

Do You Have an Approved Accounting System? The Million-Dollar Question for Government Contractors

For small government contractors pursuing cost-type contracts, an approved accounting system is not just a compliance checkbox – it can be the deciding factor in winning or losing a contract. [Joy Parker \(Senior Manager - Huntsville\)](#) outlines what DCAA looks for, how to prepare, and what to expect when auditors come knocking.

WHY IT MATTERS

Fixed-price contracts place financial risk on the contractor. **Cost-type contracts** shift that risk to the federal government – which is exactly why the government requires a contractor to have an approved accounting system before an award is made. An adequate system demonstrates that your business can accurately budget, track, and bill costs, giving the agency confidence in its investment.

THE FOUR PILLARS OF AN APPROVED ACCOUNTING SYSTEM

- 1. Written Accounting Policies and Procedures:** Document what you are actually doing – not what you aspire to do. Policies must reflect real processes, be updated at least annually, and cover areas like timekeeping, travel, and purchasing. DCAA will verify compliance with every policy you put in writing.
- 2. Properly Configured Accounting Software:** Software advertised as “DCAA compliant” does not guarantee audit approval. The setup and configuration of your system – including a chart of accounts that clearly segregates direct and indirect costs – is what matters. QuickBooks, when properly configured, can pass a DCAA audit.
- 3. Trained Staff:** Even the most sophisticated ERP system will fail an audit if staff cannot operate it correctly. Proper training – or engagement of a qualified third-party accounting firm – is essential to maintaining data integrity.
- 4. Ongoing Maintenance and Monthly Close:** A monthly close process ensures your records are accurate, reconciled, and consistent. DCAA auditors will compare reports submitted weeks earlier against your live system – any discrepancies are major red flags.

PRE-AWARD VS. POST-AWARD

Pre-Award:

- Conducted during the proposal phase for cost-type contracts
- Narrower in scope, but critical for down-selected bidders
- A third-party assurance letter from a CPA firm can support your proposal if your system is not yet formally approved.

Post-Award:

- More comprehensive in scope
- Conducted after contract award to confirm your system is fully operational and compliant
- Once approved, DCAA will return periodically – typically every three to five years.

WHAT DCAA WILL REVIEW

Auditors will request **financial statements, trial balances, general ledger detail, direct labor** and **travel reports, accounts receivable** and **payable aging reports, timesheets**, and more. They will conduct live walkthroughs – often via Zoom – observing your staff perform real transactions. Reconcile everything before you submit it. If a report does not match your balance sheet, expect questions.

KEY ITEMS TO WATCH FOR: COMMON DEFICIENCIES

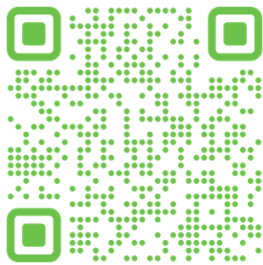
- No monthly close process in place
- Timesheets that are altered without proper correction procedures
- Invoices that do not reconcile with general ledger costs
- Accounting policies that do not reflect actual practices
- Staff unable to demonstrate system processes during walkthroughs

THE 72-HOUR RULE: BE READY NOW

When DCAA requests information, you should be able to respond within **72 hours**. Contractors who scramble to write policies after receiving an audit notice create delays – and delays can cost you a contract. Start completing the **Pre-Award Survey of Prospective Contractor Accounting System Checklist** (derived from **SF 1408**, available on the DCAA website) today.

BOTTOM LINE

A successful novation protects both the **acquisition deal** and **contract performance**. Proactive planning, complete documentation, and risk mitigation are essential to ensuring the government maintains confidence in continued performance.



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