



Women Accessing Capital Training 207: **Setting up an Accounting System For Government Contractors**

Course Instructor:

Michelle Hoffman, CPA
CEO, Hoffman CFO Consulting



- The Voice for Women in Business in our Nation's Capital.
- National nonpartisan public policy organization representing over half a million Women Business Owners including 51 business organizations.
- Advocates for and on behalf of women and minorities in business.
- Thirty-one local Instant Impact teams across the country engaging with legislative officials and the business community to advocate for Women Business Owners.

www.WIPPP.org



Women Accessing Capital:

Women, Money and Opportunity



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National program from WIPP's "Women, Money and Opportunity" series.

The program is designed to educate women business owners on how to secure the money that will support and grow your business.

www.WomenAccessingCapital.com



Instructor



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Setting up an Accounting System For Government Contractors



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Course Goals

- Gain understanding of the accounting system requirements and cost principals for federal government contractors
- Use of the “Preaward Survey of Prospective Contractor Accounting System” SF 1408 as a class guide www.acquisition.gov/far/html/FormsStandard41.html
- Learn how to structure an accounting system to meet SF 1408 requirements
- Overview of DCAA “cost principals” – regulations that define allowable (and unallowable) costs



Approved Accounting System



Don't believe the hype!

- No accounting system software is “approved”
- Watch out for false advertising (“If you’re using QuickBooks, your business is at risk”)

Reliable information:

- DCAA Information for Contractors document

<http://www.dcaa.mil/dcaap7641.90.pdf>

- Cost Principals defined in Part 31 FAR, OMB Circulars A-22, A-87 and A-122

<https://www.acquisition.gov/far/html/FARTOCP31.html>

Standard Form 1408

<p>PREAWARD SURVEY OF PROSPECTIVE CONTRACTOR ACCOUNTING SYSTEM</p>	SERIAL NO. <i>(For surveying activity use)</i>	OMB No.: 9000-0011 Expires: 10/31/97
PROSPECTIVE CONTRACTOR		
Public reporting burden 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 and reviewing 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 FAR Secretariat (VRS), Office of Federal Acquisition and Regulatory Policy, GSA, Washington, DC 20405; and to the Office of Management and Budget, Paperwork Reduction Project (9000-0011), Washington, DC 20503.		
SECTION I - RECOMMENDATION		
1. PROSPECTIVE CONTRACTOR'S ACCOUNTING SYSTEM IS ACCEPTABLE FOR AWARD OF PROSPECTIVE CONTRACT		
<p style="text-align: center;"> <input type="checkbox"/> YES <input type="checkbox"/> NO <i>(Explain in 2. NARRATIVE)</i> </p> <p style="text-align: center;"> <input type="checkbox"/> YES, WITH A RECOMMENDATION THAT A FOLLOW ON ACCOUNTING SYSTEM REVIEW BE PERFORMED AFTER CONTRACT AWARD <i>(Explain in 2. NARRATIVE)</i> </p>		
2. NARRATIVE <i>(Clarification of deficiencies, and other pertinent comments. If additional space is required, continue on plain sheets of paper.)</i>		
IF CONTINUATION SHEETS ATTACHED - MARK HERE <input type="checkbox"/>		
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
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
AUTHORIZED FOR LOCAL REPRODUCTION Previous edition usable		STANDARD FORM 1408 (REV. 9-88) Prescribed by GSA FAR (48 CFR) 53.209-1 (f)

STANDARD FORM 1408 (BACK)

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?			
2. ACCOUNTING SYSTEM PROVIDES FOR:			
a. Proper segregation of direct costs from indirect costs.			
b. Identification and accumulation of direct costs by contract.			
c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is a final cost objective.)			
d. Accumulation of costs under general ledger control.			
e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives.			
f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives.			
g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account.			
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.			
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.			
j. Segregation of preproduction costs from production costs.			
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).			
b. Required to support requests for progress payments.			
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?			
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.)			

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What Is Required?

Preaward Survey of Prospective Contractor Accounting System

SF 1408 Overview – Accounting System Provides For:

- Proper segregation of direct costs and indirect costs
 - **Solution:** Good Chart of Accounts Structure

- Identify and Accumulate Direct Costs by Contract
 - **Solution:** Project Codes (Customer/Job)

- Logical method for allocating indirect costs
 - **Solution:** Square footage, staff size, salary \$

- Accumulation of Costs Under General Ledger Control
 - **Solution:** Must use a software with good G/L—some don't have this



What Is Required?

Preaward Survey of Prospective Contractor Accounting System

SF 1408 Overview – Accounting System Provides For:



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- Timekeeping System that identifies employees labor by intermediate or final cost objective
 - **Solution:** In QB environment, add-on product needed-virtual time works well <http://virtualsoftware.net/>; timekeeping systems of payroll companies like ADP
- Labor distribution system that charges direct and indirect labor to appropriate cost objectives
 - **Solution:** Can be achieved using QB payroll, or a system that can use QB payroll tables, such as Virtual Time, or via spreadsheet calculation then put into QB via journal entry (manually intensive)
- Interim (min. monthly) determination of costs charged to a contract through routine posting of books of account
 - **Solution:** Good monthly financial reporting (can be in spreadsheet)



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What Is Required?

Preaward Survey of Prospective Contractor Accounting System

SF 1408 Overview – Accounting System Provides For:

- Exclusion of Unallowables
 - **Solution:** Good Chart of Accounts Structure

- Identification of costs by contract line item and units
 - **Solution:** Item set up commonly maps to labor category

- Segregation of preproduction costs
 - **Solution:** Good Chart of Accounts Structure



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What Is Required?

Preaward Survey of Prospective Contractor Accounting System

SF 1408 Overview – Other Requirements:

- Accounting System is In Accord with GAAP
- Accounting System Provides Financial Information
- Accounting System designed and records maintained in a manner adequate for reliable data used in pricing
- Accounting System is in full operation



Takeaways



- Any accounting system can be “DCAA compliant” if it can meet the government requirements
- Good chart of accounts, project code and “item” structuring can help contractors meet many contractor accounting system requirements



Questions?

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