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Cutting the Red Tape: How Professional Services Automation Enables Compliance

This white paper outlines how Professional Services Automation (PSA) solutions simplify Defense Contract Audit Agency (DCAA) and Sarbanes-Oxley (SOX) audits.

Morris Panner
CEO, OpenAir

OpenAir ®

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Background

DCAA. SOX. These are terms that keep business executives up at night. A failed audit can result in delayed project delivery, sanctions, and even lost business. Despite the headaches they can cause, DCAA and SOX compliance are necessary safeguards that government contractors and publicly traded companies must follow. Through the use of a PSA system such as OpenAir, you can ensure the integrity of your core business data and enable your resources to focus on the business at hand, not audit compliance.

Overview

The use of a PSA solution alone does not certify a company as DCAA or SOX compliant. The DCAA and Securities and Exchange Commission (SEC) do not certify individual software applications, but rather look at those applications within the context of a firm's overall processes. Companies using the most secure solutions can fail audits when software is paired with inconsistent, ineffective business practices. However, when PSA solutions are used within a well defined set of policies and procedures, they have a proven track record of enabling firms to maintain DCAA and SOX compliance with minimal administration.

DCAA Compliance

The Defense Contract Audit Agency (DCAA) provides standardized contract audit services for the Department of Defense. When awarded a defense contract, a vendor's policies, manual procedures, and tools are evaluated against DCAA regulations in order to determine if these processes, as a whole, are compliant. Greater than any other area, a vendor's timekeeping procedures are subjected to the highest scrutiny.

Although not an exhaustive list, the DCAA requires[1] that all contractors:

- Monitor the integrity of their labor/timekeeping system.
- Accumulate and record labor costs to objectives.
- Accurately record labor hours and assure that corrections are documented, authorized, and approved.
- Account for labor costs to assure that labor charges to the Government are in compliance with the Cost Accounting Standards and contract terms.
- Distribute labor to assure the proper recording of labor costs to cost objectives.

By implementing a PSA solution, defense contractors can address the specific requirements of DCAA by enabling:

- Password security and audit trail of system access history.
- Time tracking by task against a defined overall budget.
- Configurable approval processes, audit trail for all changes and approvals, and filtering of unauthorized work items.

[1] *DCAA Contract Audit Manual- 5-900 Section- Audit of Labor System Internal Contols.*

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- Default and override labor rates that can be established per contract terms.
- The tracking of employee time to unlimited levels of detail as well as full reporting to validate and monitor correct labor distribution

As mentioned earlier, a software solution is only as effective as the processes it supports. For example, password security and encrypted data transfers are irrelevant if passwords are left unguarded and workstations left unlocked and unmonitored. However, a PSA solution along with secure business practices can remove the headaches involved in verifying time, cost, and change control.

Through past successful audits, the OpenAir features that clients have stated were crucial to passing DCAA audits include:

- Full audit trails on all activities.
- The ability to track supervisor review and get overt approval.
- Functionality to control the assignment of resources to a project.
- Ad hoc management reporting.

OpenAir client, MedImmune, a biotechnology company focused on treatments for infectious diseases, cancer, and inflammatory diseases, utilizes OpenAir to maintain compliance for their $170 million, five year contract from U.S. Health and Human Services to develop influenza vaccines. To meet DCAA guidelines, they are using OpenAir to enforce greater discipline around time tracking, supervisor approvals and controls regarding assignments to projects.

"We deliberately constructed our procedures, leveraging the OpenAir capabilities around resource assignment, around time entry, and around supervisor approval," said Joe Carella, Senior Director of Solution Design and Delivery at MedImmune. "These steps all had to be consistent with our organizational structure."

Sarbanes-Oxley Compliance

Congress passed the Sarbanes-Oxley Act (SOX) to restore investor faith in U.S. corporations by holding corporate executives accountable for the financial results and internal controls within their companies. After such Wall Street scandals as Worldcom and Enron, the SOX act provides investors with a set of strict requirements that work to ensure corporate integrity and shareholder peace of mind.

SOX requirements[2] put a heavy emphasis on financial reporting integrity and include the need to:

- Establish and maintain adequate internal control and procedures for financial reporting.
- Certify that the signing officers have reviewed financial reports.
- Certify that financial statements fairly present the current financial situation.
- Certify that the signing officers are responsible for maintaining internal controls.
- Certify that the signing officers have designed such internal controls to ensure that material information is made known to the necessary parties.

[2] *Sarbanes-Oxley Act- Sections 302, 404*

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As a result, a company that uses a PSA solution must ensure that its processes and procedures related to its services business are SOX compliant. The use of a PSA solution such as OpenAir tackles these requirements by providing:

- A hosted, web-based solution that provides a single, automated data source.
- The ability to track who can enter, change, and approve data, and data integrity between the PSA solution and other systems.
- Multi-level configurable approval processes and full audit trails.
- Complex revenue recognition and billing functionality to ensure accurate financial reporting.
- Advanced filter and role parameters to ensure data security.

With robust, accurate, and real-time financial reporting, OpenAir enables publicly traded companies to:

- Slash audit times.
- Reduce the work needed to prove compliance.
- Improve accuracy.
- Save in full-time headcount to maintain compliance.

OpenAir client, Selectica (NASDAQ: SLTC), a software development firm based in San Jose, California, prior to using OpenAir experienced labor intensive reporting and data gathering around SOX compliance that required 50% of a resource's workload. With OpenAir, they have reduced compliance reporting by 75% while improving the accuracy of data entry.

"By simply using standard OpenAir reporting with some minor modifications we are able to demonstrate SOX compliance," said Joe Longo, Former VP of Professional Services at Selectica. "If all we did was Sarbanes-Oxley reporting, OpenAir would be worth it on that alone."

Conclusion

DCAA and SOX compliance do not need to cause nightmares for your organization. In fact, with the use of a PSA solution, these audits can run smoothly and actually improve your business. By making the investment and successfully passing consecutive audits, you will increase your organization's validity and standing in the market-place. As a result, potential clients will have greater faith in the services you hope to provide.

About OpenAir

OpenAir, Inc., a NetSuite Inc. Company, is a leading provider of Software as a Service (SaaS) services automation software. OpenAir's Professional Services Automation (PSA) solution gives project-based organizations and firms the tools they need to grow their businesses quickly and profitably. Providing enterprise-level functionality for businesses of all sizes, OpenAir has more than 50,000 active users at over 350 world-class firms who use the software to better capture billable time, manage projects and resources, and bill customers. Coupled with a team of highly experienced consultants from some of the world's leading services firms, OpenAir PSA drives higher profits through improved utilization, visibility and data collection. To learn more, please visit www.openair.com.

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OpenAir®
A NETSUITE COMPANY

Corporate Headquarters
211 Congress St., 8th Floor
Boston, MA 02110
Tel: 617.351.0230
Fax: 617.904.161
www.openair.com

"OpenAir is the cornerstone for building a profitable deployment practice."

Joe Longo
VP of Professional Services
MetricStream

"OpenAir has been the single most customer responsive company I have ever worked with…I have never experienced a customer support situation like this in my career, not ever."

Jodi Cicci
Former Director of US Project Management Office
Software AG

"I would not be able to effectively run my business without OpenAir."

Charis Santille
President and Owner
CAS Designs Group

"OpenAir is a clear winner with robust functionality, intuitive user interface, and excellent support."

Alex Sefanov
Founder, President, and CEO
BioPharm Systems