HOW TO DO
DCAA-COMPLIANT ACCOUNTING
WITH QUICKBOOKS ONLINE

YOUR WORKFLOW ISN'T THE PROBLEM

HOW QUICKBOOKS HANDLES GOVCON ACCOUNTING IS

LEARN HOW YOU CAN KEEP QUICKBOOKS AND BE DCAA-COMPLIANT IN THIS EBOOK

AGENDA

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Most government contractors don't know QuickBooks Online isn't enough—until it's too late.

INTRODUCTION

You've done the hard work to win your federal contracts. You've got your accounting up and running in QuickBooks Online (QBO), your invoices are going out, and your timekeeping is...good enough. You've heard of DCAA, but maybe you assumed compliance would be straightforward—after all, QuickBooks is an industry standard. Right?

Then you get an email, or worse, a knock on the door from the DCAA. Their preliminary review has flagged your accounting system. Suddenly, the work you thought was behind you becomes your biggest risk.
This scenario happens more than you'd think.

The truth is: QuickBooks Online is an excellent accounting platform for small and medium-sized businesses. It's intuitive, scalable, and widely adopted.
But when it comes to DCAA compliance, it lacks the controls, structure, and reporting functionality federal regulations require.

Most contractors don't discover these shortcomings until it's too late—when an audit is already in motion, or when their ICE report is rejected. They've tracked costs incorrectly. They haven't segregated unallowable expenses. Their indirect rates don't align with ICE model standards. And by then, the clock is ticking on audits, rejections, and missed payments.

Even worse? The typical advice in this situation is to "move off QuickBooks" and transition to a full-blown ERP system built for government contracts. But those systems come with high costs, steep learning curves, and long implementation timelines. Many small businesses simply can't afford them—or don't have the resources to make the leap effectively.

But what if there was another way?

More and more contractors are seeking out modular, smart solutions that work with the tools they already use, rather than replacing them. The demand is clear: systems that help small businesses bridge the compliance gap without starting from scratch.

This guide is designed to help you:

- Understand what DCAA compliance really involves (and why it's so different from standard accounting)
- Identify what QuickBooks Online can do well—and where it stops short
- Assess the real risks of non-compliance in today's federal contracting climate
- Explore modern strategies for achieving compliance without disruption

What DCAA-Compliance Actually Involves

DCAA stands for Defense Contract Audit Agency. If you hold a cost-reimbursable contract (or are aiming to win one), DCAA compliance is a must. The agency exists to ensure federal funds are used properly—and that means your accounting practices are under the microscope.
DCAA compliance isn't about running clean financials; it's about building a system that aligns with FAR Part 31 and withstands audit scrutiny.

Here's what's required:

- Proper Chart of Accounts — Your accounts must match the categories recognized by FAR. This includes indirect cost pools (G&A, Fringe, Overhead) and cost objectives.
- Cost Segregation — You must differentiate direct costs (e.g., project labor) from indirect costs (e.g., rent, admin salaries), and segregate unallowable costs (like marketing, entertainment, lobbying, and fines).
- Timekeeping Controls — Employees must track time daily, coded to the correct job or contract. Time records must be retained and auditable.
- Job Costing — Every cost must be tracked to a job or contract. You need to be able to produce a report showing all costs—burdened and unburdened—by contract.
- Indirect Rate Calculation — You'll need to calculate and apply indirect rates like Fringe, Overhead, and G&A to direct costs.
- Annual ICE Submission — The Incurred Cost Electronically (ICE) report is a complex Excel model submitted to DCAA. Errors or omissions often lead to rejections and follow-up audits.

Real-World Insight:

"In a recent year, more than 60% of ICE submissions from small businesses were flagged for errors or missing data."
— DCAA Annual Review

Translation? DCAA compliance is not about being a good accountant.

IT'S ABOUT BEING A COMPLIANT CONTRACTOR. AND THAT REQUIRES SYSTEMS DESIGNED FOR FEDERAL RULES—NOT JUST GAAP.

If your accountant or bookkeeper doesn't have experience with government contracts and DCAA rules, it's unlikely your setup will pass audit review—no matter how "clean" the books are. Federal compliance is a different game, and traditional accounting knowledge alone often isn't enough.

Later in this guide, we'll introduce modern tools that help small businesses meet these requirements—without scrapping their existing accounting systems.

What QuickBooks Can Do (and Where It Falls Short)

QuickBooks Online (QBO) has become the go-to accounting solution for millions of small businesses—including a growing number of federal contractors. It's accessible, user-friendly, and packed with integrations. But QBO was built for general business accounting, not for the complex demands of government contract compliance.

So, what can it actually do? Here are QBO Strengths:

- Tracks income & expenses across categories
- Supports basic payroll & vendor management
- Offers cloud-based access & collaboration
- Enables time tracking (via third-party integrations)
- Produces standard financial statements like P&L, balance sheets, & cash flow
- Connects to apps for invoicing, tax filing, more

For typical businesses, that's more than enough. But federal contractors face a different reality.

QBO Limitations (for DCAA compliance):

- Lack of enforced timekeeping controls — DCAA expects daily, auditable time tracking with change logs. Most QBO integrations don't meet this standard.
- No automatic segregation of unallowable costs — You can manually code these costs, but QBO doesn't validate or flag them according to FAR guidelines.
- No indirect rate calculation engine — Calculating fringe, overhead, and G&A rates requires external spreadsheets or custom workarounds.
- No built-in ICE report capability — QBO cannot generate a compliant ICE report; you must extract and reformat data manually.
- No Contract Management Portal - to manage Pipeline, of Contracts values, vs. Funded Values.
- No audit trail customization — While QBO does log basic changes, it lacks the audit detail needed for DCAA reviews.

Why your tech stack needs to be compliant

One of the biggest mistakes new contractors make is assuming their general-purpose accounting tools can flex to meet DCAA rules. But DCAA isn't just looking for clean books—they're looking for structure, traceability, and compliance documentation that QuickBooks Online simply wasn't designed to deliver.

Common Outcome:
Contractors try to "duct tape" compliance together—using spreadsheets, add-ons, and manual adjustments. The result? Inefficiency, vulnerability, and increased audit risk.

It's not that QBO is broken. It just wasn't built for this. And trying to make it fit without purpose-built support often creates more problems than it solves.

That's why many businesses begin exploring alternative ways to augment their QBO setup—solutions that fill in the compliance gaps without forcing a platform change.

The Hidden Cost of Non-Compliance

Non-compliance isn't just a nuisance. In government contracting, it's a liability—one that can cost you contracts, damage your reputation, and halt your cash flow.

When contractors miss the mark on DCAA requirements, the consequences come fast and hit hard. It's not uncommon for businesses to experience payment delays, increased audit scrutiny, or disqualification from future federal opportunities. In more serious cases, non-compliance can even lead to legal consequences or demands for repayment.

Let's break down the risks:

- **Delayed or Withheld Payments:** DCAA audits often take place before final payments are released. If your accounting system doesn't meet standards—such as lacking an audit trail or properly allocated costs—the government may delay or withhold payment until the issue is resolved.
- **Rejected ICE Reports:** The Incurred Cost Electronically (ICE) report is a cornerstone of compliance. If you submit it with errors—or not at all—you risk triggering a formal review or being asked to resubmit. This alone can add weeks or months to your payment timeline.
- **Ineligible for Future Contracts:** If DCAA flags your accounting system as noncompliant, you may be barred from bidding on new opportunities. Some RFPs explicitly require evidence of a DCAA-compliant accounting system.
- **Cost Disallowances:** Failing to segregate unallowable costs—like advertising, entertainment, or fines—can lead to the government refusing to reimburse those expenses. This eats directly into your profit margin.
- **Reputational Damage and Audits:** Contracting officers talk. A failed audit or rejected ICE report can trigger increased scrutiny in future engagements. You might face more frequent audits, longer procurement cycles, or lost trust with contracting agencies.

Case Study:

A small professional services firm in Virginia won its first $1.2M cost-reimbursable contract and assumed that QuickBooks Online would be sufficient. They manually tracked time, used spreadsheets for indirect rate calculations, and submitted an ICE report compiled in-house.

- The report was rejected for inconsistent cost pools and missing schedules.
- The fallout? Payment delays, a 3-month corrective audit, and loss of future contract eligibility.

DATA POINT

In FY2022, the DCAA reviewed over $500B in contract costs. Of the ICE submissions received, more than 60% from small businesses were returned due to reporting errors or lack of supporting documentation.

These aren't isolated incidents—they're systemic issues tied to insufficient systems.

What's Behind the Problem?

- Lack of internal expertise around federal cost principles
- Reliance on basic accounting tools not built for federal compliance
- Underestimation of time and resource commitment

Bottom Line:

The cost of non-compliance almost always outweighs the investment in prevention. The question isn't whether you can afford to address compliance—it's whether you can afford not to.

SIMPLE SOLUTIONS FOR

A Modern Compliance Landscape

For years, the go-to solution for contractors struggling with DCAA compliance has been to switch to a government-focused ERP system. These platforms offer the functionality needed to pass audits—but at a steep cost. Between licensing fees, consultant onboarding, and retraining your team, you're looking at tens of thousands of dollars in year-one expenses alone.

Worse, these systems often disrupt your operations. The average implementation of a full government-compliant ERP system—like Deltek Costpoint, Unanet, or JAMIS—can cost between $40,000 and $150,000 in the first year. This includes:

- Licensing fees
- Consulting and configuration services
- Staff training
- System migration and downtime

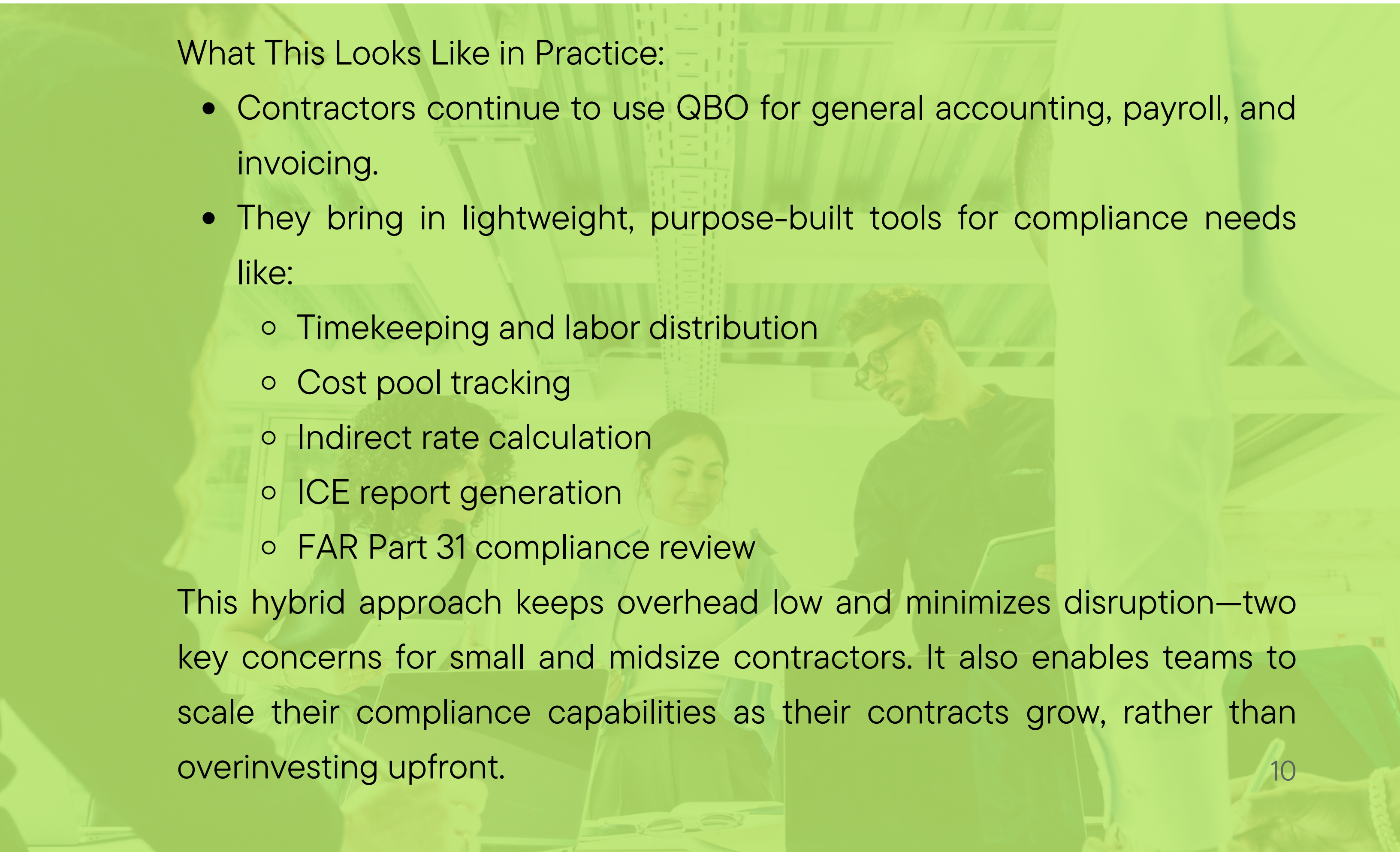
Even after setup, ongoing costs can range from $2,000 to $5,000/month, not including the internal overhead of managing a new, more complex system.

Beyond dollars, the timeline to go live with a new ERP system is often 6 to 12 months, depending on complexity and customization. For many small businesses, that's time and money they simply don't have—especially while trying to deliver on existing contracts.
These platforms also require a full migration of your accounting data, come with rigid workflows, and are rarely tailored to the realities of small businesses trying to scale.

But there's a shift happening in the industry...

Today's government contractors—especially small businesses and startups—are taking a more modular approach.

INSTEAD OF REPLACING THEIR EXISTING SYSTEMS, THEY'RE SEEKING COMPLEMENTARY TOOLS THAT WORK WITH PLATFORMS LIKE QUICKBOOKS ONLINE TO FILL THE COMPLIANCE GAPS.



What This Looks Like in Practice:

- Contractors continue to use QBO for general accounting, payroll, and invoicing.
- They bring in lightweight, purpose-built tools for compliance needs like:
  - Timekeeping and labor distribution
  - Cost pool tracking
  - Indirect rate calculation
  - ICE report generation
  - FAR Part 31 compliance review

This hybrid approach keeps overhead low and minimizes disruption—two key concerns for small and midsize contractors. It also enables teams to scale their compliance capabilities as their contracts grow, rather than overinvesting upfront.

Why Now? Regulations around federal contracting are evolving...and tightening.

For example:

- OMB Uniform Guidance updates have clarified requirements around indirect cost proposals, increasing scrutiny on fringe and G&A calculations.
- The 2023 NDAA introduced heightened cybersecurity and supply chain compliance mandates that require contractors to track additional cost and reporting categories.
- DCAA has increased its emphasis on forward pricing rate audits and adequacy of ICE reports, making accurate indirect rate calculation and documentation more critical than ever.
- DoD’s CMMC (Cybersecurity Maturity Model Certification) rollout requires additional timekeeping and labor cost documentation tied to protected contracts.

These shifts demonstrate the need for agile, audit-ready systems that can adapt to new compliance layers without forcing contractors to start from scratch.

Tech-Forward, Modern Compliance goes beyond spreadsheets.

Modern, tech-forward compliance is all about:

- Automation: Reduce errors and save time
- Integration: Keep data flowing between systems
- Customization: Match your structure to DCAA's framework
- Scalability: Adjust cost models and ICE formats as your contract load increases

This isn't just a workaround—it's a smarter, more sustainable way to approach government contracting.

In the final section, we'll explore one solution in this ecosystem that was purpose-built to help businesses like yours meet DCAA standards while maintaining your QuickBooks workflow.

We didn't need to become compliance experts overnight. The right tools let us keep using QuickBooks, but added the guardrails we needed to avoid mistakes and grow our business."
— COO, 8(a) Tech Contractor

Why GovieRates Is the Smarter Path to DCAA Compliance

PURPOSE-BUILT FOR FEDERAL CONTRACTORS. PLUG-AND-PLAY WITH QUICKBOOKS ONLINE.

Unlike generic accounting add-ons or clunky ERP systems, GovieRates was built specifically for small businesses navigating the federal space. It doesn't ask you to change how you work—it empowers your current setup to meet complex compliance standards.

How GovieRates works:

GovieRates integrates directly with QuickBooks Online, pulling your financial data into a DCAA-compliant framework. From there, it guides you through the process of:

- Segregating allowable vs. unallowable costs in alignment with FAR Part 31
- Assigning costs to the correct pools (Fringe, Overhead, G&A, etc.)
- Calculating burden rates in real-time
- Tracking labor distribution with compliant timekeeping protocols
- Generating your ICE Report using a built-in model that mirrors DCAA expectations
- Producing audit-ready reports with proper documentation and trail

GovieRates makes the data connections between your cost types, different projects and different stages to not only keep you up-to-date on-demand–it also makes for DCAA-compliant accounting practices and reporting.

Working with GovieRates

(Getting started with GovieRates is easy. It's the only DCAA-compliant tool within the QuickBooks Online Marketplace and seamlessly integrates with the online platform. Pricing is straight-forward, with flexible payment options. Starting at $60/mo, users will get access to:

- DCAA Compliant Chart of Accounts
- Indirect Cost Allocation
- Indirect Cost Rate Identification
- Indirect Cost Pools and Bases Identification
- WRAP Rate Calculator

For those wanting an all-in-one service that also includes a complete Indirect Rate Build Report and Job Costing Report by project, GovieRates; Advanced plan is for you, and is offered at a significantly reduced rate than getting the standalone ICE Report, itself, done on its own.

With three different onboarding plans that range depending on what level of guided assistance is wanted, onboarding with GovieRates is a quick process, with most companies being fully set up after just a week.

GovieRates is the simplest answer to government contractors needing DCAA-compliant accounting. A proud partner of Intuit QuickBooks, you can feel confident knowing that you gain decades worth of experience in GovieRates, a product relied upon by many in the space.

See how GovieRates can work for you

Schedule a free demo at:
GovieRates.com

JEFF WILSON, II

CPA/PFS, CGMA, CFE, CDFA®
CEO, Co-Founder