

DCAA Accounting System Readiness Checklist

Assess your accounting system against every SF 1408 and DFARS 252.242-7006 criterion before a DCAA pre-award survey or accounting system audit. Work through each section to identify gaps before the auditor finds them.

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HOW TO USE THIS CHECKLIST

Check each box as you verify the requirement is met. Items with regulatory citations (in gray) link to the specific FAR, DFARS, or CAS section that creates the requirement. Any unchecked box is a gap that must be addressed before your next DCAA interaction. Share this with your CPA or accounting team.

1

Accounting System Adequacy — 18 Criteria

DCAA evaluates your accounting system against all 18 criteria in DFARS 252.242-7006(c). Every cost-reimbursable, T&M, or incentive contract requires an adequate system. Failure on any single criterion can result in system disapproval and 5% payment withholding under DFARS 252.242-7005.

- Sound internal control environment, accounting framework, and org structure
DFARS 252.242-7006(c)(1) — Documented policies, segregation of duties, supervisory review
- Proper segregation of direct costs from indirect costs
DFARS 252.242-7006(c)(2) — CAS 402: costs must be consistently classified as direct or indirect
- Identification and accumulation of direct costs by contract
DFARS 252.242-7006(c)(3) — Job cost ledger shows costs for each contract separately
- Logical, consistent method for accumulating and allocating indirect costs
DFARS 252.242-7006(c)(4) — CAS 418: allocation bases documented and applied consistently
- Accumulation of costs under general ledger control
DFARS 252.242-7006(c)(5) — All cost transactions flow through the GL, not side spreadsheets
- Reconciliation of subsidiary cost ledgers to general ledger
DFARS 252.242-7006(c)(6) — Monthly reconciliation between job cost reports and GL balances
- Approval and documentation of adjusting journal entries
DFARS 252.242-7006(c)(7) — Written justification, approval signature, and supporting docs

- Management reviews or internal audits of the system
DFARS 252.242-7006(c)(8) — Documented reviews at least quarterly to verify policy compliance
- Timekeeping system that identifies labor by cost objective
DFARS 252.242-7006(c)(9) — Daily recording by employee, by contract/task. Not weekly.
- Labor distribution system charging labor to correct cost objectives
DFARS 252.242-7006(c)(10) — Direct/indirect labor charged appropriately with monthly reconciliation
- Interim (at least monthly) determination of costs charged to contracts
DFARS 252.242-7006(c)(11) — Books posted monthly. No waiting until year-end to allocate costs.
- Exclusion of unallowable costs from government billings
DFARS 252.242-7006(c)(12) — FAR 31.205 unallowable costs identified and excluded at entry
- Identification of costs by CLIN and by unit if required
DFARS 252.242-7006(c)(13) — Check contract terms for unit cost tracking requirements
- Segregation of preproduction costs from production costs
DFARS 252.242-7006(c)(14) — Applicable to manufacturing contracts. Separate tracking required.
- Ability to calculate indirect cost rates from books of account
DFARS 252.242-7006(c)(15) — System must readily produce rate calculations without reconstruction
- Billings reconciled to cost accounts (current and cumulative)
DFARS 252.242-7006(c)(16) — Invoice amounts tie directly to job cost ledger and GL
- Adequate, reliable data for pricing follow-on acquisitions
DFARS 252.242-7006(c)(17) — Historical cost data organized for forward pricing proposals
- Compliance with CAS (if applicable), otherwise GAAP
DFARS 252.242-7006(c)(18) — CAS-covered contracts follow all applicable CAS standards

CONSEQUENCES OF SYSTEM DISAPPROVAL

Contracting Officer issues written determination of significant deficiencies. You have 30 days to respond with a corrective action plan. Unresolved: 5% payment withholding (DFARS 252.242-7005), potential system disapproval, and contract award denial. Billing unallowable costs triggers FAR 52.242-3 penalties: disallowed amount plus interest plus a penalty equal to the disallowed amount. On contracts over \$650,000, the False Claims Act exposes you to treble damages.

2 Timekeeping System Requirements

Timekeeping is DCAA's #1 audit focus area. More contractors fail on timekeeping than any other category. DCAA conducts unannounced floor checks to verify employees are where and when timesheets indicate. Your employees must know the timekeeping procedure before a floor check, not during.

- Employees record ALL hours daily (not weekly or retroactively)**
DCAA considers backdated timesheets a material weakness. System must enforce daily entry.
- Time recorded by individual contract, task order, or project**
Every hour goes to a specific charge code. No unallocated or generic time entries.
- Uncompensated overtime tracked and recorded separately**
Salaried employees working 50 hours must record 50 hours, not 40. CAS 408 applies.
- Timesheets signed by employee and approved by supervisor**
Both signatures required. Electronic approval with full audit trail is acceptable.
- Corrections use formal process with original entry preserved**
Single-line strikethrough with initials and date. Electronic systems must log every change.
- Electronic timekeeping has complete audit trail**
Every change logged: who changed, when, original value, new value. No deletions.
- Leave, holiday, and PTO recorded separately from project time**
Vacation and sick time are indirect costs, not direct charges. Must be in separate accounts.
- Written timekeeping policy distributed to ALL employees**
Policy must exist, be current, and employees must have signed acknowledgment on file.
- Charge codes provided to employees before work begins**
Each contract must have assigned charge codes. Employees must know which codes to use.
- Floor check procedures: employees can explain their current charges**
DCAA floor checks are unannounced. No coaching allowed during the visit.

3 Cost Accounting Structure

- Direct costs charged to specific contracts when identifiable and beneficial**
CAS 402: if a cost benefits one contract, it is direct. If multiple, it is indirect. Be consistent.
- Indirect cost pools established: Fringe, Overhead, G&A (minimum)**
Three pools is the standard minimum. Add material handling or site overhead if applicable.
- Allocation bases documented and consistently applied across periods**
CAS 401, 418: once you select a base, use it every period. Changes require CO notification.

- Fringe benefits allocated on direct labor dollars or hours
Includes employer FICA, health insurance, retirement contributions, PTO accruals.
- Overhead allocated on direct labor dollars or total direct labor
Covers rent, utilities, supplies, depreciation, indirect labor supporting direct work.
- G&A allocated on total cost input or value-added cost input
CAS 410: G&A covers executive salaries, accounting, legal, HR, BD, and B&P costs.
- Bid & proposal (B&P) costs tracked separately
B&P is allowable but must be segregated and typically allocated through G&A.
- IR&D costs segregated from contract costs
Independent R&D is allowable within limits but cannot be charged directly to contracts.
- Written accounting policies and procedures manual exists
DCAA will ask for this first. It must describe your actual practices, not aspirational ones.
- Disclosure Statement (DS-2) filed if CAS-covered
Required for modified CAS coverage (\$7.5M aggregate). Must match actual practices.

4 Unallowable Cost Controls

ALWAYS UNALLOWABLE (FAR 31.205)

Entertainment (31.205-14) | Alcoholic beverages (31.205-51) | Donations/contributions (31.205-8) | Fines & penalties (31.205-15) | Lobbying (31.205-22) | Losses on other contracts (31.205-23) | Bad debts (31.205-3) | Organization costs (31.205-27) | Interest/financing (31.205-20, with limited exceptions) | Advertising except recruitment and public relations (31.205-1)

- All unallowable costs identified and excluded from billings
CAS 405: unallowable costs must be identified at time of entry, not discovered at year-end.
- Chart of accounts has dedicated unallowable cost accounts
Separate GL accounts or codes make unallowable costs visible at the transaction level.
- Monthly review of expense classifications against FAR 31.205
Assign one person to review all new expense entries for allowability monthly.
- Executive compensation within NDAA cap (\$695,000 for 2026)
FAR 31.205-6(p): cap applies per person across all contracts. Benchmark against BLS data.
- Travel costs comply with FAR 31.205-46 and Federal Travel Regulation
Lodging and per diem at FTR rates (gsa.gov) or written company policy, whichever is lower.

- Personal use of company assets excluded from contract costs
Company vehicles, equipment, or facilities used for personal purposes are unallowable.

5 Documents Required Before Audit

DCAA will request these documents early in any audit or survey. Have them organized, indexed, and accessible. Missing documentation is treated as a deficiency and delays the audit process.

- Written accounting policies and procedures manual
Must describe actual practices for cost accumulation, timekeeping, compensation, travel
- Chart of accounts with account descriptions
Shows direct/indirect segregation, cost pools, and unallowable cost accounts
- General ledger and subsidiary ledgers (current + 2 prior years)
- Job cost ledger showing costs by individual contract
- Payroll records and timesheets (current + 2 prior years)
Include labor distribution reports reconciled to payroll and GL
- Indirect rate calculations and supporting schedules
Provisional rate development workpapers with allocation base documentation
- Incurred cost submission (if applicable)
FAR 52.216-7: due 6 months after fiscal year end for all flexibly-priced contracts
- Bank statements and monthly reconciliations
- Travel authorizations, receipts, and expense reports
Must show approval before travel and compliance with travel policy
- Subcontract files and consent-to-subcontract records
FAR 44.201-1: CO consent required for subcontracts over threshold
- Certificate of current cost or pricing data (TINA, if applicable)
Required for contracts over \$2M (TINA threshold)
- CAS Disclosure Statement (DS-2, if CAS-covered)
Must match actual practices. Discrepancies are audit findings.
- Organizational chart showing segregation of duties
- List of active contracts with contract types and values
- Employee acknowledgment forms for timekeeping policy

6 Written Policies DCAA Expects

DCAA does not just check whether you have policies. They verify that your documented policies match your actual practices. A policy that says one thing while your books show another is worse than having no policy at all.

- Timekeeping policy (daily entry, corrections, approvals, floor check procedures)
- Compensation policy (salary structure, bonuses, raises, benchmark methodology)
- Travel policy (authorization, per diem rates, receipt requirements, class of service)
- Direct/indirect charging policy (classification criteria, consistency rules)
- Unallowable cost identification policy (how costs are flagged and excluded)
- Purchasing and subcontracting policy (approval thresholds, competitive sourcing)
- Property management policy (if handling government property)
- Record retention policy (minimum 3 years after final payment on each contract)
- Leave and compensated absence policy (PTO accrual, holiday schedule)
- Consultant/independent contractor policy (distinction from employees, 1099 compliance)

Quick Reference: DCAA Audit Types

Audit Type	Trigger	What They Check	Your Prep
Pre-Award Survey (SF 1408)	Before contract award	Accounting system adequacy	This entire checklist
Accounting System (DFARS)	Anytime; CO requests	All 18 criteria in DFARS 252.242-7006	Section 1 of this checklist
Incurred Cost	After fiscal year end	Actual costs charged to contracts	ICS Prep Checklist (#4)
Floor Check	Unannounced	Employees where timesheets say?	Section 2 timekeeping
Compensation	Periodic	Salary reasonableness vs. BLS data	FAR 31.205-6 compliance
CAS Compliance	If CAS-covered	CAS adherence, DS-2 accuracy	Section 3 cost structure
Forward Pricing	Before proposal submission	Proposed rates and costs	Rate Setup Worksheet (#2)

Self-Assessment Scorecard

Count your checked boxes in each section and record your score below. Any section below 80% needs immediate attention before engaging with DCAA.

Section	Items	Checked	Score	Status
1. Accounting System (DFARS)	18			
2. Timekeeping	10			
3. Cost Accounting Structure	10			
4. Unallowable Cost Controls	6			
5. Required Documentation	15			
6. Written Policies	10			
TOTAL	69			

SCORING GUIDE

90-100%: Audit-ready. Maintain current practices and schedule annual reviews. 70-89%: Address gaps before your next DCAA interaction. Most items can be fixed within 30-60 days with dedicated effort. Below 70%: Significant risk. Consider engaging a CPA experienced in GovCon accounting before accepting cost-type or T&M contracts.

NEED HELP GETTING AUDIT-READY?

Amerifusion Bookkeeping provides CPA-managed bookkeeping specifically for government contractors. We help small businesses build DCAA-compliant accounting systems from scratch and prepare for pre-award surveys, incurred cost audits, and floor checks. Schedule a free consultation at amerifusionbookkeeping.com/contact

Your GovCon Bookkeeping Toolkit:

- >>> 1. **DCAA Accounting System Readiness Checklist**
- 2. Indirect Rate Setup Worksheet
- 3. Unallowable Cost Quick Reference
- 4. ICS Preparation Checklist
- 5. GovCon Chart of Accounts Template

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