



PROFESSIONAL  
SERVICES GUIDE TO

# DCAA Compliance

Your Guide to Efficient  
and Effective Government  
Contracting



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# About This Guide

## Tackling DCAA regulations can be daunting.

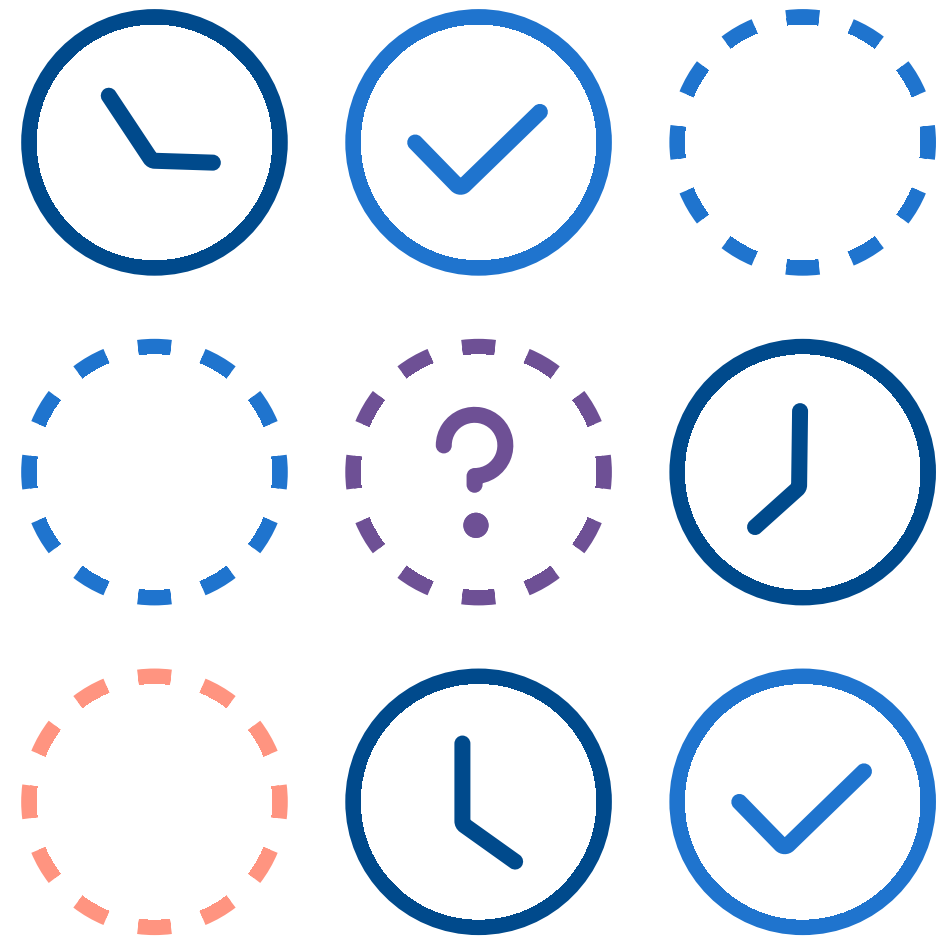
Digesting pages of documentation on compliance is less than thrilling. BigTime is committed to relieving the stress involved in following GovCon rules for professional services firms of all sizes. To help you become acclimated with the process, and put your firm on the track to success, we put together this guide. We'll walk you through the basics of DCAA compliance for those completely new to the world of GovCon. Then, dive into strategies for building, or improving your internal workflow in a compliant, efficient and effective way.

Before you get started, we'd like to note that while this guide is filled with many universal DCAA best practices and insights, it should be used in partner with the resources provided by the **FAR** (Federal Acquisition Regulations). Once you have your bearings, it's important to know specifically how DCAA will impact your firm.

# DCAA Crash Course

## WHO IS THE DCAA?

The Defense Contract Audit Agency (DCAA) performs all contract audits for the United States Department of Defense. Although it's a member of the Department of Defense, the DCAA also assists other government agencies with accounting and financial advisory services. The goal of the DCAA is to make sure taxpayers and military dollars are being spent accurately.





# WHAT ARE THE REGULATIONS OF DCAA COMPLIANCE?

## ✓ Documentation

Formal policy and procedure documents detailing the steps for following DCAA compliance time tracking and accounting must be provided to all employees. Even those who are not directly working on a government project must be aware of the regulations. A formal review of the time tracking process is also required annually.

## ✓ Daily Time Tracking

All time must be recorded daily for the highest level of accuracy. Time that is recorded for days past, and submitted late, is not considered valid or compliant. Tracking time in advance is also prohibited for holidays and vacations.

## ✓ All Hours Accounted For

In addition to time being tracked daily, no work hours can be left undocumented. Every hour of the workday must be recorded including any leave time including vacation, holiday or sick days.

## ✓ Follow Project Codes

Entering time to the right project, with the correct label, is just as important as the time being entered. The system administrator or finance team must initiate the set-up of proper job codes and names, and authorize the appropriate employees per project. Time spent working outside of the dedicated project must also be allocated to the appropriate place rather than left unaccounted for.

## ✓ Formal Approvals

All submitted timesheets must be reviewed and approved by the employee's supervisor or project manager, with an electronic signature. Remember for government contractors, all approved timesheets become a legal document, so reviews are crucial.

## ✓ Corrections

Any corrections to incorrectly submitted timesheets must be fixed by the employee and approved again by the supervisor. If for unforeseen reasons the employee cannot make the changes themselves, then accounting or the administrator can make the changes, with the employee's consent.

## ✓ Save Your Records

All timesheets, financial documents, and a documented trail of actions must be kept for a minimum of three years after the final payment, in case of an audit. It's typically recommended that you store these files for longer than three years.

# WHY IS COMPLIANCE IMPORTANT?

Consider following DCAA regulations like a domino effect: the tighter your workflow, the more documents you'll have to prove a strong audit trail, and the better results your firm will see. Without the proper workflow, your audit trail will be filled with holes and gaps that can lead to serious consequences for your firm. If you fail an audit, the DCAA can recommend the government group cut off payments for the current project, and in extreme scenarios, your firm can be placed on probation or barred from government contracting.

Last year, the DCAA examined **\$281 Billion**, and found **\$7.1 Billion** in audit exceptions.

## Benefits from following DCAA compliance from the beginning:

- Reduce the stress placed on your firm if you are selected for an audit
- Save yourself from spending extra money hiring a last-minute DCAA consultant to get your firm organized
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- Allow for more strategic decision making on your engagements by keeping management and your client informed throughout the project
- Expand your firm's network of business to future GovCon opportunities by having the correct process in place to win engagements

## WHAT IS THE DCAA LOOKING FOR IN AN AUDIT?

The primary purpose of an audit is to check on the cost of a project. Money spent by the government must be classified differently than a standard business may go about the payment for contracted work. Common things for the DCAA to inspect include: allowable costs, unallowable costs, direct costs, indirect costs, cost pools and pooling of indirect costs. The compliance process starts with time tracking but must carry through to accounting to prevent any errors in the complete records. For further details on the items inspected during an audit, visit the FAR website.

# Principle *Do's and Don'ts*



- Be diligent about all staffers keeping track of their time daily
- Set and track budgets for projects, overall company financials and indirect cost rates
- Align your accounting system to capture business transactions in compliance with GovCon rules and regulations
- Stay on top of your audit trail with complete and accurate records
- Be familiar with the FAR and how it impacts your firm specifically
- Have a strategic partner to help you set up your internal workflow and ensure everything is up to compliance standards



- Put off being compliant with GovCon regulations; it will only create more work down the line
- Fall behind, or plot forward, when tracking time to prevent errors in timesheets
- Let reviews-and-approvals bottleneck without a streamlined system
- Make it up as you go; there is too much at stake for your business to not invest the effort upfront

# Strategies for Becoming Compliant

## STEP 1

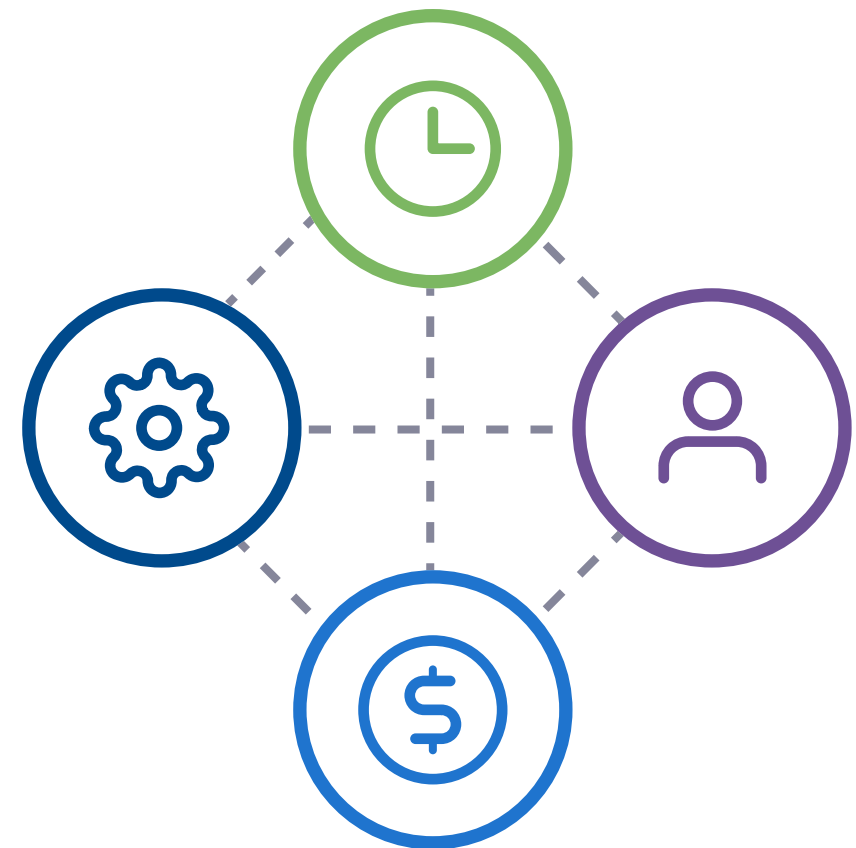
### BUILDING YOUR FOUNDATION

#### Invest in a sustainable plan for growth

Even small firms need to think big when it comes to government contracting. Resist setting up a manual process that may get you by for the initial process, and think long term. How will the process work in one or five years? Your plan needs to be flexible enough to scale with your business so you don't have to keep reinventing your workflow. Start on the right foot by investing in software for your time tracking and accounting to ensure your success remains seamless, with fewer roadblocks.

#### Create documentation for DCAA policies and procedures

Having a formal policy for DCAA time tracking and building your audit trail is required by the DCAA, along with an accompanying procedure document detailing the process. Rather than thinking of this as just another compliance step to cross off the list, use the opportunity to get your whole firm organized. Although some of the compliance rules seem tedious, there's a lot of good ideas built-in for aligning your time tracking, budgeting, capturing costs and invoicing.



Keep notes as you plan, and enlist the help of a DCAA specialist from the beginning to help you build out your own custom formula for success. This will save you money down the line of having to hire a last-minute consultant when an audit strikes.

### **Get everyone on the same page**

Standardizing your firm's internal management and time tracking system for all employees is the safest route. Even if government contracting is only a branch of your business, you never know when you'll need to pull in an additional resource, and ultimately one process keeps things less complicated and organized. Communication is key to making the adoption seamless for everyone in your organization. Aim to make the transition swiftly to avoid messy records and overlaps. Change is hard in the beginning, but everyone will adapt to the new norm with time.

### **Training your employees**

Often the biggest pain point in service firms, and even more crucial in those who need to be DCAA compliant, is when Operations doesn't get Accounting the information they need. Many businesses make the mistake of training their employees on the processes, but leave out the essential why. Why am I doing this? Why is it important? Why were these steps put in place?

*Communication is key  
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It's human nature to give more care and thought to our actions if we know the purpose behind them. When training Operations on the needs of DCAA compliance, and staffers on their time tracking, make sure to communicate the importance of the audit trail. Explain how the regulations impact the way Accounting is able to build your documentation and the possible consequences that come from failing an audit. Should you be audited, an auditor can ask employees why they are following the regulations and if they fail to answer, it's a strike against compliance.

## STEP 2

### BUDGETING

#### Set an overall company-wide budget and separate project budgets

The driving factor behind the DCAA is budgets—all the other pieces play into making sure the budget stays on track and is accurately captured. In order to understand the full scope of your firm's budgets and current status, it's important to create an overall-company wide budget including labor costs, rent, client entertainment, any expense that comes out of the company's pocket. Then, make separate individual budgets specific to each project. Track your project budgets based on percent complete, or any other mechanism of the contract, and manage the WIP regularly to make real-time adjustments when needed.



#### Know your staff capacity in detail, and be nimble to reallocate when needed

An imperative part of staying on budget is having a clear understanding of your staff capacity. Documenting your staff-management process is not a requirement of the DCAA, but it will help your firm function more efficiently for GovCon projects. A professional services automation software cuts down on the time spent plugging staff hours into an Excel sheet, and meeting to go over project plans. Instead, the software shows you in real-time how much time is available for each staff member, and what projects their time is currently being allocated to. From there, you can assign tasks, and readjust if needed. Streamlining this step of your workflow is essential, so you can react quickly, and stay within budget.

#### Don't wait till the end; pull status reports in real-time for no surprises

The more transparent your project status is, the better when it comes to GovCon. Keep a constant pulse on where your project budgets stand, so you can be strategic in how you move forward. If a problem does arise, you'll be able to inform the client with real data on what changes need to be made. At the end of the month or quarter, you can then roll up all project actuals and make sure it's in line with the company-wide budget.



## STEP 3

### TIME-TRACKING

#### Use calendar reminders to make time tracking a daily habit

Diligent time tracking takes practice. Using a calendar reminder, or any form of an alert, at the same time each day makes it easier for staffers to remember.

#### Straightforward notes requirements

One part of DCAA timekeeping that may be an adjustment for staff is each entry must include a note. The goal behind this is to strengthen the information stored in the audit trail by providing further details on what the time recorded was spent on. To make this task feel less tedious, be clear on what your requirements are for the notes. Have a formula of what's expected, that way the notes are all aligned, beneficial, and hopefully don't take too much time for the staffer.

#### Don't forget internal projects like holidays, sick days, etc.

Make a list of all the non-client-related events during the workday and set up projects for them. As part of regulations, all hours of the workday must be accounted for, so rather than leaving a holiday blank, it must be marked as such.

#### Only give staffers rights to the projects they need

Eliminate confusion and prevent mistakes by taking the time to customize the projects each staffer has access to in your time-tracking software. You'll thank yourself later with fewer timesheets to correct, and happier staff.

#### Look for time-tracking software that's pre-configured to DCAA regulations

One of the safest ways to ensure compliance for your whole staff is to use a time tracking software that is pre-configured to DCAA regulations. Not only will this save you from loads of time spent customizing software that wasn't built for GovCon, but it will also simplify the process for everyone on the team.

*At the end of this guide, we provide a checklist to use when browsing for a time tracking software to ensure you find one structured best for easy compliance.*

#### **NERVOUS ABOUT GETTING YOUR EMPLOYEES ON BOARD?**

*Time tracking can be one of the harder aspects of DCAA compliance to enforce. People forget, they get lazy...the list goes on. To encourage staff, reiterate the importance of compliance to the success of the firm, and include it as part of their performance review. Make it valuable to them beyond just another rule to follow.*

## STEP 4

### CAPTURING COSTS

#### Capture expenses, labor costs and other billable costs in the same software as you track time

All billable costs must be saved as part of your audit trail, and the easiest way to do this is by having staffers submit expenses in the same software that they track their time. This way, labor costs and expenses are managed in the same system, and can be pushed to your accounting system in one sync.

An added bonus is that working this way will help you better manage budgets and build accurate invoices. The fewer parts to manage, the more effortless your firm will operate.

#### Design your accounting system to understand your business

Integrate your time-tracking, project-management platform with your accounting system to ensure project names and codes are consistent across the board. When all systems seamlessly talk to each other, it eliminates the hassle of double-data entry for admins, and cuts down on mistakes.

*A big part of following compliance is taking the proper steps to make corrections.*

## STEP 5

### REVIEWS AND APPROVALS

#### One person to review and approve per group

Limit the cooks in the kitchen: designate one person who is responsible for the approval of timesheets in the group. Choose either the project manager or a supervisor, and try to avoid enlisting both of them for the same duty. This takes out one of the potential bottlenecks to speed up the process, and makes it easier for the staffer to have one consistent point of contact for any corrections that may occur.

#### Lock timesheets after submission to eliminate correction errors

A big part of following compliance is taking the proper steps to make corrections so that everything is properly documented with a reason. The simplest way to prevent staffers from making improper corrections is to lock the timesheet after submission. This will make sure that the approver is notified of any changes and enforces the correct communication.

#### Automate review requests and approval confirmations

The most notorious bottleneck is waiting for things to be reviewed. Cut down on the time spent sending review requests, reminders and approval confirmations by automating the notifications. Set up your time-tracking software to automatically notify the approver once a timesheet or expense report has been submitted either within the platform or in their inbox. Letting the software take care of these steps streamlines the workflow and prevents documents from falling through the cracks.



## STEP 6

# PRESENTING YOUR AUDIT TRAIL AND REPORTS

### Use software that has a robust audit trail tool to ensure everything is stored with accuracy

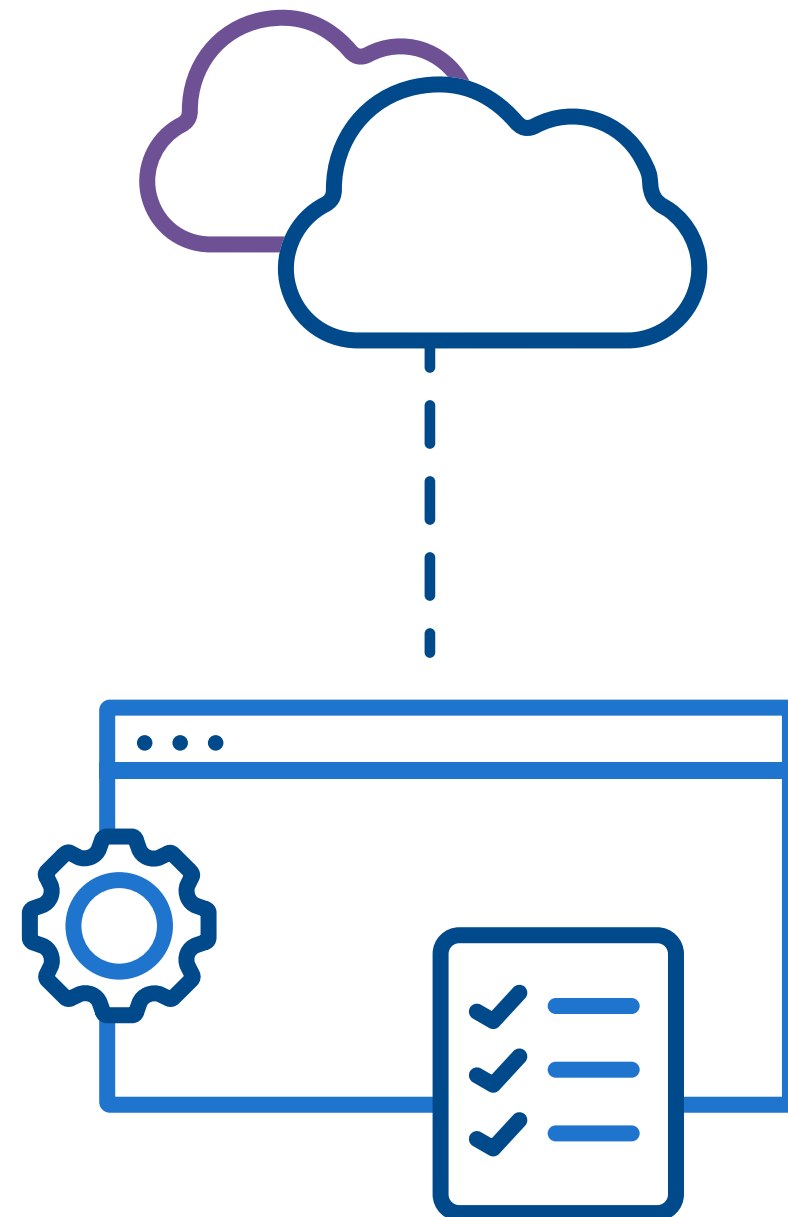
Audit trails can include timesheets, check deposit receipts, bank statements...really any source document related to the GovCon project. Being able to trace who did what actions is key. For example, who entered what time, or who processed a certain transaction. Without professional services automation software to collect this data for you, the manual process to build audit reports can be strenuous. Having PSA software guarantees your data is stored properly and pulled into the proper reports. That way, your admin is only responsible for any stray paper documents, rather than every document that is processed.

### Familiarize yourself with the report structure

Have a designated audit expert within your firm who is completely comfortable with the report structure and can speak to it with confidence. When you know that your firm is just as familiar with its reports and data as the auditor, you can rest easy.

### Rely on cloud-based software to store your files

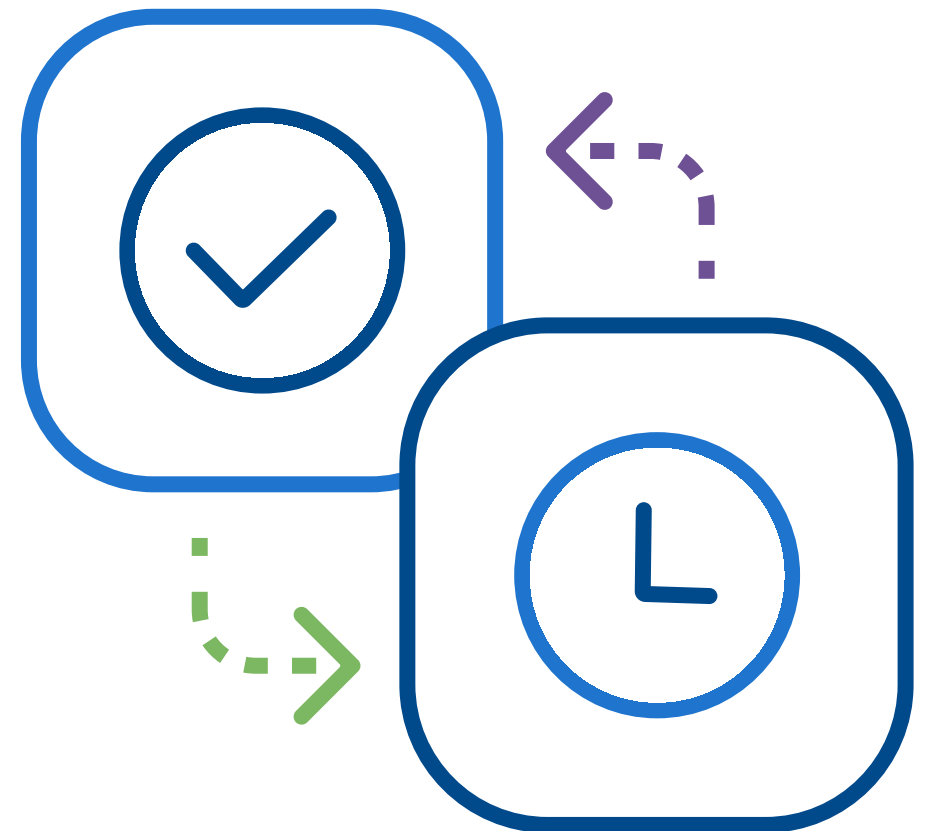
Compliance requires you store your engagement history for three years after the final payment, although we would recommend seven years for the most complete records. The safest way to keep all the data is in the cloud. Storing files on a local hard drive or in a printed format puts them at risk of being damaged, misplaced or lost. This is a risk you can't afford with DCAA audits.



# Checklist for DCAA-Compliant Firm Management Software

DCAA compliance is tricky to navigate without the proper software in place to guide you during the process. For companies small and large that are taking on government work, DCAA compliant time-tracking software is a must. Working alongside a compliant accounting tool, such as QuickBooks, will put your firm at ease with the assurance you have a solid audit trail.

When looking for a DCAA-compliant software, use the following checklist to make sure you're investing in a platform that not only follows the regulations but also makes the process as easy and seamless for your firm as well.



### ✓ **Required timesheets fields**

Solutions with built-in DCAA rules will cut out timesheet submission errors, almost completely. A DCAA-compliant solution will require the notes field to be completed with every entry of time, and prevent users from submitting time for past dates. Only timesheets that have been completed properly can then move on for review. This feature helps everyone at your firm stay accountable for the first step of compliance.

### ✓ **Automated reviews and approvals**

Ask the solution provider about how they automate this process to become an easy step, rather than a roadblock. When you have software that sends automated notifications when a timesheet has been submitted, you can reduce the time you spend emailing and sharing files.

### ✓ **Real-time budgeting**

Look for a software that lets you track budgets at the labor category or CLIN (Contract Line Item Number) level. That way you can set notifications for project managers, or any specific user when those budgets are reaching their risk threshold. This type of budget tracking is unique to time-and-billing software that is DCAA compliant.

### ✓ **Cloud-based and mobile options**

Accessibility is key for DCAA-compliant time tracking. For remote or on-site jobs, having a cloud-based solution that can be accessed on any browser and a mobile app is essential, for on-the-go tracking. Cloud-based software is also the most secure way to ensure your timesheets and audit trails are kept safe and protected from being damaged.

### ✓ **Efficient workflow for timesheet edits**

Look out for custom user-rights abilities. That way, it ensures each staff member is following their correct responsibilities for keeping the timesheet DCAA-approved.

### ✓ **Integrated solution with your accounting software**

Having a time-and-billing software that is integrated into your accounting software is not required by DCAA compliance, but will save your firm a lot of time and prevent any data-entry errors. This will also keep project names and required codes consistent across every phase of your firm management.

# About BigTime

©2023 BIGTIME SOFTWARE

BigTime takes the guesswork out of utilization, capacity planning, and project profitability. Our award-winning PSA software provides project planning, budgeting, time- and expense-tracking, and invoicing, all backed by uber-cool reporting and analytics.

We help accountants, architects, engineers, IT-services firms, and scientific and management consultants budget, track, and bill their most important asset: time.

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