



## Preparing your Timekeeping System for a DCAA Audit

The following whitepaper was generated using the DCAA's Contract Audit Manual. The purpose of this document is to help you the contractor understand exactly what a DCAA auditor will be looking for in your timekeeping system, in order to best prepare you for an audit. The following sections on Compliant Timekeeping are directly from the DCAA manual.

### 5-909 Evaluation of Timekeeping

The contractor should have procedures to assure that labor hours are accurately recorded and that any corrections to timekeeping records are documented, including appropriate authorizations and approvals. When evaluating the contractor's timekeeping procedures, the auditor should consider whether the procedures are adequate to maintain the integrity of the Timekeeping System.

#### 5-909.1 Manual Timekeeping Systems

Procedures for manual Timekeeping Systems should provide for the accurate and complete recording of labor hours, as well as appropriate controls to ensure corrections to labor records are accurate and authorized. Generally, they may be categorized as procedures that pertain to:

- a. Supervisory observation of employee arrival and departure to prevent improper clock-in/clock-out.
- b. Employee possession of timecard/timesheet.
- c. Employees prepare their timecards in ink, as work is performed.
- d. Only one card/sheet is prepared per employee per period; cards/sheets are preprinted with employee name and identification number; and cards/sheets are turned in to the designated timekeeping office or collected by an authorized person.
- e. Precoded data is printed on the job cards for identification purposes.
- f. Direct labor employees record their time no less often than daily. Sufficient formal subsidiary records are maintained, if necessary, to assure accurate time recording and allocating of labor costs to intermediate and final cost objectives when multiple jobs are worked in a day.
- g. Corrections are made in ink, initialed by the employee, properly authorized, and provide a sufficient and relevant explanation for the correction.
- h. Employees and supervisors sign the timecards/timesheets in accordance with procedures, verifying the accuracy of the recorded effort.

#### 5-909.2 Automated Timekeeping Systems

Procedures for automated Timekeeping Systems should provide for the accurate and current recording (e.g., no less than daily) of labor hours by authorized employees, as well as appropriate controls to ensure corrections to labor charges are accurate and authorized. Generally, they may be categorized as procedures that pertain to:

- a. Only the employee uses their labor charging instrument to access the labor system.
- b. Employee badge issuance is sufficiently controlled so that no number is duplicated and badges are not issued to unauthorized persons.
- c. Procedures are in place which require the employee to report lost badges promptly.
- d. Changes are initialed, authorized, and dated by the employee and supervisor and include a description of the reason for the change. This may be done electronically.
- e. A verifiable audit trail process is in place that collects all initial entries and subsequent changes.



## **5-910 Evaluation of Labor Distribution**

The contractor should have policies to reasonably assure the proper recording of labor costs to cost objectives. These policies should address the reconciliation of labor hours between labor distribution summaries and Timekeeping/Payroll Systems, recording of both compensated and uncompensated hours worked, and maintenance of an audit trail.

### **5-910.1 Reconciliations**

The contractor should have procedures which require that the total labor hours reflected in labor distribution summaries agrees with the total labor charges as entered into the Timekeeping and Payroll Systems. This reconciliation attests that the labor charges to contracts represent actual paid or accrued costs and that such costs are appropriately recorded in the accounting records. Each employee's time charge should be distributed as recorded.

### **5-910.2 Recording Hours Worked**

The contractor should have procedures to ensure that all hours worked are recorded, whether they are paid or not, to assure the proper distribution of labor costs. This is necessary because labor rates and labor overhead costs can be affected by total hours worked, not just paid hours worked (also see 6-410).

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