

FINOVATEPRO

GOVERNMENT CONTRACTOR ACCOUNTING MANUAL

Federal Compliance · FAR / DFARS · Audit-Ready Financials

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EXECUTIVE ORIENTATION & SYSTEM OVERVIEW (PRE-VOLUME SECTION)

1. PURPOSE OF THIS MANUAL

This manual is designed to enable individuals with foundational accounting knowledge to execute government contractor accounting **accurately, consistently, and in full compliance with regulatory requirements**.

It serves as both:

an **operational guide** for daily execution, and
a **compliance framework** aligned with audit expectations.

The objective is not only to record transactions, but to ensure that all financial activity:

complies with **Generally Accepted Accounting Principles (GAAP)**,
meets **Federal Acquisition Regulation (FAR)** cost allowability requirements,
satisfies **Defense Contract Audit Agency (DCAA)** audit standards, and
aligns with **contract-specific billing and performance terms**.

This manual is intentionally structured as a **field-level execution guide**, not a theoretical or academic reference.

2. THE GOVERNMENT CONTRACTING ACCOUNTING ENVIRONMENT

Government contractor accounting operates under a **multi-layered compliance framework** that extends significantly beyond standard commercial accounting.

A single transaction must simultaneously satisfy multiple independent rule sets.

Standard Accounting Focus

Did the transaction occur?

Was it recorded correctly?

Government Contracting Accounting Focus

Was the transaction recorded correctly under GAAP?

Is the cost allowable under FAR?

Is it properly assigned to a cost objective (contract or indirect pool)?

Is there sufficient documentation to support audit testing?

Is it billed in accordance with contract terms?

A transaction may be:

correct under GAAP,

but unallowable under FAR,

or allowable but misclassified,

or properly recorded but unsupported.

Any of these failures can result in:

cost disallowance,

billing rejection,

audit findings,

repayment obligations, or

loss of contracting eligibility.

3. THE FOUR GOVERNING RULEBOOKS

Government contractor accounting is governed by four primary frameworks:

1. GAAP (Financial Reporting Framework)

Defines:

recognition of revenue and expenses
financial statement presentation
accrual accounting principles

2. FAR (Cost Allowability Framework)

Defines:

which costs are allowable, unallowable, or conditionally allowable
how costs must be treated for government reimbursement

3. DCAA (Audit & System Integrity Framework)

Evaluates:

system reliability
internal controls
timekeeping integrity
audit trail completeness

4. Contract Terms (Billing & Performance Framework)

Defines:

billing methodology
allowable rates
reimbursement structure
performance obligations

4. THE FIVE-TEST TRANSACTION STANDARD

Every transaction must pass **all five of the following tests**:

Validity — The transaction is real and substantiated

Accuracy — It is recorded correctly under GAAP

Allocability — It is assigned to the correct cost objective

Allowability — It complies with FAR requirements

Auditability — It is fully supported and traceable

If any test fails, the transaction is incomplete and non-compliant.

5. CORE SYSTEM DESIGN PRINCIPLES

An adequate government contractor accounting system must:

clearly separate **direct and indirect costs**
accumulate costs by **contract, project, or task**
track labor by **employee and cost objective**
segregate **allowable and unallowable costs**
maintain **logical and consistent indirect cost pools**

apply costs using **documented allocation methodologies**

produce outputs that reconcile across:

general ledger

job cost ledger

billing

financial statements

These requirements form the basis of system adequacy under DCAA expectations.

6. CRITICAL ACCOUNTING DISTINCTIONS

6.1 Book Cost vs. Billable Cost

A cost may be:

properly recorded under GAAP

but not allowable under FAR

Therefore:

Not all recorded costs are billable

6.2 Direct vs. Indirect Costs

Direct Costs: identifiable with a single contract

Indirect Costs: benefit multiple contracts or the organization as a whole

Misclassification leads to:

inaccurate billing

incorrect indirect rates

audit findings

6.3 Allowable vs. Unallowable Costs

Unallowable costs must:

be identified

be segregated

be excluded from:

billing

indirect rate calculations

cost submissions

Failure to do so results in **automatic audit exposure**.

6.4 Cost Objectives

Every cost must be assigned to a **cost objective**, which may include:

a contract

a project

a task order

an indirect cost pool

No transaction should exist without a defined cost objective.

7. SYSTEM FAILURE POINTS (COMMON INDUSTRY ISSUES)

Most government contractors fail not due to lack of accounting knowledge, but due to **system design and execution breakdowns**:

- improper cost classification
- weak timekeeping controls
- failure to segregate unallowable costs
- inconsistent indirect rate structures
- incomplete documentation
- lack of reconciliation across systems

These issues lead to:

- audit findings
- revenue leakage
- compliance risk

8. DOCUMENTATION STANDARD

Every transaction must be supported by documentation sufficient for **independent verification**.

Minimum requirements include:

- source document (invoice, receipt, contract, etc.)
- approval evidence
- cost classification
- cost objective assignment
- audit trail of changes

If documentation is incomplete, the transaction is considered unsupported.

9. SYSTEM READINESS EXPECTATION

At any point, the organization must be able to:

- produce transaction-level support
- demonstrate system controls
- reconcile financial data across all ledgers
- support billing calculations
- explain indirect rate methodology

The system must be continuously audit-ready, not prepared retroactively.

10. OPERATING PRINCIPLE

First Commandment

Never record a transaction simply because it appears reasonable.

Every transaction must be **explainable, supportable, and traceable**.

11. HOW TO USE THIS MANUAL (WITH INTEGRATED CASE STUDIES)

This manual is structured into five operational volumes:

Volume 1 — Foundations (System Structure)

Volume 2 — Daily Operations (Execution)

Volume 3 — Billing Engine (Revenue & Compliance)

Volume 4 — Month-End Close (Validation)

Volume 5 — DCAA Audit System (Defense)

Each volume builds on the previous one.

Skipping foundational concepts will result in downstream errors.

11.1 REQUIRED LEARNING APPROACH (NON-NEGOTIABLE)

This manual is not designed to be read passively.

It must be used in the following sequence:

Understand the concept

Review the procedure

Apply the case study

Validate against audit expectations

The case studies are not examples—they are simulations of real audit scenarios.

11.2 WHY CASE STUDIES ARE INCLUDED

Government contractor accounting is learned through:

repetition

error exposure

audit thinking

Case studies are included to:

simulate real-world mistakes

force correct classification decisions

expose compliance risks

train users to think like:

an accountant

a reviewer

and an auditor

11.3 CASE STUDY STRUCTURE

Each case study follows a consistent format:

Scenario

What most people do (incorrect)

What is actually wrong

Correct treatment

Audit outcome

Key lesson

This mirrors how DCAA evaluates transactions during audit walkthroughs.

11.4 CORE CASE STUDIES (MANDATORY BEFORE VOLUME EXECUTION)

The following case studies must be understood before applying the volumes:

Case Study 1 — Misclassified Direct Cost

(Volume 1 + Volume 2)

Scenario:

A \$12,000 consulting invoice is charged directly to a contract without clear linkage.

Issue:

Cost is not allocable to the contract and may be indirect or unallowable.

Correct Treatment:

Reclassify to indirect (G&A) unless direct benefit is proven.

Audit Outcome:

Improper classification results in cost disallowance.

Lesson: Budget availability does not justify cost assignment.

Case Study 2 — Improper Timekeeping

(Volume 2 + Volume 5)

Scenario:

Employee records 40 hours at the end of the week with no daily tracking.

Issue:

No audit trail; time is not reliable.

Audit Outcome:

Timekeeping system deemed inadequate.

Lesson: Timekeeping is legal evidence, not administrative input.

Case Study 3 — Mixed Allowable and Unallowable Costs

(Volume 2 + Volume 4)

Scenario:

Expense report includes meals and alcohol, coded entirely as allowable.

Issue:

Alcohol is unallowable; cost must be split.

Correct Treatment:

Segregate allowable vs unallowable portions.

Audit Outcome:

Failure results in questioned costs.

Lesson: One transaction can contain multiple compliance treatments.

Case Study 4 — Incorrect Indirect Pool Structure

(Volume 1 + Volume 4)

Scenario:

Executive and administrative costs are placed in overhead instead of G&A.

Issue:

Improper pool structure distorts rates.

Audit Outcome:

Indirect rates recalculated; potential repayment required.

Lesson: Pool design drives compliance and billing accuracy.

Case Study 5 — Underbilling Due to Rate Error

(Volume 3)

Scenario:

Labor billed at \$120/hour instead of contracted \$150/hour.

Issue:

Revenue loss due to incorrect rate application.

Audit Outcome:

No penalty, but lost revenue cannot be recovered.

Lesson: Underbilling is silent financial leakage.

Case Study 6 — Billing Unallowable Costs

(Volume 3 + Volume 5)

Scenario:

\$10,000 in unallowable legal fees included in cost-type billing.

Issue:

Violation of FAR allowability rules.

Audit Outcome:

Repayment required; audit scrutiny increases.

Lesson: Unallowable costs must never enter billing.

Case Study 7 — Close Does Not Tie

(Volume 4)

Scenario:

Revenue per GL does not match billed amounts.

Issue:

Unbilled or misposted revenue.

Correct Treatment:

Record unbilled receivable and reconcile.

Lesson: If numbers do not tie, the close is incomplete.

Case Study 8 — Audit Walkthrough Failure

(Volume 5)

Scenario:

Auditor requests full trace of a transaction.

Issue:

Missing documentation and incomplete audit trail.

Audit Outcome:

System inadequacy finding.

Lesson: Every transaction must be traceable end-to-end.

Case Study 9 — Labor Floor Check Failure

(Volume 5)

Scenario:

Employee's actual work does not match timesheet.

Issue:

Labor mischarging.

Audit Outcome:

Costs disallowed; system credibility damaged.

Lesson: Reality must match recorded time.

Case Study 10 — Incurred Cost Submission Breakdown

(Volume 3 + Volume 5)

Scenario:

ICE submission does not tie to the general ledger.

Issue:

Data inconsistency.

Audit Outcome:

Submission rejected; audit extended.

Lesson: All reporting must reconcile to source systems.

11.5 FINAL INSTRUCTION TO USERS

Before executing any process in Volumes 1–5:

You must be able to:

identify the risk

explain the correct treatment

defend the decision
using the case studies above.

11.6 EXECUTIVE INSIGHT

These case studies are intentionally designed to reflect:

real audit failures

real financial losses

real compliance breakdowns

Organizations that succeed do not avoid mistakes by chance.

They succeed because:

their people are trained to recognize and correct errors before they happen

This **training manual front section** is:

structured

practical

authoritative

and grounded in real-world execution

12. FINAL EXECUTIVE INSIGHT

Government contractor accounting is not about bookkeeping.

It is about:

control

traceability

consistency

defensibility

Organizations that succeed in this environment do not rely on individuals to “get it right.”

They build systems where:

it is difficult to do the wrong thing

and easy to prove the right thing

VOLUME 1: FOUNDATIONS

CHAPTER 1 — GOVERNMENT CONTRACTOR ACCOUNTING FUNDAMENTALS

What This Means (Plain English)

Government contractor accounting is not normal accounting.

You are not just recording numbers.

You are proving to the government that:

the cost is real,

the cost is correct,

the cost belongs to the right contract,

the cost is allowed under the rules,

and you can prove it at any time.

If you cannot prove it → **you don't get paid or you pay it back.**

The 5 Non-Negotiable Tests (Every Transaction Must Pass)

Every transaction must pass ALL five:

Did it happen? (Real)

Is it recorded correctly? (GAAP)

Is it charged to the right place? (Cost objective)

Is it allowed? (FAR)

Can you prove it? (DCAA audit)

Fail one → the transaction is wrong.

The 4 Rulebooks You Must Follow

1. GAAP (Books)

Financial statements

Revenue and expenses

Matching and accruals

2. FAR (Allowability)

What you can charge the government

What must be excluded

3. DCAA (Auditability)

System discipline

Timekeeping integrity

Documentation

4. Contract Terms (Billing)

How and when you get paid

What rates apply

Real-World Example

You record a \$5,000 travel expense:

Test	Result
GAAP	Correct
FAR	Meals portion may be partially unallowable
Cost Objective	Charged to wrong contract
DCAA	No receipt

Result: Rejected cost + audit finding

What Can Go Wrong

- Charging costs to “where budget exists”
- Mixing personal and business expenses
- Guessing labor hours
- Not separating unallowables
- Weak documentation

Required Documents

- Invoice or receipt
- Approval
- Contract link
- Proper coding
- Audit trail

Manager Review Checklist

- Does this cost belong to this contract?
- Is it allowable?
- Is support complete?
- Would DCAA accept this?

CHAPTER 2 — CHART OF ACCOUNTS & COST OBJECTIVES

What This Means

Your accounting system must answer ONE question instantly:

“Where did this cost go and why?”

Core Structure You MUST Have

- Every transaction must include:
- Natural account (what it is)

Cost objective (where it belongs)

Direct or indirect

Allowable or unallowable

Contract / job ID

Cost Objective (Critical Concept)

A **cost objective** is:

a contract,

a project,

a task order,

or an indirect pool.

Every cost MUST have one.

Direct vs Indirect (Simple Rule)

Direct Cost

Belongs to ONE job.

Examples:

Engineer on Contract A

Travel for Project X

Subcontractor for Task 3

Indirect Cost

Supports MANY jobs.

Examples:

Accounting salaries

Rent

HR

Chart of Accounts Structure (Required Categories)

Direct Labor

Direct Materials

Other Direct Costs (ODCs)

Overhead

G&A

B&P (Bid & Proposal)

IR&D (Independent R&D)

Unallowable Costs

Example

Employee salary:

Scenario	Treatment
Works only on Contract A	Direct labor
Works across company	Indirect (Overhead or G&A)

What Can Go Wrong

- Charging indirect costs as direct
- No clear job assignment
- Mixing contracts
- Missing cost objective

Required System Behavior (FinovatePro)

- Cannot post without cost objective
- Cannot mix direct/indirect incorrectly
- Must flag missing contract
- Must track unallowable flag

Manager Checklist

- Does the cost objective make sense?
- Is classification consistent?
- Is this repeatable?

CHAPTER 3 — TIMEKEEPING & LABOR CHARGING

What This Means

Labor is the #1 audit risk.

Why?

Because:

- no invoice,
- no third-party proof,
- easy to manipulate.

DCAA focuses heavily on labor.

The Golden Rule

Time must be recorded DAILY and accurately.

Not weekly. Not guessed.

Employee Rules

Employees MUST:

- Record time daily
- Record ALL time (no gaps)

Use correct job codes
Never move time to “help the numbers”
Explain any corrections
Certify time is true

Manager Rules

Managers MUST NOT:
Reassign labor to fix budgets
Tell employees where to charge incorrectly
Approve time blindly

Timekeeping Workflow

Employee logs time daily
Selects correct contract or indirect code
Submits timesheet
Supervisor reviews
Accounting posts labor
Corrections logged with audit trail

Labor Correction Rules

Must be documented
Must include reason
Must not hide overruns
Must maintain original record

Red Flags

All hours entered on Friday
Same hours every day
No corrections ever
Retroactive changes with no explanation

Required Documents

Timesheet (signed)
Payroll register
Labor distribution report
Correction logs

Manager Checklist

Does time match work performed?
Are corrections justified?
Any unusual patterns?

CHAPTER 4 — ALLOWABLE VS UNALLOWABLE COSTS

What This Means

Just because it is an expense does NOT mean:

you can charge it to the government

The 5 Allowability Tests

A cost must be:

Reasonable

Allocable

Consistent

Contract-compliant

Not prohibited

Common Unallowable Costs

Entertainment

Alcohol

Fines and penalties

Bad debts

Certain legal costs

Certain marketing

Lobbying

CRITICAL RULE

Unallowable costs MUST be separated.

Not hidden. Not mixed.

Directly Associated Costs

If a cost exists because of an unallowable cost → it may also be unallowable.

Example:

Alcohol = unallowable

Tax on alcohol = also unallowable

Monthly Review Process

Every month:

Review expenses

Review credit cards

Review travel

Review legal/consulting

Reclassify unallowables

Document adjustments

What Can Go Wrong

Mixing allowable and unallowable

Forgetting to remove from indirect pools

Billing unallowable costs

This leads to repayment + penalties

Required Documents

Receipts

Expense reports

Cost classification

Reclass entries

Manager Checklist

Is this cost allowable?

If not, is it properly segregated?

Any gray areas documented?

CHAPTER 5 — INDIRECT POOLS, BASES & PROVISIONAL RATES

What This Means

Indirect costs must be spread fairly across contracts.

The Core Formula

Indirect Rate = Pool ÷ Base

Common Pools

Overhead

Supports direct work

Examples:

Supervisors

Engineering support

G&A

Runs the company

Examples:

CEO

Accounting

HR

Common Bases

Direct labor dollars

Direct labor hours

Total cost input

Example

Overhead Rate:

Pool = \$500,000

Base = \$1,000,000

Rate = 50%

Rules for Pools

Pools must be:

Logical

Consistent

Documented

Not manipulated

What NOT to Do

Dump costs randomly

Change bases frequently

Hide unallowables in pools

Provisional Rates

Used for billing during the year.

Estimated rates based on expected costs

Actual Rates

Calculated at period end.

Used for true-up

Monthly Indirect Close

Close direct costs

Close indirect pools

Remove unallowables

Calculate rates

Compare to provisional rates

Investigate variances

Save documentation

What Can Go Wrong

Wrong base

Missing costs

Unallowables included

Rate swings unexplained

Required Documents

Pool detail

Base calculation

Rate computation

Variance analysis

Manager Checklist

Does the rate make sense?

Are pools clean?

Any unusual fluctuations?

FINAL COMMANDMENT FOR CHAPTERS 1–5

If you cannot explain a transaction clearly, you cannot defend it.

VOLUME 2 — DAILY OPERATIONS (EXECUTION LAYER)

“How to record transactions correctly — every single time”

This is written so a junior staff can follow it **without guessing** and a reviewer can **audit it without confusion**.

CHAPTER 6 — ACCOUNTS PAYABLE (VENDOR BILLS)

What This Means

Every vendor bill must answer:

What is this cost? Where does it belong? Is it allowed?

Step-by-Step Procedure

Step 1 — Receive Invoice

Required:

Vendor invoice

Date

Amount

Description

Step 2 — Validate Invoice

Check:

Is vendor approved?

Is amount correct?

Is service/product received?

Is there contract or PO?

If NO → STOP. Do not post.

Step 3 — Assign Cost Objective

Select:

Contract / Project OR

Indirect Pool

No transaction without a cost objective.

Step 4 — Classify Cost

Select:

Direct vs Indirect

Natural account

Allowable vs Unallowable

Step 5 — Attach Support

Must include:

Invoice

Approval

Contract/PO (if applicable)

Step 6 — Post Entry

Example:

Dr Expense (correct account)

Cr Accounts Payable

Step 7 — Manager Review

Check:

Coding accuracy

Allowability

Cost objective

Common Mistakes

Posting without contract

Charging indirect as direct

Ignoring unallowables

Missing approvals

FinovatePro System Rules

Cannot post without cost objective

Must select allowability flag

Must attach document

Auto-flag risky accounts (meals, legal, marketing)

CHAPTER 7 — EXPENSE REPORTS (EMPLOYEES)

What This Means

Employees spend money → company reimburses → must be compliant.

Step-by-Step Procedure

Step 1 — Employee Submits Expense

Must include:

Receipt

Date

Business purpose

Contract (if direct)

Step 2 — Review Expense

Check:

Business-related?

Allowable?

Proper documentation?

Step 3 — Classify Expense

Direct vs indirect
Allowable vs unallowable

Step 4 — Split If Needed

Example:
Meal → partially unallowable
Travel → allowable

Step 5 — Post Entry

Dr Expense
Cr Cash / AP

Red Flags

No receipts
Personal expenses
Vague descriptions
Alcohol included

FinovatePro Controls

Receipt required
Business purpose required
Auto-flag unallowables
Mandatory contract tagging if direct

CHAPTER 8 — TIMEKEEPING & LABOR ENTRY (SYSTEM EXECUTION)

What This Means

Timekeeping is not optional.

It is the backbone of billing and compliance.

Daily Employee Steps

Log into system
Enter hours for each job
Select correct cost objective
Submit daily

Supervisor Steps

Review time
Validate reasonableness
Approve

Accounting Steps

Import timesheets

Map to payroll
Generate labor distribution
Post to GL

Journal Entry Example

Dr Direct Labor (Contract A)
Dr Indirect Labor (Overhead)
Cr Payroll Liability

Critical Rule

Time cannot be moved to fix problems

FinovatePro Controls

Daily entry enforcement
Lock past days
Full audit trail for changes
No silent edits allowed

CHAPTER 9 — PAYROLL & LABOR DISTRIBUTION

What This Means

Payroll must match time exactly.

Step-by-Step Procedure**Step 1 — Process Payroll**

Gross pay
Taxes
Benefits

Step 2 — Map to Time

Use:
Approved timesheets
Labor categories

Step 3 — Allocate Labor

Split:
Direct labor → contracts
Indirect labor → pools

Step 4 — Post Entry

Dr Labor (direct + indirect)
Cr Payroll liabilities
Cr Cash

Required Reports

Payroll register
Labor distribution
Employee detail

Common Mistakes

Payroll not matching time
Wrong labor category
Missing allocations

CHAPTER 10 — SUBCONTRACTORS & ODCs

What This Means

These are direct costs tied to contracts.

Step-by-Step Procedure

Step 1 — Validate Contract

Subcontract agreement exists
Approved vendor

Step 2 — Review Invoice

Matches work performed
Matches contract terms

Step 3 — Assign to Contract

Always direct cost

Step 4 — Post Entry

Dr Subcontract Expense (Contract A)
Cr AP

What Can Go Wrong

Charging to wrong contract
Missing agreement
Unsupported costs

CHAPTER 11 — CASH & BANK TRANSACTIONS

What This Means

Cash must tie to reality.

Daily Process

Import bank transactions
Match to records
Identify unknown items

Record missing entries

Bank Reconciliation (Monthly)

Match all transactions

Investigate differences

Document recon

Red Flags

Unreconciled items

Old outstanding checks

Unknown deposits

CHAPTER 12 — BILLINGS (HIGH RISK AREA)

What This Means

Billing must match:

Contract rules

Recorded costs

Approved rates

Billing by Type

Fixed Price

Bill based on milestone or schedule

Time & Materials

Bill hours × rates

Add allowable ODCs

Cost-Type

Bill allowable costs

Apply indirect rates

Step-by-Step Billing

Pull job cost data

Remove unallowables

Apply rates

Prepare invoice

Review

Submit

What Can Go Wrong

Billing unallowable costs

Wrong rates

Unsupported labor

FinovatePro Controls

Auto-remove unallowables

Rate validation

Contract rule enforcement

CHAPTER 13 — MONTH-END CLOSE (EXECUTION VERSION)

15-Step Close (Enforced)

Close AP

Close payroll

Post labor

Post subcontract costs

Reconcile cash

Reconcile AR

Review unbilled

Review accruals

Review coding

Review unallowables

Calculate rates

Review profitability

Tie GL to subledgers

Review FS

Lock period

Close File Must Include

Reconciliations

Labor reports

Rate calculations

Unallowable log

Financial statements

FINAL RULE FOR VOLUME 2

Do not “just post” anything. Follow the steps. Every time.

VOLUME 3 — BILLING ENGINE (REVENUE + COMPLIANCE LAYER)

Cost-Type | Time & Materials | Fixed Price | FAR Clauses | ICE-Ready

CHAPTER 14 — BILLING FUNDAMENTALS (THE RULES YOU CANNOT BREAK)

What This Means

Billing is NOT:

“send invoice”

Billing IS:

“convert compliant costs into allowable revenue under contract rules”

The 5 Billing Tests

Before ANY invoice goes out:

Is the cost recorded correctly? (GAAP)

Is the cost allowable? (FAR)

Is the cost assigned correctly? (Cost objective)

Does the contract allow billing this way?

Can you defend it in an audit?

Fail one → **do not bill**

Core Billing Components

Every invoice is built from:

Direct labor

Direct materials / ODCs

Subcontractor costs

Indirect rates

Fee (if applicable)

CRITICAL RULE

You bill what the contract allows — not what you spent

CHAPTER 15 — FIXED-PRICE CONTRACT BILLING

What This Means

You are paid based on:

milestones, or

schedule, or

deliverables

NOT actual cost.

Step-by-Step Billing

Step 1 — Identify Billing Trigger

Milestone achieved?
Deliverable accepted?
Scheduled billing date?

Step 2 — Verify Completion

Must have:
Delivery evidence
Acceptance (if required)

Step 3 — Prepare Invoice

Fixed amount
Supporting documentation

Step 4 — Record Revenue

Dr Accounts Receivable
Cr Revenue

What Can Go Wrong

Billing before delivery
Missing acceptance
Overbilling schedule

FinovatePro Controls

Milestone-based billing triggers
Acceptance required before billing
Contract schedule enforcement

CHAPTER 16 — TIME & MATERIALS (T&M) BILLING

What This Means

You bill:

Labor hours × contract billing rates
+ allowable materials/ODCs

Step-by-Step Billing**Step 1 — Extract Approved Time**

Only approved timesheets
Only correct labor categories

Step 2 — Apply Contract Rates

Example:

Hours	Rate	Amount
100	\$150	\$15,000

Step 3 — Add ODCs

- Travel (allowable)
- Materials (if contract allows)

Step 4 — Remove Unallowables

Must NOT be billed

Step 5 — Generate Invoice

Critical Risk Areas

- Wrong labor category
- Billing unapproved time
- Using wrong rates
- Including unallowables

FinovatePro Controls

- Locked billing rates
- Labor category validation
- Only approved time flows into billing
- Automatic unallowable exclusion

CHAPTER 17 — COST-TYPE CONTRACT BILLING (HIGH RISK)

What This Means

You bill:

Actual allowable costs + indirect rates + fee

Governing Rule

Based on FAR clause **52.216-7 (Allowable Cost and Payment)**

Step-by-Step Billing

Step 1 — Pull Job Cost Data

- Include:
 - Direct labor
 - Materials
 - Subcontractors

Step 2 — Remove Unallowables

Mandatory

Step 3 — Apply Indirect Rates

Example:

Direct Labor = \$100,000

Overhead = 50% → \$50,000

G&A = 10% → \$15,000

Step 4 — Add Fee (if applicable)

Step 5 — Generate Invoice

CRITICAL RULE

If it is not allowable → it is not billable

What Can Go Wrong

Billing unallowable costs

Wrong indirect rates

Unsupported labor

Missing documentation

FinovatePro Controls

Automatic unallowable exclusion

Rate engine integration

Audit-ready invoice support

Contract rule enforcement

CHAPTER 18 — INDIRECT RATE APPLICATION (BILLING SIDE)

What This Means

Billing uses **provisional rates**, not final rates.

Types of Rates

Provisional Rates

Used during the year

Based on estimates

Actual Rates

Calculated at year-end

Step-by-Step

Load provisional rates

Apply to cost base

Monitor variance

Adjust if needed

Risk

Overbilling → payback

Underbilling → lost revenue

FinovatePro Controls

Rate version control
Effective date tracking
Variance alerts

CHAPTER 19 — UNBILLED & UNEARNED (CRITICAL ACCOUNTING)

What This Means

Timing differences between:

work performed
billing
cash received

Key Accounts

Unbilled Receivable

Work done but not billed

Deferred Revenue

Billed but not earned

Example

Work done = \$100,000

Billed = \$80,000

\$20,000 = Unbilled

Required Controls

Monthly reconciliation
Tie to job cost
Tie to invoices

CHAPTER 20 — INVOICE PACKAGE (AUDIT-READY)

What This Means

Every invoice must stand on its own.

Required Support

Invoice
Labor detail
Rate calculation
Cost summary

Contract reference

Approval

Golden Rule

If DCAA asks, you must produce this in minutes

CHAPTER 21 — INCURRED COST SUBMISSION (ICE-READY)

What This Means

At year-end, cost-type contractors must submit:

Final actual cost data

What Is Included

Direct costs

Indirect pools

Bases

Final rates

Unallowable costs

Key Schedules

Schedule A — Indirect rates

Schedule B — G&A

Schedule E — Direct costs

Schedule H — Contract costs

Requirements

Tie to financial statements

Tie to job cost ledger

Exclude unallowables

What Can Go Wrong

Mismatch with GL

Missing schedules

Incorrect rates

FinovatePro Vision (CRITICAL DIFFERENTIATOR)

One-click ICE submission

Auto-generated schedules

Fully tied to GL

Fully auditable

CHAPTER 22 — BILLING CONTROLS & AUDIT DEFENSE

What This Means

Assume every invoice will be audited.

Required Controls

Segregation of duties

Approval workflow

System validation

Audit trail

Common Audit Findings

Unsupported labor

Incorrect rates

Unallowable costs billed

Weak documentation

Defense Strategy

Full documentation

Clear logic

Consistent process

FINAL RULE FOR VOLUME 3

Revenue is earned by compliance — not effort

VOLUME 4 — MONTH-END CLOSE

Fully tied to Billing, Indirect Rates, and DCAA Readiness

CHAPTER 23 — CLOSE PHILOSOPHY (WHAT YOU ARE PROVING)

What This Means

At month-end, you are proving:

All transactions are recorded

All costs are classified correctly

All unallowables are removed

Indirect rates are accurate

Billing ties to cost

Financial statements are reliable

If one breaks → everything breaks

The Close Standard

“Would an auditor sign off on this with no questions?”

If not → not closed

CHAPTER 24 — THE 20-STEP CLOSE (NON-NEGOTIABLE)

Phase 1 — Transaction Completion

Close Accounts Payable

Close Expense Reports

Process Payroll

Import & Validate Timesheets

Post Labor Distribution

Record Subcontractors & ODCs

Phase 2 — Cash & Subledgers

Reconcile Bank Accounts

Reconcile Credit Cards

Reconcile Accounts Receivable

Reconcile Accounts Payable

Phase 3 — Contract & Billing Alignment

Reconcile Job Cost Ledger

Reconcile Unbilled Receivables

Reconcile Deferred Revenue

Tie Billing to Cost

Phase 4 — Compliance Adjustments

Identify & Reclass Unallowables
 Review Direct vs Indirect Coding
 Post Accruals & Prepaids

Phase 5 — Indirect Rates

Calculate Monthly Rates
 Compare to Provisional Rates
 Document Variances

Phase 6 — Financial Statements

Generate Trial Balance
 Prepare Financial Statements
 Perform Analytical Review
 Lock Period

CHAPTER 25 — LABOR & PAYROLL RECONCILIATION (CRITICAL)

What This Means

Labor must tie across:

- Timesheets
- Payroll
- GL
- Billing

Required Tie-Out

Area	Must Match
Timesheets	Payroll
Payroll	GL
GL	Job Cost
Job Cost	Billing

Step-by-Step

- Total hours from timesheets
- Multiply by pay rates
- Tie to payroll register
- Tie to GL labor expense
- Tie to job cost report

Red Flags

Payroll ≠ labor distribution
Missing hours
Labor in GL not in billing

CHAPTER 26 — UNALLOWABLE COST CONTROL (AUDIT TRAP)

What This Means

You must prove:

No unallowable costs are billed or included in rates

Monthly Process

Scan expense accounts
Review flagged accounts:
meals
travel
legal
marketing
Reclass to unallowable
Remove from indirect pools

Required Output

Unallowable cost log
Journal entries
Supporting documentation

Audit Reality

This is one of the FIRST things DCAA tests

CHAPTER 27 — INDIRECT RATE CLOSE (ENGINE ROOM)

What This Means

Rates must reflect reality—every month.

Step-by-Step

Finalize pool costs
Finalize base
Remove unallowables
Calculate rate:

Rate = Pool ÷ Base

Compare to provisional rate
Investigate variance

Example

Item	Amount
Pool	600,000
Base	1,200,000
Rate	50%

Variance Analysis

Why did rate change?

Is it timing or error?

Does billing need adjustment?

Required Documentation

Pool detail

Base detail

Rate calc

Variance explanation

CHAPTER 28 — BILLING RECONCILIATION (HIGH RISK)

What This Means

Billing must tie to cost AND contract rules.

Step-by-Step

Pull job cost report

Remove unallowables

Apply rates

Compare to billed amounts

Required Tie-Out

Item	Must Match
Job Cost	Billing Base
Rates	Approved Rates
Invoice	GL Revenue

Common Issues

Overbilling

Underbilling

Wrong rates

Missing costs

Required Output

Billing reconciliation

Invoice support file

CHAPTER 29 — UNBILLED & DEFERRED REVENUE

What This Means

Timing differences must be tracked.

Step-by-Step

Unbilled

Identify work performed

Compare to invoices

Record:

Dr Unbilled AR

Cr Revenue

Deferred

Identify billings not earned

Record:

Dr Cash / AR

Cr Deferred Revenue

Required Controls

Monthly reconciliation

Tie to job cost

Tie to invoices

CHAPTER 30 — FINANCIAL STATEMENTS (JSM STANDARD)

What This Means

Financials must be:

Accurate

Consistent

Fully supported

Required Statements

Balance Sheet

Income Statement

Cash Flow

Contract Profitability

Analytical Review

Check:

Margin by contract

Rate fluctuations

Expense spikes

Revenue trends

Red Flags

Profit swings

Negative margins

Unexplained changes

CHAPTER 31 — CLOSE FILE (AUDIT PACKAGE)

What This Means

Your close must be fully documented.

Required File Contents

Trial balance

Bank recs

AR/AP aging

Labor reports

Rate calculations

Billing rec

Unallowable log

Journal entries

Financial statements

Close checklist

Golden Rule

If it's not documented, it didn't happen

CHAPTER 32 — PERIOD LOCK & CONTROLS

What This Means

After close:

No silent changes allowed

Rules

Lock period

Track all changes

Require approval for reopening

FinovatePro Controls

Hard lock system

Audit trail

Role-based permissions

CHAPTER 33 — CLOSE TIMELINE (BEST PRACTICE)

Day	Task
Day 1–2	Transactions complete
Day 3–4	Reconciliations
Day 5–6	Rates + billing
Day 7	Financials
Day 8	Review + lock

FINAL RULE FOR VOLUME 4

If the numbers don't tie, you are not closed.

STRATEGIC INSIGHT (WHY THIS IS POWERFUL)

Most companies:

close loosely

fix later

scramble for audits

If FinovatePro enforces this:

Close becomes:

fast

clean

audit-ready

investor-grade

WHAT THIS UNLOCKS

DCAA readiness

ICE submission accuracy

CFO-level reporting

Bank/lender confidence

VOLUME 5 — DCAA AUDIT SYSTEM

SF 1408 | System Adequacy | Walkthrough | Audit Defense

CHAPTER 34 — WHAT DCAA IS REALLY TESTING

What This Means (Plain English)

DCAA is not impressed by:

nice reports

clean dashboards

They test whether your system can be trusted

The 3 Questions DCAA Asks

Can your system produce reliable cost data?

Can you prevent errors and manipulation?

Can you prove everything with documentation?

Audit Reality

If your system is weak, you don't get:

cost-type contracts

progress payments

approvals

CHAPTER 35 — SF 1408 (ACCOUNTING SYSTEM ADEQUACY)

What This Means

The **SF 1408** is the official test of your accounting system.

Pass = system is adequate

Fail = you cannot support certain government contracts

Core Requirements (Simplified)

Your system must:

Segregate direct vs indirect costs

Identify costs by contract

Accumulate costs by job

Exclude unallowable costs

Maintain labor timekeeping system

Support indirect rate calculations

Reconcile books to financial statements

Maintain proper billing controls

Translation (What DCAA Really Wants)

“Show me that your numbers cannot be manipulated easily.”

CHAPTER 36 — SYSTEM WALKTHROUGH (WHAT THE AUDITOR DOES)

What This Means

DCAA will walk through your system like this:

Step 1 — Understand System

They will ask:

What system do you use?

How are costs recorded?

How are rates calculated?

Step 2 — Pick a Sample Transaction

They will say:

“Show me this cost from start to finish”

Step 3 — Trace the Transaction

They will follow:

Invoice → Approval → GL → Job Cost → Billing → Financials

Step 4 — Test Controls

They will test:

Timekeeping

Approvals

Cost classification

Unallowable handling

Step 5 — Look for Breaks

If anything doesn't tie → finding

Your Goal

Make it impossible for them to find a break

CHAPTER 37 — TIMEKEEPING AUDIT (HIGH RISK TEST)

What This Means

DCAA will heavily test labor.

What They Check

Daily time entry

Proper approvals

No retroactive manipulation

Correct job charging

Floor Checks

They may:

walk the office

ask employees what they are working on

compare answers to timesheets

What Fails Audits

Guessing hours

Backdated time

Manager overrides

No audit trail

Required Controls

Daily entry enforced

Locked periods

Full change history

Employee certification

CHAPTER 38 — UNALLOWABLE COST AUDIT

What This Means

They will test whether you are hiding unallowable costs.

What They Do

Scan expense accounts

Focus on:

meals

travel

legal

marketing

What They Expect

Separate accounts

Clear identification

Proper exclusion from billing

What Fails

Mixed costs

No segregation

Included in rates

CHAPTER 39 — INDIRECT RATE AUDIT

What This Means

They test your rate logic.

What They Check

Pool composition
Base calculation
Removal of unallowables
Consistency

What Fails

Random allocations
Changing bases
Poor documentation

Required Support

Rate calculations
Pool detail
Base detail
Policy

CHAPTER 40 — BILLING AUDIT

What This Means

They test whether you billed correctly.

What They Check

Labor billed = time recorded
Rates used = contract rates
Costs billed = allowable costs

What Fails

Overbilling
Unallowables billed
Unsupported labor

Required Documents

Invoice
Labor detail
Rate calc
Contract reference

CHAPTER 41 — INCURRED COST SUBMISSION (DEEP TEST)

What This Means

They verify your year-end cost submission.

What They Check

- Does it tie to GL?
- Does it tie to job cost?
- Are unallowables excluded?
- Are rates correct?

What Fails

- Mismatch with books
- Missing schedules
- Weak support

CHAPTER 42 — INTERNAL CONTROLS (SYSTEM DEFENSE)

What This Means

Controls prevent errors and fraud.

Required Controls

- Segregation of duties
- Approval workflows
- Audit trails
- System restrictions

Examples

Area	Control
AP	Approval required
Time	Daily entry + lock
Billing	Review before release
GL	Journal entry approval

CHAPTER 43 — DOCUMENTATION SYSTEM (FILE ROOM)

What This Means

Everything must be organized and retrievable.

Required Structure

- Contracts
- Modifications

Invoices
Timesheets
Payroll
Subcontracts
Rate calculations
Unallowable logs

Rule

Retrieve any document within minutes

CHAPTER 44 — COMMON DCAA FINDINGS (AND HOW TO AVOID THEM)

Top Findings

Weak timekeeping
Poor cost segregation
Unallowables not removed
Inconsistent rates
Weak documentation

Prevention

Follow Volumes 1–4 exactly

CHAPTER 45 — AUDIT DEFENSE PLAYBOOK

What This Means

How to behave during audit.

Rule #1

Never guess

Never speculate

Rule #2

Answer only what is asked

Rule #3

Provide documentation, not opinions

Rule #4

Be consistent

Sample Answer Structure

“Yes, here is the transaction.

It was recorded on [date],
charged to [contract],

classified as [type],
and here is the supporting documentation.”

CHAPTER 46 — PRE-AUDIT CHECKLIST (FINAL TEST)

Before Audit, Confirm:

Books closed
Labor clean
Rates calculated
Unallowables removed
Billing tied
Documentation complete

Final Test

Pick 5 transactions randomly

Trace start to finish

If ANY fail → system not ready

CHAPTER 47 — FINOVATEPRO (ULTIMATE ADVANTAGE)

As this is built into the System

FinovatePro becomes:

DCAA-ready by design

SF 1408 compliant out of the box

Audit-proof workflow engine

Killer Features

Forced cost objective tagging
Auto unallowable detection
Locked timekeeping
Built-in rate engine
One-click audit package
ICE-ready submission

FINAL RULE FOR VOLUME 5

If you cannot defend it, you should not record it.

THE BIG PICTURE (ALL 5 VOLUMES)

Volume 1 → Structure
Volume 2 → Execution
Volume 3 → Revenue

Volume 4 → Validation

Volume 5 → Defense

WHAT YOU JUST BUILT

This is not a manual.

This is a government-grade accounting operating system

CASE STUDY SET — FINOVATEPRO GOVERNMENT CONTRACTOR SERIES

CASE STUDY 1 — THE EASY MISTAKE THAT FAILS AN AUDIT

(Volume 1 + 2 — Fundamentals + AP)

Scenario

A project manager tells accounting:

“Just charge this \$12,000 consulting invoice to Contract A. We have budget there.”

Invoice details:

Vendor: Strategy Consulting LLC

Description: “Business advisory services”

No contract reference

No deliverable tied to Contract A

What Most People Do (WRONG)

Code as Direct Cost → Contract A

Post invoice

Move on

What’s Actually Happening

Cost is **not clearly tied to Contract A**

Likely **indirect (G&A)** or **possibly unallowable**

No supporting documentation

Correct Treatment

STOP — do not post yet

Ask:

What work was performed?

Which contract benefited?

If not clearly tied → classify as **Indirect (G&A)**

Evaluate allowability (may be partially unallowable)

Document reasoning

Journal Entry (Correct)

Dr G&A Expense

Cr Accounts Payable

Audit Outcome

Scenario	Result
Wrong treatment	Cost questioned + reclass + possible penalty
Correct treatment	Pass

Key Lesson

“Budget availability ≠ cost justification”

CASE STUDY 2 — THE TIMESHEET PROBLEM

(Volume 2 + 5 — Labor + Audit)

Scenario

Employee enters:
40 hours every Friday
Same job code every week
No daily entry

What DCAA Sees

No daily tracking
Possible fabricated time
Weak internal controls

What Happens in Audit

Auditor asks employee:
“What did you work on Tuesday?”
Employee:
“I don’t remember.”

Result

System fails timekeeping adequacy

Correct Process

Daily time entry required
System locks past days
Supervisor review
Correction audit trail

FinovatePro Enforcement

Cannot submit weekly bulk entries
Daily reminders
Lock edits after submission

Key Lesson

Timekeeping is not administrative — it is legal evidence

CASE STUDY 3 — THE HIDDEN UNALLOWABLE

(Volume 2 + 4 — Expenses)

Scenario

Expense report includes:

\$800 client dinner

\$200 alcohol

\$100 tip

Employee codes entire \$1,100 as “Travel – Direct Contract B”

What’s Wrong

Alcohol = unallowable

Portion of meal may be unallowable

Entire cost incorrectly treated as direct & allowable

Correct Treatment

Split:

Item	Treatment
Meal	Partially allowable
Alcohol	Unallowable
Tip	Allocated proportionally

Journal Entry

Dr Travel (Allowable Portion)

Dr Unallowable Expense (Alcohol + portion)

Cr Cash/AP

Audit Outcome

If not split → cost disallowed + finding

Key Lesson

One receipt can contain both allowable and unallowable costs

CASE STUDY 4 — THE INDIRECT RATE DISASTER

(Volume 1 + 5 — Rates)

Scenario

Company includes:

CEO salary

Marketing

Office rent

All inside **Overhead pool**

What's Wrong

These belong in **G&A**, not Overhead

Pool structure is incorrect

Result

Rates distorted

Billing incorrect

Audit finding

Correct Structure

Pool	Includes
Overhead	Direct support functions
G&A	Company-wide functions

Audit Outcome

Rate recalculation required + potential repayment

Key Lesson

Bad pool design = broken system

CASE STUDY 5 — THE BILLING ERROR THAT COSTS MONEY

(Volume 3 — T&M Billing)

Scenario

Engineer:

Works 100 hours

Correct rate = \$150/hour

Accounting mistakenly bills:

\$120/hour

Result

Item	Amount
Correct billing	\$15,000
Actual billed	\$12,000
Lost revenue	\$3,000

Audit Outcome

No penalty
BUT revenue permanently lost

Correct Control

Rate locked in system
Cannot override without approval

Key Lesson

Underbilling is silent damage

CASE STUDY 6 — THE COST-TYPE OVERBILLING RISK

(Volume 3 + 5 — Cost-Type)**Scenario**

Company bills:
Direct costs = \$200,000
Includes \$10,000 unallowable legal fees

What Happens

Audit finds:
\$10,000 should not have been billed

Result

Repayment required
Possible penalties
Increased scrutiny

Correct Process

Remove unallowables BEFORE billing
Maintain unallowable log

Key Lesson

Billing unallowables = immediate audit exposure

CASE STUDY 7 — THE CLOSE THAT DOESN'T TIE

(Volume 4 — Close)**Scenario**

At month-end:

Area	Amount
GL Revenue	\$500,000
Billing	\$480,000

Problem

\$20,000 difference not explained

What This Means

Unbilled revenue missing

Or billing error

Or posting issue

Correct Process

Identify difference

Trace to job cost

Record:

Dr Unbilled AR

Cr Revenue

Key Lesson

If it doesn't tie, it's wrong — no exceptions

CASE STUDY 8 — THE DCAA WALKTHROUGH TEST

(Volume 5 — Full System)

Scenario

Auditor selects one transaction:

Subcontractor invoice for \$25,000

They Ask You to Show:

Contract

Invoice

Approval

GL entry

Job cost

Billing

Financial statement impact

If System Is Weak

Missing documents

Wrong coding

No audit trail

FAIL

If System Is Strong

You show:

Full chain in minutes

Everything ties

PASS

Key Lesson

Every transaction must be traceable end-to-end

CASE STUDY 9 — THE FLOOR CHECK FAILURE

(Volume 5 — Labor Audit)

Scenario

Auditor asks employee:

“What are you working on?”

Employee:

“Internal admin work”

Timesheet shows:

Charged to Contract X

Result

Labor mischarging finding

Consequence

Cost disallowed

System questioned

Key Lesson

Reality must match timesheets

CASE STUDY 10 — THE ICE SUBMISSION BREAK

(Volume 3 + 5 — ICE)

Scenario

Year-end submission:

Source	Amount
GL Expenses	\$5,000,000

Source	Amount
ICE Submission	\$5,200,000

Problem

\$200,000 difference

Result

Submission rejected

Audit extended

Credibility damaged

Correct Process

Tie ICE → GL → Job Cost → Rates

Reconcile ALL differences

Key Lesson

If ICE doesn't tie, everything collapses

FINAL INSIGHT

These case studies do one thing:

They train users to think like:

an auditor

a CFO

and a compliance officer

at the same time

APPENDIX — MONTHLY CLOSE CHECKLIST (GOVERNMENT CONTRACTING ACCOUNTING)

DCAA-Compliant | FAR-Aligned | Billing-Ready | Audit-Defensible

1. PURPOSE

The monthly close ensures:

- books are accurate
- costs are compliant
- billing is correct
- audit risk is minimized

If monthly close is weak, everything downstream breaks (billing, rates, audits)

2. CORE PRINCIPLE

You are not closing books—you are proving compliance

3. MONTHLY CLOSE STRUCTURE

The close is broken into **10 control areas**:

- Cash & Banking
- Accounts Payable
- Accounts Receivable & Billing
- Payroll & Labor Distribution
- Direct Cost Validation
- Indirect Cost Pools & Allocations
- Unallowable Cost Review
- Job Cost Ledger Reconciliation
- Financial Statements & Variance Analysis
- DCAA Compliance Review

4. DETAILED STEP-BY-STEP CHECKLIST

SECTION 1 — CASH & BANK RECONCILIATION

Tasks

- Reconcile all bank accounts
- Investigate ALL differences
- Verify cash per books = cash per bank

Control Rule

No unreconciled balances allowed

Red Flags

- stale reconciling items (>30 days)
- unsupported adjustments

SECTION 2 — ACCOUNTS PAYABLE (AP)

Tasks

- Record all vendor invoices
- Match invoices to contracts/purchase orders
- Ensure proper cost coding (job + cost type)

FAR Focus

Costs must be allowable, allocable, reasonable

Red Flags

- miscoded expenses
- unapproved invoices

SECTION 3 — ACCOUNTS RECEIVABLE & BILLING

Tasks

- Reconcile billed vs unbilled revenue
- Review:
 - cost-type billings
 - time & materials billings
 - fixed price milestones

Control Rule

Revenue must match contract terms

Red Flags

- overbilling or underbilling
- unsupported billed costs

SECTION 4 — PAYROLL & LABOR DISTRIBUTION (CRITICAL)

Tasks

- Post payroll
- Allocate labor to:
 - direct jobs
 - indirect pools

DCAA Requirement

Labor must be:

- accurately recorded**
- supported by timekeeping**

Red Flags

- labor posted without timesheets
- after-the-fact changes with no explanation

SECTION 5 — DIRECT COST VALIDATION

Tasks

Review all direct costs charged to contracts

Confirm:

correct job

correct category

supporting documentation

Control Rule

Every cost must tie to a contract

Red Flags

costs charged to wrong contract

unsupported travel or materials

SECTION 6 — INDIRECT COST POOLS & ALLOCATIONS

Tasks

Update indirect pools:

Fringe

Overhead

G&A

Allocate costs using approved bases

Example

Fringe → labor base

Overhead → direct labor

G&A → total cost input

Control Rule

Allocation must be consistent and documented

SECTION 7 — UNALLOWABLE COST REVIEW (FAR REQUIRED)

Tasks

Identify and segregate unallowable costs

Examples

alcohol

fines

entertainment

FAR Requirement

Must be excluded from billings and indirect pools

Red Flags

unallowable costs included in billing
mixed allowability accounts

SECTION 8 — JOB COST LEDGER RECONCILIATION

Tasks

Reconcile:
job cost ledger
general ledger

Control Rule

Job-level totals must equal GL totals

Red Flags

out-of-balance job ledger
missing cost postings

SECTION 9 — FINANCIAL STATEMENTS & ANALYSIS

Tasks

Prepare:
Balance Sheet
Income Statement
Contract Profitability Reports
Perform variance analysis

Key Questions

Why did costs increase?
Why did margins change?

Red Flags

unexplained variances
negative margins on contracts

SECTION 10 — DCAA COMPLIANCE REVIEW

Tasks

Review system for:
timekeeping compliance
cost allowability
proper allocations
audit trail completeness

Key Documents

timesheets
invoices
contracts

allocation schedules

Control Rule

Every number must be defensible

5. FINAL CLOSE CHECKPOINTS

Before closing the month, confirm:

- ✓ All accounts reconciled
- ✓ All costs properly coded
- ✓ All labor supported
- ✓ All unallowable costs removed
- ✓ All allocations applied
- ✓ Financials reviewed
- ✓ Billing ready

6. MONTHLY CLOSE CERTIFICATION (INTERNAL)

At the end of each close:

Controller must certify:

Books are accurate
Costs comply with FAR
Labor is properly recorded
Financials are complete

7. COMMON FAILURE POINTS

Most government contractors fail because:

weak timekeeping
poor cost coding
unallowable costs not removed
indirect rates not maintained
billing not tied to actual costs

8. SIMPLE VERSION (8TH GRADE LEVEL)

Every month, ask:

- Did we record all money correctly?
- Did we charge the right jobs?
- Did employees record time properly?
- Did we remove bad (unallowable) costs?
- Can we prove every number?

9. FINAL RULE

If you cannot defend it to DCAA, it is not closed

10. WHAT THIS BUILDS FOR FINOVATEPRO

This becomes:

monthly compliance engine

billing readiness system

audit defense layer

Not just accounting—government-ready accounting