Time Tracking and DCAA Compliance

Introduction: Small and Medium Sized Business Metrics

The perpetual stream of business news narrows its focus on the colossal corporations better known as "big business." Meanwhile, small and medium sized businesses (SMBs) quietly labor in the background, employing nearly 50%[1] of the U.S. workforce and producing 46% of the gross domestic product (non-farm GDP).[2] Notably, 99.7% of the total number of business located in the U.S. are classified as SMBs.[3] As such, since SMBs have a majority presence on U.S. soil, it should be no surprise that 52% of the Department of Defense (DOD) contractors are SMBs.[4] There are, however, several challenges when it comes to acquiring and maintaining DOD contracts; this is particularly true for SMBs.

The DCAA and SMBs

Officially established in 1965 the Defense Contract Audit Agency (DCAA) is tasked with closely monitoring the procurement and regulatory compliance of all DOD contracts. While the DCAA works with the DOD, it is a separate agency.[5] The DCAA provides a 100-page manual which details the extensive do's and don'ts of the contractual process. It's important to keep in mind that procuring a DOD contract is highly competitive. Despite SMB's having a slight edge over large corporations in terms of acquiring contracts, it is the contractual incumbents, those who have a proven track record via an already existing DOD contract, that hold a significant competitive advantage over new contractees; for example, the proposal win rate for contract incumbents is 54% as of

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[1] U.S. Small Business Association. (2016). *Small Business Profile.* Available at: https://www.sba.gov/sites/default/files/March_April_2016_FINAL_508_compliant.pdf

[2] Kobe, Kathryn. (2012). *Small Business GDP: Update 2002-2010.* [Report]. Economic Consulting Services, LLC UC Berkeley. 3-47. Available at: https://www.sba.gov/sites/default/files/rs390tot_0.pdf

[3] U.S. Small Business Association. (2016). *Small Business Profile.* Available at: https://www.sba.gov/sites/default/files/March_April_2016_FINAL_508_compliant.pdf

[4] GrantThornton. (2016). *Grant Thornton's 2015 Government Contract Survey.* [Report]. Available at: https://www.grantthornton.com/~/media/content-page-files/public-sector/pdfs/surveys/2015/Gov-Contractor-Survey.ashx

[5] DCAA Manual, No. 7641.90. (2012). *Information for Contractors.* Available at: http://www.dcaa.mil/Content/Documents/DCAAM_7641.90.pdf

2016.[6] But, this percentage decreased between 2015 (75%) and 2016 (54%), so procuring a DOD contract is not impossible.[7] It is, however, complex.

Types of DCAA Audits Related to Timekeeping

As a potential DOD contractor, you'll undergo a series of surveys and audits throughout the life of your contractual agreement. The DCAA is adhering to the Federal Acquisition Regulation (FAR), which governs the who, what, when, where, why, and how by enacting "uniform policies and procedures for acquisition by all executive agencies."[8]

Though far more complicated than conducting business with other private enterprises, FAR's objectives are similar: the lowest cost for products or services with the highest quality and the most timely delivery. But, when dealing with restrictions placed on utilizing tax payer money, and when viewed from the perspective of possible negative political ramifications for misuse or abuse of public funds, government contracts are more heavily surveilled.

DCCA audits are a two pronged approach consisting of

- Pre-award Contract Accounting System Review Audit: The accounting system audit is one of the main pre-award audits enacted by the DCAA. The goals are to ensure that (a) your accounting system follows generally accepted accounting principles (GAAP), (b) you have an accurate timekeeping system, (c) you will be separating direct and indirect cost allocations (d) you enact a line item allocation of costs and (e) to analyze your labor distribution methods.

- Post-award Contract Accounting System Review Audit: Whether you are classified as an enterprise contractor or a non-major contractor, the DCAA will audit alignment with cost accounting standards, analyze your timekeeping system, and assess your materials management protocols. [9]

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[6] GrantThornton. (2017). *Grant Thornton's 2016 Government Contract Survey.* [Report]. Available at: https://www.grantthornton.com/~/media/content-page-files/public-sector/pdfs/surveys/2017/government-contractors-survey-view-online.ashx

[7] Ibid.

[8] Federal Acquisition Regulation. (2017). *Subpart 1.1: Purpose, Authority, Issuance.* Available at: https://www.acquisition.gov/browsefar

[9] DCAA. (2017). *Services.* Available at: http://www.dcaa.mil/Home/Services?title=Services

Regardless of which phase you are in, pre-award or post-award, the DCAA will scrutinize your accounting system including time tracking for employees who will be working to deliver either the goods or service as agreed upon between your enterprise and the DOD. These are not just audits from a distance such as sending in paperwork. Auditors will come to your place of business for in-person interviews and dissect your cost accounting procedures. Even the smallest proposed changes in a contract will undergo another round of inquiries.

Though your entire accounting system is of foremost interest to the DCAA, the process you use for separating direct versus indirect costs is particularly crucial. A direct cost, as defined by FAR, are those costs which are directly charged to a single, final, cost objective tied to one contract.[10] [11] Indirect costs are those incurred and applicable to two or more final cost objectives.[12] For example, an employee who is tracking time for a particular project task associated with meeting the objective of a single DOD contract would be considered a direct cost. On the contrary, if your organization has more than one contract that a project or other manager is overseeing, then their time is allocated to indirect costs.

You will be required to classify and provide reasoning for any indirect costs. Additionally, if you've already classified other costs "for the same purpose" as a direct cost, you are not allowed to also include them as indirect costs.[13] In line with the current discussion on employee time keeping, labor costs are either direct or indirect.

DCAA Time Tracking Audit Protocol

Within the Accounting System Pre-Award Survey, the DCAA Contractor Manual explicitly states the required timekeeping procedures:

- Timekeeping procedures must be explicitly communicated to all employees or other labor contractors along with the detailed do's and don'ts of time tracking.
- The timekeeping process must be perpetually inspected and any violations quickly remedied to avoid violations of the DOD contract.
- Employees are personally responsible for tracking and recording their daily time.

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[10] Federal Acquisition Regulation. (2017). *Subpart 31.2—Contracts with Commercial Organizations.* Available at: https://www.acquisition.gov/browsefar
[11] DCAA Manual, No. 7641.90. (2012). *Information for Contractors.* Available at: http://www.dcaa.mil/Content/Documents/DCAAM_7641.90.pdf
[12] Federal Acquisition Regulation. (2017). *Subpart 31.2—Contracts with Commercial Organizations.* Available at: https://www.acquisition.gov/browsefar
[13] Ibid.

- Accurate timekeeping also includes ensuring that the employee's time is correctly assigned to the specific contract through a unique set of project identifiers such as "project numbers, contract number or name"[14] or another agreed upon label.
- If changes are made to the timesheet, then there must be a system in place which records the original time versus the updated time allocation and certification that the employee has agreed to the change.
- Both paid and unpaid hours of work must be recorded.
- Review of the hours worked by a supervisor to ensure that the cost objectives align with your contractual agreement and do not contain any false information.

The DCAA Auditors will conduct in-person labor checks. As a general rule, these are not announced ahead of time and can be performed at any time. You will be asked to provide the following:

- The most current list of employees and where they are located.
- Details regarding your timekeeping process.
- If there are offsite employees, e.g. they are working from home, then you will need to also supply "work from home procedures."[15]
- The names and information of points of contact for each work location.

Both onsite and offsite employees will be interviewed. The DCAA does not state how the interviewees are chosen; but, they will be asked for their timesheets and the auditors will analyze whether the employee's recorded time and cost classifications are "a fair representation the work performed."[16]

Boomr Time Tracking

In this age of the increasing non-localized distribution of the workforce, e.g. employees who are working off site, ensuring time tracking accuracy presents a distinctive challenge for timekeeping accuracy. Add to this the restrictive nature of DOD contracts, the comprehensive assessment conducted by DCAA auditors, and the legal ramifications for labor mischarging, and the importance of labor time tracking cannot be overemphasized. But, there is a digital solution that helps you to monitor costs, contract compliance, and quickly access the information that the DCAA auditors require.

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[14] DCAA Manual, No. 7641.90. (2012). *Information for Contractors.* Available at: http://www.dcaa.mil/Content/Documents/DCAAM_7641.90.pdf

[15] DCAA. (2017). *Real-Time Labor Evaluations.* Available at: http://www.dcaa.mil/Content/Documents/smallbusiness/Labor_Evaluations.pdf
[16] Ibid.

Mobile Location Tracking

Boomr's location based time tracking offers an efficient and accurate method for either onsite or offsite employee time allocation. Administrators can add specific locations or enact the auto detect feature that uses the GPS mechanism on an employee's mobile phone. Depending on your timekeeping protocol, employees may be limited to logging hours only if they are at the specified work location. Furthermore, Boomr allows you to create and assign categories that track time per project so that employee time is accurately classified to the contract identifier you've chosen.

Administrator Control

Administrators have full control over time tracking procedures. They can limit employees to real time tracking only, meaning they cannot manually add hours. Per prior administrative approval, employees are able to edit their timesheet admissions, and Boomr tracks both the original time tracked along with the edited time sheet. Additionally, administrators are able to review employee time tracking in real-time via a user friendly dashboard and utilize Boomr's Shift Audit feature which

- Tracks all changes made to the timesheet, including old and new entries;
- Timestamps any changes;
- Identifies who enacted the adjustments;
- Applies to employee time in and time out, inclusive of employee breaks;
- Categorizes employee time by project and related expenses.

In short, all paid and unpaid shift data is recorded. In terms of real time tracking, administrators can readily view all employees who are logged in and tracking time via the Boomr system. For added transparency, employees may view their shift history at any time and Boomr furnishes a wealth of reports which can be tailored to DOD contractual requirements.

Native Messaging for Communication Documentation

Documented communications are fundamental to providing the DCAA with evidentiary support for any changes in timesheets and the reinforcement of timekeeping procedures. Boomr's native messaging application is collaborative. Boomr instantly records notes, messages or images shared between supervisors, administrators, and employees which are readily available for DCAA review.

Conclusion

The time and cost associated with evaluations and audits can be overwhelming for SMB's; especially for those who don't have access to as many financial resources as large businesses. However, time tracking doesn't need to add to the time and cost consumption. Boomr's time tracking solution is an indispensable method for ensuring precise time keeping, meticulous assignment of labor costs, and clear reporting methods to meet the requirements of the DCAA.