

DCAA Compliance News: *Insights and Practical Advice*

Spring/Summer 2019

President's Corner—With Fred Kline, CEO



I wish I could tell you how much we look forward to April 16th. We love the work we do, but it's great to see another tax season in the rear view mirror, explaining perhaps why the entire team looks forward to Spring. It's also a great feeling to realize we've counted 25 such milestones as we are now entering our 26th year of business. June 17, 1994 marks the day that Kline and Company was started. It's been an amazing journey and we have great plans, as we look

ahead, to continue to evolve to meet the needs of our clients. And, locally, it is always rewarding to be recognized by the local community, having received our 12th award by the folks in the greater Nashua area.

We've taken on a new intern, our grandson Oliver, whose first birthday—quite coincidentally—is the same day as our 25th anniversary date. Although he has his own desk, he's "working from home" for a few years, since he turns the place upside down whenever he is here.



Back to serious news. Our clients continually need our help accurately calculating indirect costs. Too many are getting it wrong and inaccuracy costs money. Provisional billing rates need to be established properly, too. We're here to help, so pick up the phone.

Have a great summer! Drive safe, and no texting while driving.

Fred Kline, CEO and Founder



Inside this issue

PBRs.....	2
COO Corner.....	2
AST Case Study.....	Insert
Inside Scoop.....	3
ICE Reminder.....	4

Count on Kline

- Accounting Services
- Tax Planning and Preparation
- DCAA Compliance Advisory Services



Provisional Billing Rates

Are you paying proper attention to your indirect costs? Provisional Billing Rates (PBRs) are the indirect cost rates that federal contractors use to bill the government under cost reimbursable contracts. Essentially, it is an estimate of indirect costs and the request to approve these rates is due to the government by January 31st of each year. It's imperative that contractors establish their PBRs accurately, following FAR 42.704. Since they are estimates, the rates will change when incurred cost submissions are completed. These will likely change again when DCAA completes an incurred cost audit. Get your PBRs close to your actual rates and no significant funds will be due to the government or minimal additional costs will have to be billed. Fail to submit your PBRs on time and the DCAA may establish billing rates for you. Let's just say these rates will be more beneficial to the government's cash flow than yours.

Over the years we have seen contractors get into serious financial troubles because they have not been accurately calculating their PBRs. If they are too low, you risk not having enough money to fund your operations. If the PBRs are too high, then you risk owing the federal government potentially large sums of money. This is certainly not an area where complacency is acceptable. Do not fall into the trap "Let's just use last year's PBRs"! One long ago contractor closed their doors forever. They contacted us after it was too late. The government billed them over \$1.5 million - some of this caused by using inflated PBRs. Even though Kline was able to substantially reduce the bill from the government, the company still did not have enough funds to pay the bill and were forced to shut down. We recommend that contractors who decide to establish PBRs on their own also calculate their actual indirect cost rates on their own each month. That way they can calculate differences between their actual indirect rates and those submitted on their PBRs. They will then be able to calculate projected amounts due to or due from the government. At Kline, for our monthly clients, we track these differences - between PBRs and actuals - every month.

Keep in mind that the government looks to protect the government, and rightly so. The Kline team, however, looks out for our clients, also rightly so. Questions? Need help? Call us at 603.881.8185.

COO Corner With Sheree DeFeo: Behind The Scenes



Sheree M. DeFeo
Chief Operating Officer

The first year of the new tax law (Tax Cuts and Jobs Act, or TCJA) was a challenge the Kline team embraced quite well. Tax classes and reviews prior to tax season, coupled with weekly tax meetings ensured all members of the team were well versed in the many complexities originating from the TCJA. Our tax team did a fantastic job, including our tax accountants who demonstrated their skill and knowledge of the tax code while our government accountants excelled at keeping our clients DCAA compliant. The office team kept the office running smoothly including coordinating client scheduling, scanning all documentation into our paperless filing system and assuring delivery of all tax returns. Synergy is required for a company to successfully function and I am lucky to be working with a group of dedicated professionals! We closed the office briefly after tax season so the group could enjoy a well deserved rest. I returned to Ireland, spending the Easter holiday with family. My sister has three year old Triplets and a five year old and spending five days with them put things in perspective. A 60+ hour week seemed nothing in comparison to raising four young kids and I returned to the States reenergized and

looking forward to ICE season. Moral of this story? Spend time with a stay at home parent and their kids and you realize how hard they work and a day at the office is a vacation. My two cents for this newsletter: Always show appreciation to your team. I may run operations, but it is the hard work of each team member that makes the company a success. Kline is 25 years in business and the success of the company is due to the people past and present who have invested their time and talent.

Inside Scoop: Costs Related to Legal and Other Proceedings; FAR 31.205-47

This cost principle is complicated because some legal proceedings are always unallowable, some are allowable subject to a ceiling if the contractor prevails in an action, and others may be allowable and not subject to a ceiling, if the contractor prevails.

The simplest circumstance for allowability is when the legal cost is incurred as a requirement of the terms of the government contract, at the direction of the contracting officer. Make sure you have this order in writing. A contractor will not be allowed to claim costs related to defense of actions of Federal, State, local, or foreign governments when the contractor is at fault.

Also, cost incurred for defense against government claims or appeals, or the prosecution of claims or appeals against the government, defense of antitrust suits, organization, and reorganization or resisting reorganization, mergers and acquisition cost are all unallowable.

Unfortunately, legal proceedings can take years to resolve. The temporary solution is to segregate these costs in a "suspense" account (not claimed in the period). If the contractor wins the case, these costs become allowable. If the government prevails, the costs will be unallowable. The government can agree to reimburse legal costs (as a percentage of legal costs incurred) on a contingent basis pending final resolution of the case. You will have to reimburse these expenses if the government prevails in the case.

In addition, FAR 31.205-33 Professional and Consultant Service Costs will cover legal expenses incurred for outside legal counsel. There are many cases whereby you seek legal advice on specific circumstances covered by other FAR Cost Principles such as fines and penalties (31.205-15), organizational costs (FAR 31.205-27), patent cost (FAR 31.205-30), and taxes (FAR 31.205-41).

As with all costs, they must pass the tests for being reasonable, allocable, and allowable. Kline and Company will be happy to discuss your cost allowability questions. Legal cost allowability must be determined on a case by case basis. Realize that for certain circumstances, not all costs are allowable nor unallowable.

Did you enjoy the enclosed case study?

Each quarter we strive to add a new case study, showcasing the value of our contribution to our clients' business.

Please visit our website to read additional case studies. If you would be willing to allow us to create such a case study for your business, please let us know!

www.klineco.com



Kline and Company is celebrating 25 years of service! Read the entire CEO interview on-line in our NEWS section of the web site: www.klineco.com.



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In This Issue:

- AST, LLC Case Study
- Provisional Billing Rate
- Costs Pertaining to Legal Issues

REMINDER: ICE Submissions are Due Six Months After Your Fiscal Year End!

Please call us at 603.881.8185 if you
have any questions or need assistance!

Access our informational videos and DCAA articles at our web site: www.klineco.com
Call us at 603.881.8185 if you need immediate attention!