



## *A Guide to* **Understanding Accounting Software and DCAA Compliance**

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# CONTENTS

DCAA Compliance 2019 3

What Does it Really  
Mean to Be Compliant? 3

Key Software Features for  
DCAA Compliance 4

A Word on QuickBooks 5

5 Get ahead with Salesforce

6 Practice Makes Compliance

6 Invest in Your Future as  
a Government Contractor



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## DCAA COMPLIANCE 2019

The Defense Contract Audit Agency (DCAA) is a federal agency tasked with auditing all federal contracts to ensure the legal and ethical use of funds. Essentially, these audits make sure the money paid for contractor services is used in the explicit capacity agreed upon in the contract terms.

DCAA reporting standards apply to all businesses taking on government work, from IT companies to construction firms. DCAA compliance rules are pretty consistent and guides and resources are readily available on their website to educate everyone on the process. However, even though compliance rules are consistent, each company must maintain financial records that emphasize transparency and detail. This is needed for use in the audit process. Remaining compliant greatly depends on how you record, track, and manage your finances.

## WHAT DOES IT REALLY MEAN TO BE COMPLIANT?

In a nutshell, being DCAA compliant means that the organization simply has systems and procedures in place to comply with the DCAA audit. The DCAA doesn't actually certify or award a formal statement that your business is "DCAA compliant." However you need to meet the Cost Accounting Standards (CAS), Federal Acquisition Regulation (FAR), and other government rules that the DCAA checks for. Here's a brief rundown of the two main requirements:

**CAS:** These are the 19 rules implemented to create a consistent method of measurement, assigning, and allocation of costs in contracts. These rules cover several areas of accounting including depreciation and indirect costs. CAS typically apply only to larger contracts and help determine negotiated procurement costs.

**FAR:** These regulations are required for all contracting companies no matter the size of the contract. They are in place to monitor and regulate government purchases of goods and services. The FAR includes requirements regarding invoices, bid solicitation rules, contract administration, and more.

The DCAA confirms that your company is following these legal financial requirements by conducting various audits. Here are just a few:

- **Accounting System Review Audit**
- **Progress Payment Audit**
- **Surprise Timesheet Audit**
- **Annual Incurred Cost Audit**
- **And more...**

To pass the audits (and meet these regulations) you must verify that your financial management meets the standards set forth by the DCAA. This means showing how you're using the contract money, as well as the results achieved, and these are the qualities the DCAA specifically look for. To be DCAA compliant, you must prove that your finances align with their rules and regulations. To reference Jerry Maguire, you have to show the money.





## WHAT DOES IT REALLY MEAN TO BE COMPLIANT? (CONT'D)

Government contractors thrive in achieving DCAA compliance by leveraging a strong accounting software that can meet the essential reporting and accounting process demands of the DCAA audit. Detail and transparency are your friends here. You'll see that one audit actually examines the effectiveness of the accounting system at allowing companies to track the accounting details needed for DCAA compliance.

An ill-equipped accounting system will make it harder, if not impossible, to manage contracts and DCAA compliance, which can lead to serious consequences. On the other hand, the right accounting system will help you ace the audits and achieve DCAA compliance. Let's look at critical accounting software features for DCAA compliance.

## KEY SOFTWARE FEATURES FOR DCAA COMPLIANCE

While accounting systems can possess features that make them compliant for DCAA audits, there are no accounting systems that are formally approved by the DCAA. Even saying that a system is DCAA compliant just means it has features that meet the particulars of various audits. The DCAA doesn't give accreditation or approval to accounting systems. Bear this in mind when you see advertisements declaring accounting systems to be "DCAA approved." These software products might be suitable for the DCAA audits, but their companies are also trying to attract your business by claiming to be DCAA approved - hooking you with false information.

Looking back at the various audits, it's clear that you need a system that emphasizes detailed tracking features that let you and auditors pinpoint transaction details and other data. Here are four features you should focus on in your search:

### TIME TRACKING

Time card tracking and management are essential for government projects. One of the spending factors of the contract itself involves work hours and the amount of time applied to tasks. Therefore, timekeeping is a central component of DCAA compliance. You need a streamlined system for

recording and monitoring work hours to ensure funds are being paid accordingly and work is done within contract terms.

Simply put, your timekeeping needs to be integrated into your accounting system. However, a better option would be to use an accounting system that comes equipped with time tracking functionality. *Here's why:* if the accounting system is equipped with time tracking, that's one less software integration to worry about. Not to mention it's less expensive. Think about it, you're using the same system for time tracking and accounting - the chance of data consistency errors is greatly reduced. Your time tracking has to be totally accurate, which is why process visibility is also a major requirement. Auditors need to be able to track and view all activities surrounding the time card.

There are several specific feature requirements for time tracking. For example, the system must be fully secure, whenever changes are made to the time sheet, there must be an automated prompt to explain why. This must also include the date and signature of the approver initiating the alteration. All staff must have exclusive access to their time cards, preventing unapproved employees from making changes, and more. These are just a few of the time card requirements. Your system must accommodate *all* of the time-tracking requirements, or it won't be DCAA compliant.







## AUDIT TRAIL FUNCTIONALITY

Audit trail functions let you track changes throughout the reconciliation process to maintain accurate, up-to-date information. For each of the audits, being able to track the time, amounts, stakeholders, corrections, and amounts of transactions are mandatory. You must be able to drill down into your general ledger (GL) for precise answers. Ideally, you'll want a system that will let you incorporate as many general ledger tags as you need.

Each contract should be managed as if it were a unique job that's independent of your other business. Government audits primarily focus on each program you're contracted to work on instead of the finances of the entire company. To make the audit go smoothly and prevent cross-contamination of financial data, you need to be able to segment and allocate project finances effectively. To this extent, flexible GL variables are crucial for maintaining DCAA Compliance.

One advantage of Accounting Seed's chart of accounts and general ledger is that instead of having to create multiple GL accounts for all these projects, you can create unique tags in the GL to group and organize precise transactions. This keeps contract data consolidated while still being easily distinguishable from your other accounts. You can manage contract finances securely in your overall ledger while not getting things mixed up - this is critical for DCAA compliance.

## PROJECT ACCOUNTING

Any government contract will entail multiple components and resources such as time and materials. This requires project accounting. Therefore, you need an accounting system that is optimized to manage project variables and can clearly track and document them.

You and your team need to be able to visualize the real-time financials of your project. Using a visible, collaborative project accounting software like Accounting Seed enables project stakeholders and auditors to visualize financial data, alongside core factors influencing the project for accurate, real-time information needed for the audit process. Another key feature you should look for is a *work breakdown structure functionality*. This lets you and your team seamlessly organize your projects by different phases or tasks. Subsequently, this organizes the time, costs, and resources per project stage needed for audits.

## SYSTEM FLEXIBILITY

No matter what software you end up purchasing, you'll probably need to customize some aspects of the system in order to achieve DCAA compliance. Being able to customize and configure your accounting software is also important for the sustainability of your operation. Besides wasting time with more manual work, you may find that essential business processes become disjointed simply because your software cannot respond the way you need it to. One way to avoid this is by investing in a robust, feature-rich software that is highly flexible. Not only will you save time managing the contract as a whole, you'll also be able to optimize your accounting system to ensure an efficient audit process.

## A WORD ON QUICKBOOKS

To be clear, it's not impossible to use QuickBooks and be DCAA compliant, it just makes it difficult. This relates to how QuickBooks organizes the data itself and how hard the product is to scale with growing business demands. While it is an adequate accounting solution in the earliest stages of a business, QuickBooks' lack of critical functionality forces users to continually rely on manual processes. This makes it more challenging to manage and organize the accounts over time. Additionally, QuickBooks causes organizations to rely heavily on spreadsheets which tend to complicate how data is stored and tracked over project life cycles. You'll do more work and still risk data errors as your team must go back and physically reconcile the various spreadsheets to maintain correct information.





## A WORD ON QUICKBOOKS (CONT'D)

Many DCAA auditors tend to have a skeptical view of QuickBooks. They often presume there must be errors due to the excessive manual processing required by the system. This difficulty to track and find information in QuickBooks can actually hinder the DCAA audit process itself. Audits take a lot of time already, so audits conducted on accounting in QuickBooks often become quite elongated.

The longer the delay, the longer you and your staff don't get paid because auditors cannot find and verify key information. You could even lose future contract opportunities due to the inconvenience and risk judicial proceedings. Don't give yourself the headache or risk not being DCAA compliant. Switch to a more comprehensive accounting and management system.

## GET AHEAD WITH SALESFORCE

Harnessing a cloud-based management platform to organize the logistics, operations, and accounting of your contracts offers a significant advantage to your business. Salesforce, in particular, has proven to be a very strong solution for creating a more fluid contract management process.

**"The team was very thorough in documenting our processes and reviewing our controls. As shortcomings and gaps were identified, they were helpful in recommending best practices and solutions. We received several accolades during a recent internal audit. This was due in large part to the work of Compliance Central."**

**- Lemar Graham Jr.**  
Director of Finance, Textron ATAC

Besides being the number one cloud platform in the world, Salesforce is used and trusted by multiple federal agencies, including the Department of Defense. In addition to being highly flexible, Salesforce is FedRamp certified as a cloud provider. This means your information is secure, which is essential for government contractors. A good rule of thumb is that if Salesforce works for the agencies you're serving, it'll work for you!

Salesforce comes with many critical advantages. You'll be able to manage all the key components of the contract in one place, creating a streamlined way to track and document all aspects of the contract. The platform provides access to over 3,000 native applications including project management, document generation, accounting software, and more. Therefore, all the tools and data you need to complete your contract and be DCAA compliant are in one location.

The benefit of using a native accounting app like Accounting Seed is that the shared IT structure allows it to connect to and share data seamlessly to other apps you're using on Salesforce. No need for extraneous integrations, or the associated costs and data risks. Instead, your contract's details and financial data is shared smoothly and securely throughout your Salesforce ecosystem. No more hunting down the information.

## PRACTICE MAKES COMPLIANCE

While state-of-the-art accounting software and other management tools will greatly help you be DCAA compliant, your company still needs to adopt the right practices and internal controls. This will mean educating staff on DCAA requirements and making sure your accounting processes are aligned accordingly. The vitality of your company depends on this.

One way to ensure that your accounting practices are DCAA compliant is to work with compliance professionals like Compliance Central. An Accounting Seed partner, Compliance Central specializes in implementing new systems and ensuring that they are compliant with federal and business standards. These include FAR, CAS, and, of course, DCAA standards. Staff qualifications must be a major factor when considering compliance professionals to work with. Based on the kinds of contracts and technology you're working with, it's important to leverage seasoned experience to ensure you're meeting the standards.



## INVEST IN YOUR FUTURE AS A GOVERNMENT CONTRACTOR

Remember, investing in accounting and compliance helps you continue to gain more valuable contracts. This may seem overwhelming, but you don't have to do this alone. Take advantage of the latest tools and specialized help to make managing federal contracts a straightforward process. Save yourselves hours of work, mistakes, and uncertainties when DCAA compliance is within your grasp.

### CHOOSE THE RIGHT TOOLS

Accounting Seed is a modern and robust accounting solution powered by the Salesforce platform. We're committed to breaking down silos and building connections in order to take your business to the next level. In addition to having the key features needed to pass DCAA audits, we provide a flexible accounting solution that proves invaluable for managing your business as a whole. Salesforce user or not, Accounting Seed offers the automation, security, and process visibility you need to maximize your contract's financial management. We also partner with many connected apps and industry specialists to give you all the resources you need.

To ensure you have the tools and methodologies needed to meet government regulations, Accounting Seed partners with Compliance Central to provide specialized support. Compliance Central provides solutions for a variety of accounting, internal audit, and compliance issues.

From implementing Accounting Seed to helping you establish internal controls needed for DCAA compliance, Compliance Central has the proven technical expertise and industry knowledge to help you pass federal audits without extra hassle. Their staff also includes Certified Public Accountants (CPAs) and Certified Fraud Examiners (CFEs), as well as former Big 4 and DCAA personnel who will leverage their experience to ensure all your needs are met. Together, Accounting Seed and Compliance Central give you a financial management system that is both compliant and adaptable to your business requirements for a truly valuable solution.



**"For defense contractors seeking to invest in the future, Accounting Seed provides a secure platform to track projects, costs, keep time, and bill customers. Focus on capturing contracts and delivering for the customer, put back office worries to rest!"**

**- Mike Bechara, CPA, CFE**  
Managing Director, Compliance Central





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