In today's modern aerospace/defense environment, direct labor dollars make up a smaller proportion of total contract cost than has historically been the case. We've noted this phenomenon before, with respect to the importance of managing supply chain risk and ensuring that subcontracted work supports overall program execution. While all that is relevant and true, sometimes it all comes down to managing the labor hours of employees within the four (or six) walls of the factory. Sometimes it *is* about internal controls over timekeeping and labor reporting.

Timekeeping and labor reporting is about the most obvious thing that would generate "interest" for employees (disgruntled and otherwise) looking to find wrongdoing. All they have to do is to look around them and see what their colleagues and peers are doing. They see when their fellow employees show up for work and they see when they leave for home. It's incredibly easy to notice when somebody is taking advantage of lax management to work less than the standard work day. Consequently, timekeeping irregularities comprise the majority of internal hotline calls. Some of those hotline calls lead to official disclosure reports. At one point a few years ago, it was reported that timekeeping problems comprised as much as *75 percent* of all mandatory disclosures made to Federal agency Inspectors General.

When discussing internal controls over timekeeping and labor reporting, the traditional answer is to point to employee certification and the review/approval of the next level supervisor or manager. Unfortunately, the distributed workplace—the new "virtual" workplace where many employees work in offices located miles from their supervisors or telecommute from home—doesn't lend itself to management visibility over employee activities. Couple that from-a-distance management environment with a flexible employee work schedule, and it becomes relatively clear that the supervisor/manager approval of an employee timesheet is little more than a rubber stamp. It's an illusory internal control.

DCAA likes to perform annual “floorcheck” audits (**MAAR 6 audits**) to evaluate the accuracy of contractor employee (salaried and/or hourly) "labor hour charges to contracts, indirect accounts, or other cost objectives,” but the fact of the matter is that no DCAA auditor is likely to surface intentional labor mischarging from floorcheck audit procedures and employee interviews, unless the employee (stupidly) decides to volunteer such incriminating information. The MAAR 6 audit procedures are more likely to uncover systemic, corporate-sponsored, mischarging instead of individual wrongdoing. Thus, DCAA audit procedures are no substitute for rigorous contractor internal controls in this area.

Moreover, the contract clause at 52.203-13 (“Contractor Code of Business Ethics and Conduct”) requires large businesses to “establish … an internal control system” that includes (among other requirements)—

Periodic reviews of company business practices, procedures, policies, and internal controls for compliance with the Contractor’s code of business ethics and conduct and special requirements of Government contracting, including—

(1) Monitoring and auditing to detect criminal conduct;

(2) Periodic evaluation of the effectiveness of the business ethics awareness and compliance program and internal control system, especially if criminal conduct has been detected; and

(3) Periodic assessment of the risk of criminal conduct, with appropriate steps to design, implement, or modify the business ethics awareness and compliance program and the internal control system as necessary to reduce the risk of criminal conduct identified through this process.

Accordingly, if you are a large business (*i.e.*, not a small business as that term is defined in FAR Part 19) then you need to be serious about establishing effective internal controls in the area of timekeeping and labor accounting. If you don’t do so, you risk DCAA finding that your accounting system has a significant deficiency, which will not be happy-making for your company.

Despite all the compliance requirements and disincentives for noncompliance, some contractors—some of the largest contractors—still screw-up from time to time. The Boeing Company is one of those large contractors that recently screwed-up to the tune of $18 million.

According to a Department of Justice **press release** , Boeing agreed to pay $18 million in order "to settle allegations that "the company submitted false claims for labor charges on maintenance contracts with the U.S. Air Force for the C-17 Globemaster aircraft." According to the DoJ announcement—

The government alleged that Boeing improperly charged labor costs under contracts with the Air Force for the maintenance and repair of C-17 Globemaster aircraft at Boeing's Long Beach Depot Center in Long Beach, California. … The government alleged that the company knowingly charged the United States for time its mechanics spent on extended breaks and lunch hours, and not on maintenance and repair work properly chargeable to the contracts.

Further details were provided **here** at MilitaryTimes.com. According to that story, "A former Boeing employee, James Thomas Webb, alleged that workers at the Long Beach Depot Center in California submitted claims from 2006 to 2013 for eight-hour days despite knowing that they spent less time than that working because of lunch breaks and other extended breaks."

Importantly, note that the origin of the allegations was a *qui tam* relator, a former employee. The employee "received $3 million from the government under the settlement, and another $115,000 in legal fees from Boeing." For its part—

Boeing didn't concede liability in the settlement.

'Boeing took prompt corrective action immediately after it became aware of the site's irregular billing practice, and the company cooperated fully with the government investigation,' the company said in a statement to USA Today.

The bottom-line here is that implementing effective internal controls over timekeeping and labor reporting will tend to generate a positive return on investment. Boeing is not the first major aerospace/defense contractor to learn this expensive lesson. Don’t let your company be the next DoJ settlement in the news.