

DCAA Compliance News: Insights and Practical Advice

Winter 2020

President's Corner—With Fred Kline, CEO



Happy New Year! Tempus Fugit! Time flies, as the saying goes! As we extend a warm welcome to you in this new year, with the holiday season winding down and 2020 winding up, our team wishes you health, happiness and abundance. Perhaps you feel the same way about the apparent speed of time, but the start of the new year just seems to arrive faster with each year.

Although we celebrated our 25th year this past June, I cannot believe

we are well into our 26th year already! My family and my company team all think it's my focus on my grandson that is making time fly for me. They may be right! Speaking of Ollie, I've hidden a photo of him in this issue.



Our *main* focus, however, remains clearly centered on you, and helping each of our clients to meet or exceed the federal government's accounting standards. When it comes to the prospect of a DCAA Compliance audit, we're here to help you stay in control of the process and ensure the best possible outcome. You see, it's our job to make sure that you maintain a healthy relationship with the DCAA and the federal government when it comes to accounting, specifically in managing risks with accurate documentation, correct information in all filings, and no ambiguity. And, many of our clients know that our representation of their firm in dealing with the DCAA creates a certain confidence factor that they would not likely otherwise enjoy. Finally, in this issue, as my team gets focused on tax season I call your attention to the ongoing challenges of cyber-security and the Department of Defense requirements. Your Accounting and IT departments must work together to ensure adherence to address cyber-security. More inside!

Fred Kline, CEO and Founder



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Count on Kline

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



COO Corner: Behind The Scenes at Kline & Company



Sheree M. DeFeo
Chief Operating Officer

One of the things most often heard from our clients is that they value the fact they can focus on their business, with confidence in the federal contracts accounting work we do on their behalf. One of my jobs here at Kline and Company is to manage our company's active role in assisting our clients should they be facing a DCAA audit. Every federal contractor is responsible for knowing the details of the FAR and, as specialized accountants, we stay current on the changing regulatory environment that affects all government contractors. While all federal contractors should have a DCAA liaison, our staff often participates in the process, to help make sure that your goals are aligned with the goals of the DCAA auditor. As we see it, we are here to help those who are serving the warfighter (you), and to help the government to receive an accurate accounting from our clients, for the best possible audit outcome.

So, should you receive an audit notice from the DCAA, which could be for any of several reasons they may deem prudent, please contact us immediately. Since we do year round work for most clients, an audit notice should not be too unsettling, and you can relax a bit knowing you have true DCAA experts behind you! **The partial list to the right** presents some of the tasks we do to begin the audit. Of course, we'll schedule a call with you or arrange a meeting to help manage your audit process.

- Review the auditor notification that an audit is planned
- Ensure understanding of subject of audit and all requests
- Identify any areas needing clarification
- Meet the auditors schedule for entrance and initiation conferences (which may occur on the same day)
- Make arrangements for necessary work space
- Agree to on-site visit date only when ready to support auditor's needs, and pertinent employees are available
- Gather the relevant data, depending on the audit purpose; financial statements, historical incurred costs, etc.

Headquartered at Fort Belvoir, Virginia (shown below), the **Defense Contract Audit Agency (DCAA)** is an agency of the United States Department of Defense under the direction of the Under Secretary of Defense (Comptroller). It was established in 1965 to perform all contract audits for the Department of Defense. Prior to this, each branch of the DoD conducted their own oversight.



Managing Risks to Ensure A Successful DCAA Audit

Let's face it. No federal contractor enjoys the DCAA audit process or any aspect of an accounting systems 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 minimize your risks. Incurred cost proposals (ICPs) are due on June 30th, so focus on ICE proposals now. Get an early start so your proposal falls into the "low risk" category. (Hint: Call us now to discuss your ICE submission!) You should be familiar with the Contract Audit Manual (CAM), found at www.DCAA.mil, yet turn to us to help guide you. Our goal is to help you enjoy the lowest possible risk rating by DCAA. However, keeping abreast of audit requirements is also the responsibility of the contractor awarded government funds. One great resource is offered at www.sbir.gov/tutorials (Select "course 8" then you'll see topics 7 & 8). Take the short self assessment quiz if you dare! Click on "links" if you want to delve deeper into FAR 31.205-46! Of course, you'll also want to read FAR 52.216-7(d), pertaining to final indirect cost rates. The risk of a DCAA audit is also impacted by the number of questionable areas in your last ICP review, the maintenance of an adequate accounting system, and the timeliness of proposal submissions. Of course, effective communication internally and with the DCAA are essential, as is a warm welcome when they come knocking. We're here to provide expert guidance!



DCAA Headquarters, Belvoir, VA

Inside Scoop: Accounting and IT Working Together on Cybersecurity (Part II)

Please keep in mind that we are experts in accounting & DCAA Compliance, and not in IT cyber regulations or strategies, so please consider this article an advisory. We're shining a light on a topic that requires vigilance and oversight; a topic that is important to your data integrity as well as to the integrity of the government's entire Defense Logistics Agency.

As a federal contractor you have an obligation to the DoD to create and maintain an adequate cybersecurity system, and to properly (and rapidly) report any breaches, according to DFARS Section 252.204-7012. While it's beyond the scope of our work, cybersecurity and accounting information must be properly stored and protected, thus the business case for the Accounting and IT Departments working closely together.

Do your own research but be aware that having even one contract with DFARS clause 252.204-7012 will require that the company is NIST 800-171 Compliant, meaning they meet the IT requirements in 14 key areas:

Access Control	Incident Response	Risk Assessment
Awareness & Training	Maintenance	Security Assessment
Audit & Accountability	Media Protection	System & Communication
Configuration Management	Personnel Security	System & Info Integrity
Identification & Authentication	Physical Protection	

You will likely want to assign a team or individual to oversee your compliance, or seek outside expertise. Locate the *NIST SP 800-171, Guide for Applying the Risk Management Framework to Federal Information Systems*, which you can find on-line at <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-171r1.pdf>. It provides small businesses a systematic step-by-step approach to implementing, assessing and monitoring the controls. "800-171" as it's called in federal contractor IT circles details the requirement for any non-federal computer system where controlled unclassified information is used, stored, or transmitted.

Here's the really good news: according to <https://business.defense.gov/Small-Business/Cybersecurity/>, small businesses can use this framework to divide the project into small, manageable chunks and work toward attaining compliance. As the website says, **"Incurred costs may also be recoverable under a cost reimbursement contract pursuant to FAR 31.201-2."** We can help you make that assessment and, as indicated in the sidebar to the right, FAR 31.205-33(a) may apply as well.

Need to report a cyber incident to the DoD? See <https://dibnet.dod.mil>

Our Accounting Services MAY Be "Free" To Your Firm



Most federal contractors are unaware that our specialized DCAA Compliance accounting services may be included in project costs. Every contract and every contractor bring unique circumstances. Here is the direct language from the FAR:

FAR 31.205-33(a) defines 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.

These can be services to enhance the contractor's legal, economic, financial, or technical position, but contractors should place special emphasis on the phrase "special skill" in that definition to properly categorize the services as consulting or purchased labor.

Let's have a conversation about FAR 31.205-33(a) to see if it suits your situation. Call us at 603.881.8185



Fred and Shelly Kline

Our clients are all too well aware that I believe, as the founder and CEO, that a strong, hard working team deserves to enjoy some fun together now and then. In October the team decided on a field trip to Boston's new Encore Casino for their grand buffet. A good time was had by all. I always enjoy time away from the office with the team. It's been something we've done for a long time, and it must be working. After all, we are half way through our 26th year!



Yeah, me and my posse had a great time in Boston. Who would have thought accountants could be so much fun to be around?





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- **Managing Audit Risk**
- **Cyber-Security Spotlight**
- **Thriving in the Audit Process**

Accounting & IT Working Together on Cyber Security—Part II



Our expertise is accounting and DCAA Compliance. Based on the great feedback we received on the short feature in our last newsletter, we thought we'd say more about cybersecurity, as it relates to federal contracts accounting. Our nation is counting on your vigilance!

UnCLE Sam would love for your accounting and IT departments to really work closely together so that you meet your adequate security goals. In fact, you may discover that he actually insists, especially when it comes to addressing cybersecurity and protecting information. We prefer to look at it as a cooperative effort to *protect the data* that

drives the companies that serve the warfighter, including your financial data. However you see it, there are several requirements the government has defined, which you must follow.

Please turn to page three for more information regarding adequate security.

Go Here for More
➔

Defense Cybersecurity Requirements for Small Business:
www.darpa.mil/work-with-us/for-small-businesses/cybersecurity