Government contractors must capture all costs associated with goods and services sold to federal agencies and departments, and back up those amounts with supporting accounting records. “When you think about the flow of any business, there are at least ten systems that touch on an organization’s accounting system, and all are impacted by federal regulatory oversight,” said Mary Karen Wills, a partner leading government contract consulting for Argy, Wiltse & Robinson, P.C. “Integrated time-keeping and billing systems, for example, are critical to show how many hours or portions of hours are spent on each government contract or project.”

As the federal government has moved to larger procurements, some with thousands of task orders, contractors must treat each task order as a separate contract or project, so they can maintain detailed cost information down to the task order level. This explains why government contractors require more sophisticated accounting systems and support than most businesses in the private sector.

Ultimately, billing fidelity is crucial to a government contractor’s success as invoices are reviewed by the agency customer, government contract officers and auditors. Inaccurate or non-conforming bills cause delays in payment processing as each party must agree to a remedy. Accurate and timely billing also aids in business development because Requests for Proposals always ask for “Citations of Past Performance” and contract officers will review a government contractor’s billing history before awarding new contracts. This presents a great opportunity for forward thinking contractors to capitalize on financial management solutions that integrate with pursuit management solutions. Empowered program managers can not only see financial past performance but the level of effort required to secure the contract and relevant competitor win/loss tracking.

To comply with the regulations regarding proper financial management, government contractors must satisfy the Defense Contract Audit Agency (DCAA), which is responsible for performing all audits for the DoD, and for providing accounting and financial advisory services to DoD components responsible for procurement and contract administration. DCAA also provides contract audit services for other government agencies as well.

Rich Marksberry, a Tatum, LLC Financial Leadership Partner has implemented and managed financial management solutions at numerous government contractors, including iGov. “Looking upon DCAA as a partner, and not as an opponent, is more important now than ever,” Marksberry said. “The audits performed by DCAA are a requirement and integral part of the contract you are working to deliver. Understanding the DCAA auditor’s mission and their requirements, and working to make their tasks easier and more efficient will improve your internal company systems.”

According to Marksberry, “An integrated time and expense system that controls changes and secures information from manipulation in accordance with DCAA guidelines allows the company and their auditors to
save time and to concentrate on more significant contractual compliance issues.”

DCAA conducts annual audits and requires government contractors to submit Incurred Cost Proposals each year, which are contractor forecasts of the indirect, fringe, overhead, general and administrative expenses, material and handling costs for the coming year. However, while the federal government allows contractors to recover more than simply direct costs, this doesn’t mean they can cut corners on those annual Incurred Cost Proposal estimates. Each contractor must prove to DCAA that all indirect costs are in compliance with the Federal Acquisition Regulation (FAR), which stipulates the indirect costs that can be recovered, and those which are not allowed to be billed to the U.S. government (e.g., entertainment-related costs).

Meanwhile, DCAA also conducts surprise Floor Check Audits as often as twice a year. These are designed to ensure a government contractor’s employees are charging timesheets appropriately. DCAA wants to ensure, for example, that contracting employees are charging for their services daily, not once a month. In a typical floor check audit, DCAA officials may talk to 20 employees and look at 100 or more time sheets to make sure labor costs are reported accurately and in a timely fashion. Additionally, DCAA will look for certified documentation when hours reported are later modified to be in full compliance. The system must capture the reason why the timesheet changed and be approved by an appropriate supervisor.

“...without the labor components that the accounting solutions geared for government contractors, such as Dynamics NAV, have built in, the task to meet DCAA’s requirements are labor intensive, costly and prone to error.”

Carl Sweetnam, Black Ink, LLC

In addition, there are contract-specific audits that may occur, either pre- or post-award, or at any time the government agency customer or contract officer decides a further investigation is warranted. The DCAA also performs a series of periodic audits of accounting systems—called Adequacy of Accounting Systems audits, which are considered audits of a contractor’s financial capabilities. Once a government contractor achieves a minimum revenue threshold of $250 million, the organization must submit to this audit, approximately every three to five years, to prove it can allocate costs, document expenses and support more complex government contracting allocations.

“Determining costs, adequately defining indirect pools and base costs as well as fringe and overhead expenses are all required to ensure government funds are spent appropriately and are apportioned properly to the correct contracts,” said Amy Shortell, a former DCAA auditor, currently serving as a senior manager for Argy, Wilse & Robinson’s government contract consulting group.

An overhead rate, for example, incorporates the total cost of supporting operations to include fringe costs and the cost of offices, technology, HVAC and any other charges in support of daily operations. The fringe rate, meanwhile, includes cost benefits for a contractor’s employees, such as medical insurance or personal vacation time.
Carl Sweetnam, Managing Partner, Black Ink, LLC, has implemented cost accounting solutions at government contractors for over two decades and has had a great deal of experience working with DCAA auditors. He said that corporate finance leadership needs to have a strong grasp of the cost principles that are specified in FAR Part 31, "Contract Cost Principles and Procedures."

Sweetnam said, "If you have a good understanding of these principles, you can design any accounting system to be DCAA compliant. However, without the labor components that the accounting solutions geared for government contractors, such as Microsoft Dynamics NAV, have built in, the task to meet DCAA's requirements are labor intensive, costly and prone to error. More importantly, time sensitive information is not readily available to key management creating decision lag."

Two areas of utmost importance for government contractors to ensure audit success are the ability to provide effective and easy-to-access reports and the need for internal controls to ensure reliance on the reports. Sweetnam said project accounting solutions designed specifically for government contractors need to provide reports to executive and financial management that meet the minimum reporting period of the FAR and provide real time information to effectively manage the business operations. Program management needs the ability to manage the projects and not be burdened with compiling and analyzing data. The contractors also need to have strong internal controls and standard operating procedures (SOP) that marry the business requirements with the FAR cost principles on a consistent and equitable basis. The more reliance an auditor has on the internal controls, the less testing is required.

No Silver Bullet

Government contractors have found there’s no ‘silver bullet’ solution certified to guarantee compliance with DCAA’s regulatory audits. Instead, contractors must invest in the proper processes and reporting tools to help them achieve and maintain compliance with DCAA’s various financial audits.

Tatum’s Marksberry has seen firsthand how Microsoft Dynamics NAV can dramatically help a government contractor as it relates to their auditing challenges. “What used to be tracing a transaction to its supporting documents has become a system supported drill-down task,” he said. “Flexibility in reporting against the captured base data allows the accounting team to drill down to track all of the costs and effectively supply the auditors with what they need. You can see and test that the cost segregation and classification are proper whether you are testing the general ledger, an incurred cost submission, or the basis for a forward pricing schedule.”

“The DCAA is the go-to agency to complete audit requirements for agencies beyond the Department of Defense,” said Marksberry. “The result is that DCAA is being stretched thin, and we see their audit scheduling being pushed out more and more. We also see implementation of a pass/fail ranking for accounting system compliance. As the Federal Government ramps up hiring under the current administration this may come under control.”

Rule #1: Fail No Audits

Providing accurate, detailed information in a format that satisfies the DCAA’s requirements for each individual audit is crucial. If a government contractor were to fail an audit, the organization could lose the ability to directly bill the federal government for goods and services rendered. Instead, the contractor would be required to send invoices to the DCAA, which would review every line of each invoice, at its own pace, delaying payment from a typical 30/60 days, to six months or more. That would have a dramatic impact on cash flow.

Equally important, if a government contractor is unable to achieve approval for its accounting system, the
organization simply won’t win contract awards. To win business, Argy, Wiltse & Robinson officials assert that achieving Adequacy of Accounting System compliance is key. The DCAA’s Form 1408 delineates the attributes of an adequate accounting system to include the need for accurate timekeeping, general ledger, labor distribution and project-based accounting components, among other elements.

As government contracts have evolved over the years from manufacturing or product-based to more services-oriented awards, Shortell maintains that small to mid-sized contractors have been expected to incorporate elements of earned value management (EVM), which was added to DoD’s accounting regulation requirements in 2007. As a result, government contracts of $250 million or more require contractors to provide a global view of program and project management to ensure that all direct and indirect costs are reimburged.

For all of these reasons, government contracting organizations are increasingly turning away from basic accounting software or services, instead seeking broader enterprise resource planning (ERP) solutions, such as Microsoft Dynamics NAV. A strong financial management platform can provide government contractors with clear visibility into all costs associated with each contract, to help them anticipate indirect rates and manage accounts.

The last thing contractors want is for a government agency to reassess the value of a contract award based on poor operational estimates, which is a sign the contractor is not in control of daily expenses.

**Microsoft Dynamics NAV Offers Value to Growing Government Contractors**

After seeing that government contractors were being underserved in terms of financial management, Microsoft stepped into the market in 2001 to offer the Dynamics suite of software solutions, which enables contractors to manage both commercial and public sector businesses using a single system, rather than relying on dual accounting systems. The Dynamics solution most often recommended for government contractors due to its flexibility, reporting functionality, and project cost accounting feature set is Dynamics NAV for Government Contractors. This solution is delivered by Pleasant Valley Business Solutions (PVBS) a Microsoft Gold Partner that specializes in services that can help government contractors migrate to Microsoft platforms. Dynamics NAV is integrated, adaptable and works well with familiar Microsoft Office applications to streamline processes across a government contractor’s entire business. Quite commonly, government contractors will synchronize data between Microsoft Project Server for resource scheduling and Microsoft CRM to start accounting for newly-awarded contracts in the financial management application. Dynamics NAV also supports Microsoft SharePoint Technologies which enables contractors to better collaborate and communicate across divisions internally or with their external government customers.

As government contractors strive to integrate data, simplify processes and speed the advancement of the nation's defense infrastructure, they need the flexibility, visibility and scalability offered by Microsoft Dynamics solutions. Microsoft's commitment to the market is evident from its investment of more than $1 billion a year in its ERP systems. Although the company initially acquired companies to get started, “Microsoft has invested a great deal of time and effort developing the common engineering components utilized across both ERP and Microsoft infrastructure solutions such as SQL, SharePoint, and Windows Server,” said Christine Zmuda, Strategic Engagement Manager, Microsoft Dynamics.

Microsoft Dynamics NAV 2009, for example, is now the first completely web-enabled ERP solution, connecting people, information and processes across any organization to integrate critical financial, human resources and customer relationship data.

In the public sector, Microsoft Dynamics NAV 2009 is fully FAR, CAS and DCAA compliant, and is commonly selected to aid government contractors. Dynamics NAV boasts more than 65,000 customers world-wide. Microsoft Dynamics NAV allows government contractors to perform deep project cost accounting and manage indirect costs, general and administrative rates, overhead rates and other fringe costs.

“Customers gain the ability to perform complex fiscal reporting because Microsoft Dynamics NAV includes Microsoft's analytical tools, as well as the standard report forms government contractors needs to meet federal regulations,” said Zmuda.
A Closer Look at MANCON’s Enterprise Business Software and Project Accounting Needs

Management Consulting Inc. (MANCON) needed a solution for its complex operational and financial management needs while also ensuring DCAA compliance. MANCON is a leading provider of logistics, professional, technical and administrative support services to a wide range of Department of Defense, Federal and State Government, and industry customers. MANCON also operates retail operations both commercially and for the Government where they provide consumable supplies to Navy ship and shore activities.

According to president Rick Clarke, whenever DCAA comes to audit them, the auditors usually examine corporate General and Administrative (G&A) costs and ODCs (Other Direct Costs) including Travel & Entertainment expenses charged on Government work. “We expect a DCAA auditor to visit once a year for an incurred cost audit. The main objectives of the audits are to verify that time was charged to the appropriate task order, that G&A charges were reasonable and allowable, and that ODCs were correctly charged.”

MANCON selected Microsoft Dynamics NAV for Government Contractors from PVBS as its sole financial management solution for its project accounting requirements to support its product sales and professional services needs and to ensure DCAA compliance. MANCON had been hampered by its multiple legacy systems which had become outdated and obsolete. It had been operating three systems: one to manage the products business and two for the services operations. MANCON wanted one integrated ERP solution that supported product and services sales. It also needed a solution that was designed to meet the unique requirements companies that service the Federal Government need to comply with.

MANCON wanted to eliminate the amount of duplicate data entry and high number of manual processes it had to endure because of the multiple, aged legacy systems it had in place. The stress and the anxiety of closing each month and ensuring all the systems were balanced was hurting company morale and straining working relationships.

As a fast growing company, it needed an integrated system to better service its customer base. MANCON needed a flexible solution designed for government contractors with product and service business lines. They were stifled by having to manage multiple accounting and supply chain software applications. MANCON was using Deltek GCS Premier for its main accounting functions, DDMS for product sales and inventory management, and a homegrown solution to manage time, materials, and invoicing at remote locations.

MANCON manages thousands of task orders and needs to account on all CLINs (contract line item numbers) within the task order. The accounting challenge is to ensure that they do not go above what is allocated for each CLIN so that they do not need to request more funds from the Government. Clarke said he needed an accounting system that made it easy to track funding on a line by line basis since he expects his program managers to manage each line item to ensure that the program is on track and will not exceed its budget. Managing these line items is part of the typical program manager job function.

PVBS delivered an ERP solution which is among the most user-friendly and complete solutions for government contractors that sell products and services in addition to point of sales solutions for those companies that maintain retail-like facilities to sell those products. Clarke said that Dynamics NAV with its Windows look and feel and MS SQL Server back end offers an advantage from a reporting perspective.

Clarke said they evaluated other solutions but could not find anything that worked for government contractors with products and services businesses until they discovered the Microsoft Dynamics NAV solution from PVBS. The solution helped MANCON see a whole new world of potential. Being able to manage the company’s business lines from one streamlined system instead of three cumbersome, non-integrated ones improved morale and helped the company identify business opportunities and process improvements.

Clarke saw the great potential Dynamics NAV provided from the moment he was introduced to it. By going with Microsoft Dynamics NAV, MANCON eliminated the need for double entry of the same information into multiple systems. Mismatches between systems are no longer the case because everything is entered once into one solution.

MANCON needed a partner that was able to bring them the right technology solution to dramatically improve their operations and eliminate the multiple system challenges they were facing. The company was also interested in what Microsoft was offering the Government contractor market and desired a solution provider that understood its unique requirements and challenges. It wanted a solution provider that understood the customer processes the company needed to support so that they could bring the highest-quality and most cost-efficient solutions to them. That partner was PVBS and that technology was Dynamics NAV.
About Pleasant Valley Business Solutions

Pleasant Valley Business Solutions (PVBS) offers the Microsoft alternative for government contractor ERP, financial management and project accounting. High-growth government contractors have come to find that Microsoft offers a more flexible and feature-rich project accounting and financial management solution than what’s been available to them in the past. PVBS offers the Microsoft solution that was created specifically for high-growth government contractors, to help these companies better manage and optimize their business.

The PVBS solution goes way beyond what’s presently available to government contractors. While it includes everything you need to manage the finance side of your business, it also includes a completely integrated project accounting and operations set of tools as well. It allows your company’s management and your program managers to truly understand contract status at any given time. Built-in analytics and online reporting services, add to the system’s comprehensiveness.

Microsoft Dynamics NAV 2009 for Government Contractors from PVBS is an ERP solution that has been designed specifically for companies that provide services and/or sell products to the Federal Government. It features:

- Project Accounting  +  Financial Management  +  Web Based T&E  +  Inventory Control  +  CRM
- Order Processing  +  Fulfillment  +  EVM  +  Warehouse Management  +  Human Resources
- Business Intelligence  +  Analytics  +  Manufacturing

© Pleasant Valley Business Solutions, LLC. 2009. All rights reserved worldwide. Some elements of this white paper were originally published in the Microsoft Dynamics White Paper “DCAA Compliance Requires Better Processes and Flexible Tools: Documentation Traceability Can Build Confidence in Audits” (April 2009)