

DCAA Compliance News: *Insights and Practical Advice*

Winter 2022

President's Corner—With Fred Kline, CEO



As you receive this issue of our newsletter, we find ourselves about two months into the new year. The new year always signals hope, renewal, and an opportunity for a fresh start. It also reminds us in the DCAA accounting world that it's time to continue our focus on tax filings, ICE proposals, and DCAA compliance. In a constantly changing world, one constant remains; the requirement to adhere to the

Federal Acquisition Regulation (FAR). Here at Kline & Company, we are grateful for the opportunity to serve you in these times.

As we enter 2022, our 28th year of serving those who serve the warfighter, I can only imagine the challenges your company faces given world events, the pandemic, supply chain issues, and workforce readiness. We live in challenging times, as the saying goes, and that's a perennial truth. We strive to help you meet these challenges with our accounting and tax services.

Every once in a while our DCAA clients will share important insights into their business, in the context of the value of our services to them. I am pleased to share with you a brief case study, a 'thumbnail' featuring our client, EXPANSIA Group, a service-disabled, veteran-owned firm serving the warfighter in many ways. They are in the very exciting business of helping the DoD deploy technology faster. You'll find EXPANSIA featured in the insert of this issue, and also on our website.



Our seasoned accounting team is well versed in FAR accounting rules, and we are here to help you stay DCAA Compliant. Please reach out to us if you have any accounting questions pertaining to your federal contracts.

Fred Kline, CEO and Founder



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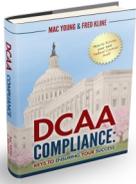
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Count on Kline

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



Inside Scoop: Preparing For An Audit



It is inevitable that a DCAA audit is in your future at some point. Perhaps you have received notification of a pending audit, or you have prior experience going through the government's audit process. *Here are a few excerpts from chapter six of our book on the subject. You can read more in our 2020 book, **DCAA Compliance: Keys to Ensuring Your Success**. A hardcopy is yours free for the asking, or you can order a copy on Amazon.*

From Chapter Six: Preparing for a DCAA Audit.

DCAA Compliance audits are a reality and audits are nothing to fear. It's all about preparation and accountability. And, as you know from experience (and reading thus far), accuracy and completeness in recording direct, indirect, and unallowable costs is paramount. Any DCAA audit requires the full attention of the contractor, from the initial notification and meeting, right through to the exit conference.

Let's face it. No federal contractor enjoys the DCAA audit process or any aspect of an audit. Taxpayers and Congress demand a reduction in fraud, waste, and abuse. In preparing for your firm's next audit, the best thing you can do is to minimize your risks. Incurred cost proposals (ICE submissions) are due on June 30th for calendar year contractors. As such, get an early start so that your proposal falls into the "low-risk" category. The "risk" of a DCAA audit is also impacted by the number of questionable areas in your last audit, the maintenance of an adequate accounting system, and the timeliness of ICE submissions. Of course, effective communication internally and with the DCAA is essential, as is a warm welcome when they come knocking.

Keep Calm and Make Sure You Have Good Timekeeping

Timekeeping is always a hot-button issue for DCAA auditors. Compliance is non-negotiable, as stringent guidelines must be followed! There is a learning curve involved in getting all employees up to speed, and everyone is responsible for accurate time reporting. Training is an essential requirement, and all new employees should be trained. It's best when you can demonstrate that you have proper internal controls for tracking time for employees.

Did You Know... Accounting and Most Legal Services MAY Be "Free" To Your Firm!

Accounting services may be included in indirect costs. Most federal contractors are unaware that specialized DCAA Compliance accounting services may be included in their contract's indirect rates. Here is the direct language from the FAR:

FAR 31.205-33(a) defines allowable professional and consulting services costs as services rendered by persons who are members of a particular profession or possess a special skill and who are not officers or employees of the contractor.

Preview to Our Next Newsletter: How to Stay Out of the Federal Contract Misconduct Database (Avoid Fraud Risk)

Always a good idea to avoid fraud, agree? In fact, it is imperative that federal contractors avoid fraud and *the perception of fraud* in managing the funds awarded for their warfighter projects, and all other projects. It's also imperative that your company follow the rules, and studying the fraud risks as identified for the DCAA Auditor to be mindful about, as well as the resources and training they receive will increase your ability to sleep well each night and ace your next audit. The good news in avoiding fraud risk is that the Department of Defense publishes specific guidance and fraud detection resources to help the auditor prepare for auditing your company. Your compliance should be easier knowing how to avoid the risk of DCAA Compliance fraud. Strong management oversight of internal controls reduces the fraud risk, and the auditor will be looking for weaknesses in the contract management environment. *Can't wait for the Spring issue? It's all covered in Chapter Seven of our book. Grab your free copy now via email to cpa@klineco.com.*

COO Corner: April 15th is Back!



Sheree M. DeFeo
COO

In these tumultuous times, there is satisfaction and calmness in things that remain the same. This year, the IRS has announced they will return to their normal tax filing date. There is something reassuring about having April 15th as a deadline (Tax Day is really April 18th this year, but Kline & Company is adhering to the traditional date). Kline & Company has invested in software to make the process of submitting information both secure and efficient and we are excited to launch this new feature this coming tax season. For our in-house clients (100% government), where Kline provides full accounting support, the experienced accountants at Kline & Company (Government, GAAP and Tax) work together to ensure tax filings are submitted timely and accurately. This “one stop” approach is efficient for clients who are required to file Budgets, Provisional Billing Rates (PBR) and Incurred Costs Electronically (ICE). Kline government accountants “scrub” the P&L accounts to ensure direct costs are recorded to the appropriate jobs, billings reconcile to the cumulative Form 1034 and allowable costs are segregated to the appropriate pools.

On a personal note, my kids have settled into the second semester of their sophomore year. After much thought and research, my daughter has changed her major from Psychology to Video Game design and my son has elected to participate in the five-year college program (MBA route) for Biomedical Engineering.

EXPANSIA Group LLC Counts on Kline & Company for Long-Haul Support

The EXPANSIA Group, a long-standing client of ours, has graciously provided a glowing testimonial of our accounting services to their firm. We are honored to share it with you:

“Among the things I like best about working with Kline & Company are the team-oriented approach to the support they provide for us, and the fact that the people at Kline, whom we view as members of our own team, are highly accessible. As the CFO for EXPANSIA, I greatly appreciate that they go far beyond the accounting transactions in their support of our business. The Kline leadership team takes a long-haul view on our relationship, and we share a similar growth mindset, which we also appreciate. We are in good hands when it comes to federal contracts accounting and fulfilling our DCAA Compliance requirements. We feel cared for, and that’s very important to us.”

- Richard J. Nelson, PhD, Chief Financial Officer



See the EXPANSIA Group case study found in this issue, or at our web site. Check out their services at www.expansiagroup.com.

Outsourced Accounting Services

Your federal contract accounting is too important for your company to undertake without the proper expertise in the Department of Defense’s regulations. We see many small contractors attempt to use a traditional CPA firm or rely on in-house resources alone to meet their accounting responsibilities. Adhering to FAR requirements for reporting, and the rules that apply to every contractor are both time consuming and quite demanding.

As clients know, DCAA Compliance and accounting practices can be a full-time endeavor. From setting up an adequate accounting system to preparing PBR and ICE submissions, you can count on us to help you meet all of your accounting responsibilities to the federal government, so you can focus on serving the warfighter. Our team of former DCAA auditors and government contract accountants has extensive experience in the accounting and tax requirements of federal government contractors. Why not outsource your accounting and tax needs to the Federal Contract Accounting experts at Kline & Company?

The advantages are numerous:

- We perform all of your accounting and tax services at Kline & Company so you can concentrate on performing on your contracts.
- We take a team approach to your needs: our staff is well-prepared to support you at every step.
- Our services are at a fixed monthly fee so you can plan accordingly.

Details can be found under the Services tab at www.klineco.com or you can call us at (603)881-8185 to discuss your needs.

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*Serving Those Who Serve
The Warfighter*



Crime Fighting News: DOJ Enforces False Claim Act (FCA) Penalties on Federal Government

All federal contracts are subject to FAR Part 31 requiring costs to be both reasonable and allocable. Contracts over \$2 million also require that cost or pricing data be certified. The requirements are in place to protect the government and the taxpayer. Uncle Sam does not like fraud and intentional overbilling! Two recent cases are worthy of your awareness:

- **Government Contractor Agrees to Pay More Than \$1 Million for False Claims Overbilling in U.S. Defense Contracts:** Airbus U.S. Space & Defense, Inc., formerly known as Airbus Defense and Space, Inc. (ADSI), with offices in Arlington, Virginia, has agreed to pay to the United States \$1,043,475 to resolve allegations that it violated the False Claims Act by billing impermissible fees in contracts involving a number of federal agencies. Whistle-blower praised for turning in employer who knowingly used an unapproved cost rate to which ADSI was not entitled. ADSI referred to this cost rate as the "Orlando Factor."
- **Former Chippewa Falls defense contractor sentenced to 10 years in prison:** Craig Klund, 58, pleaded guilty to wire fraud against the U.S. Department of Defense, as well as money laundering. The judge imposed a 120-month sentence on each of these counts to run concurrently. Klund was a military contractor who supplied electrical parts to the various branches of the U.S. military, including the U.S. Army for the Patriot Missile System and the U.S. Air Force for the F-16 jet fighter. Using 15 different shell entities, multiple aliases and a prior felony record for defrauding the DoD, Klund submitted 5,750 bids and was awarded 1,928 contracts worth \$7,468,638. These contracts were for parts for the U.S. Army, Air Force, Navy, and Marine Corps. He was paid \$2,905,484 during the fraud scheme.