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New DCAA Focus Areas

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I had a briefing from DCAA last week at which they described some new focus areas for coming audits. Many of the changes are due to recent GAO reports criticizing DCAA and causing major changes in their procedures.

Business Development vs. Marketing

DCAA has a renewed focus on the separation between business development¹ costs and marketing costs. Since marketing costs are unallowable² DCAA is looking at moving more costs to be classified as marketing. The auditors are saying that since the government issues solicitations any company promotion expense not in response to a specific released solicitation is to be considered an unallowable marketing cost. They specifically mentioned labor being split between marketing and business development. Their example was if an employee goes to a government facility for solicitation or project meetings and also meets with government people not associated with a solicitation or project then the time and expenses incurred are to be split between allowable and unallowable. Auditors will be looking at more records to determine what people were doing focusing on charges to bids and proposals, administrative, business development and marketing. Ideally (in DCAA's eyes) there will be a detailed itinerary for each trip and government contact showing enough detail to determine whether the time and expense was allowable or unallowable.

Per Diem Limits

Auditors will be checking expense reports to confirm any amount over per diem limits are recorded as unallowable. This includes consultants and subcontractors. They will be reviewing more expense reports (and all other records) than in past audits to ensure a larger and more complete sample size.

Project Losses

Auditors will be checking for contract overruns/losses to be sure they recorded as unallowable. Any cost overruns and losses on a project are unallowable and can not be included in the G&A expense pool.

Procedure Changes

Improved procedures for purchasing and estimating proposal costs are now being required.

DCAA will not be doing the full purchasing and estimating audits but will be checking that the procedures exist and some sampling to see if they are being followed. Purchasing procedures are focused on purchase of government owned equipment.

Provisional Rates or Forward Pricing

DCAA is favoring doing forward pricing over provisional rates³ since the limit on which proposals DCAA gives opinions has been raised to \$10 million. DCAA will still agree to provisional rates but contracting officers will not receive agreement in response to rate requests. Provisional rates are reviewed by DCAA for realism with little auditing of the information submitted. Forward pricing involves providing DCAA with a detailed budget for the length of time of the longest contract expected. Then the auditors will come in and audit the projections and assumptions.

The limit change also means that DCMA will be doing more cost realism analysis, overhead rate reviews and labor cost checks for project under \$10 million. DCMA may not use your local people so they will probably not know anything about you. DCAA, because of the audits and regular contact has an understanding of the company, your accounting system and people so they do not have to do as many checks.

Bonus Plans

A bonus plan has to be in place before paying bonuses. You don't have to tell employees but the plan needs to be in the accounting policies and procedures along with a mention in the employee handbook. There has to be an "agreement" or acknowledgment between employees and the company that bonuses may be paid. If a plan is not in place before paying bonuses then the entire bonus payment will be unallowable.

Original Paperwork

Original paperwork for invoices and cost support is required. If scanning then an approved scanning and storage system has to be used. No system has been approved to date by DCAA or DCMA. If you scan invoices you still have to save original documents for one year.

Personal Use of Cell Phones

One question the auditor asked was do we have a policy regarding personal use of company cell phones. Personal use is supposed to be recorded as unallowable or included in the employee's taxable compensation.

Insurance Expenses on Dependents

One focus area is on determining whether companies are allowing and paying for dependents on insurance policies when precluded by health care law. Two examples – divorced spouse still on policy even if required by court order and child over age limit but still on policy. In both examples the cost is unallowable.

There are always changes being made in the regulations and auditor focus. As auditors change their focus you need to adjust your systems to ensure continued compliance. With the additional focus and larger sample sizes you should plan on DCAA audits taking longer to complete.

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