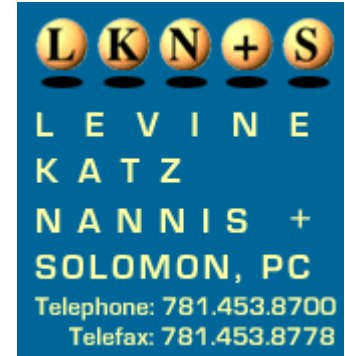
FINANCIAL CAPABILITY ASSESSMENT

- Historical Financial Statement Trend Analysis
- Timely Payment of Payroll Taxes
- Key Financial Ratio Analysis
- Credit Ratings
- Accounts Payable Aging
- Cash Flow Forecasts



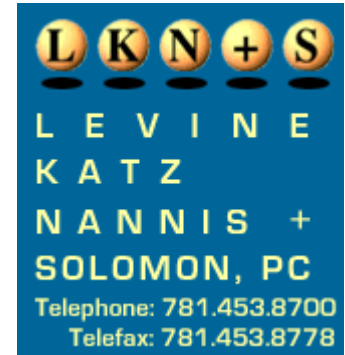
INCURRED COST AUDITS

- Incurred Cost Submission – Due 180 days after close of year (6-30-2009)
- Cost-Type & T&M contracts (FAR 52.216-7)
- Audit of Allowability and Allocability of Costs Incurred
- Detailed On-Site Audit of Financial Records



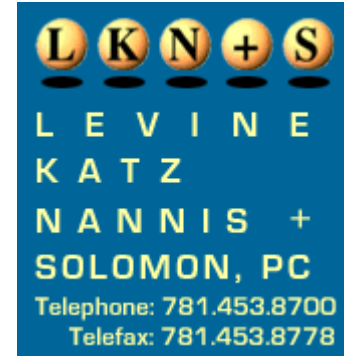
LABOR FLOORCHECKS

- Unannounced On-Site Audit
- Interview Employees and Verify Labor Charges
- Tests Employees Knowledge of Timekeeping Practices
- Tests Actual Timekeeping Practices versus Company Policies



VOUCHER REVIEW

- Review of Company Billing Practices
- Trace Billed Direct Costs to Job Costs Ledgers
- Verify Company is using Proper Billing Rates
- Company is following the Terms of Contract for Billing



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