



Changing Accounting Systems

Every once in a while it happens. A manager finds that they are not getting the information that they need to obtain the financial results expected by the executive team. Another company may find that employees are openly dissatisfied with apparent system complexities. It is commonplace for management to hear complaints regarding business systems and often the only solution discussed is: out with the old and in with the new.

Sometimes, there are significant limitations, but we have found that often management can be biased to a change. Before jumping to this very expensive conclusion, it is important take a step back and perform a structured analysis and honestly evaluate your company needs, which should include an evaluation of your end-to-end business system requirements. Challenge your team to entertain alternatives to a totally new system; consider mapping out and simplifying processes, obtain a better understanding of your customer requirements and look into industry best practices. Also, make sure that you evaluate your business system requirements and separate myth from reality, especially when working with government contract accounting and reporting requirements.

We have seen many examples where a company will rush to implement a new system, yet the anticipated benefits and efficiencies do not seem to materialize. Before long, the implementation team is missing schedule and incurring cost growth and this has you wondering if the old system was that bad after all!

Before you head down a path that will take more resources than you have, consider the following points:

1. Your system may have the capability you need already. In the government contractor environment, several software packages available have the capability built in for cost reporting and tracking on government contracts. When working with companies using one of these packages, we find that the capability exists within the software, yet the implementation was not complete or some elements or subsystems are not being used because they “don’t work,” or different people follow different processes generating numerous inputs, resulting in the old adage: garbage in - garbage out.
2. Management support. Based on step one, if it’s been decided that a new system is needed, the most important step is to get management support. In order to successfully implement a new system, the entire company needs to be behind the project. If the company sees the implementation as an Accounting or IT project, it may not receive the appropriate support and will likely fail. A collaboration of buy-in and ownership is essential for success.
3. Identify your business processing and data needs. Do not follow the trap and do the “same thing with a different font.” Unfortunately, there are many companies that think that just changing the system will solve their issues when this is rarely the only factor. Before deciding on a new system,

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it is critical that a company take a good look at what its needs are both from a business process and information needs perspective. No one likes changing systems, so take the time not only to consider your current needs, but prospectively and strategically for future benefit and growth.

4. As long as you are doing this. Let's face it - executing a system implementation plan is not a painless process. In order to ensure that in the end the entire system is running as efficiently as possible, it is critical not only to look at the system itself but evaluate the existing practices and processes and resulting system outputs. This is the time to throw out all assumptions of what "must" be done based on what has always been done and rather take a fresh look at what truly is required based on the needs of the business and applicable regulations. The same is true for outputs. Rather than reinventing the same reports, and for government contractors indirect rates, determine what information management craves, what is critical and what information impacts daily decisions (e.g.: what rate indirect cost rate structure provides the best return for the organization compliantly) to enter or enhance the markets that your company wishes to pursue.
5. Don't forget the past. In our relentless pursuit of a better tomorrow, as government contractors, we also must think about the past. In particular, how are we going to support audits under the old system and how are prior period costs going to be brought into the new system so that contract-to-date information is available? The current backlog of incurred cost audits at many companies amplifies this issue.

A successful implementation does not end with "flipping the switch" on the new system; our diligence needs to continue to make sure we are not doing this all over again. In order to reduce these risks consider the following:

1. Training. We all have microwave ovens with a bunch of buttons and settings, but how many do we use? Speaking for myself, I hit the "Add 30 Seconds" button and that's about it. Well, when a new system is implemented, we want to make sure we are using ALL the buttons that are needed and using them appropriately. This requires training and lots of it. Make sure that you do not skimp on this critical item when setting budgets for the project; if anything, skimp on other areas to add to training.
2. Don't look back. We all get a little nostalgic about the old days whether it's old cars, reruns of I Love Lucy, you name it. This should not be the case for the "Project to Date Report" under the old system. Too many times efforts are wasted recreating these reports because someone is comfortable with the old one. If we have done our jobs correctly this should be minimized, but we need to stay diligent. If we find nostalgia occurring, a training opportunity has been identified. Robert Kriegel's book Sacred Cows Make the Best Burgers provides some humorous yet insightful observations regarding human nature and the challenges with driving change in organizations.



Unfortunately, with every change in accounting systems at a government contractor there are some regulatory considerations that must be considered:

1. Loss of system approval. If a company has its business systems “approved” this status will likely change to “not reviewed” when the new system is implemented. Make sure that we are ready for an audit of our control environment by making certain that your policies & procedures, desk manuals, etc., are updated to reflect the new system. Consider having a review performed by your Internal Audit department or a third party to ensure that nothing slips thru the cracks in this area.
2. CAS. No discussion of government contract requirements would be complete without discussing the Cost Accounting Standards (CAS). Throughout the process, we need to track any updates that may be required for the CAS Disclosure Statement. These may include updates, additions or deletions.
 - a. Accounting Practice Changes. Just because we have updated the disclosure statement does not mean that these reflect changes to our cost accounting practices as defined under CFR 9903.302
 - i. Look at each of the changes made, take a critical look at each separately and consider which if any meet the represent a change to a cost accounting practice, CFR 9903.302-2 and document each conclusion.
 - b. Change process. If a conclusion is made that a cost accounting practice change did occur, the administration of Cost Accounting Standards clause at FAR 52.230-6 lays out the process for these changes. It is important that we are aware of this process and push back when the DCAA auditor immediately asks for a detailed cost impact statement.

Changing accounting systems is a daunting process and should not be taken lightly. Critically evaluating each of these areas will not guarantee success, but will certainly minimize the risk of failure. In summary:

1. Assess the necessity of new system requirement.
2. Get management’s buy-in.
3. Assess current processes and practices.
4. Ensure collaboration through departmental and staff buy-in for implementation.
5. Accessing history (electronically and hard copy) for audit support is critical for success.
6. Do not skimp on training, you may regret it.
7. Out with the old.
8. Oh and by the way, FAR Part 31, Part 15 and Part 30 are still critical considerations for the new and old system.



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