

DCAA Compliance News: *Insights and Practical Advice*

July 2018

President's Corner—With Fred Kline



Can you believe that we are already at the mid-point for the calendar year? It seems like tax season just ended! As you know, corporate accounting is a year round effort, but I have to admit that all of us here at Kline and Company welcome summer with open arms. We return to a more sane yet robustly busy work schedule, and we get to take a well earned vacation here and there.

The auditors at the DCAA manage to take a vacation as well, as do the people on your team, yet you and I both know that the compliance requirements never seem to take a break, do they?

In this issue of our newsletter, which we hope you are enjoying each quarter, we're focusing on accounting systems, and meeting the requirements for an Adequate Accounting System in the eyes of the DCAA. Of course, we invite any questions you have about your accounting system, so feel free to call or write to us.

We are also featuring one of our clients, Gemedy, Inc., in a mini-case study about the services we provide to them. My entire team agrees that we have a great portfolio of clients and that fact makes it quite enjoyable, indeed, to come to work each day! You see, we are as careful about the clients we choose to serve as our clients are careful about choosing an accounting firm they can trust. It works for everyone.

The hazy, lazy days of summer are at our doorstep. We all try to hold on to the days of August to unwind. Then Labor Day arrives and life speeds up once again. Tempus Fugit, as they say.

I hope you and your family enjoy the remainder of the summer. Remember, buckle up and no texting while driving.

Fred Kline



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Count on Kline

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



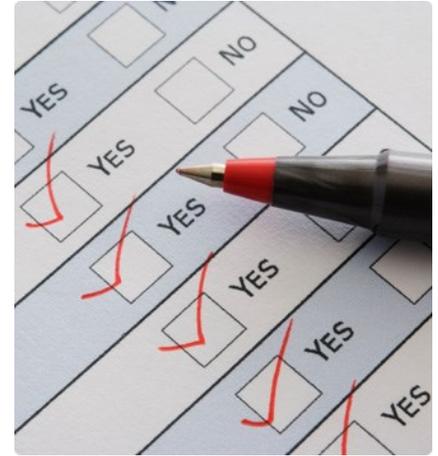
The Importance of An Adequate Accounting System

Federal contractors are bound legally to report accurate accounting information, and it makes good sense for the business! It is a requirement to be considered for certain federal contracts, including cost reimbursable contracts. Without it, a contractor is limited to time based or fixed price contracts.

One major benefit of an adequate accounting system is the ability to track jobs individually, enabling the contractor to accurately calculate profit/loss by project, which gives management a more complete picture of the business performance. Additionally, an adequate system allows for tracking of indirect costs which can then be compared to your budget.

Without an adequate accounting system in place, you risk running out of funding quickly, or, worse, you may find yourself owing money back to the government.

Questions? Please visit www.klineco.com or call us at 603.881.8185



Make sure you visit the “checklists and tools” at DCAA.mil
Find the Pre-Award Accounting System Adequacy Checklist. Of course, we are here to help you!

If you believe that it is best to stick with what you know best and outsource the rest — Kline & Company is ready to handle all of your accounting and tax needs.

COO Corner With Sheree DeFeo



Aesop's Tortoise and the Hare

There's a saying that 'slow and steady' wins the race, and while budgeting is not a race but a journey, this Aesop's Fable certainly applies. Sometimes a client wants to rush and just get the budget planning done, while others on the team focus more on the process. In the words of our COO, Sheree DeFeo, "A sound budget ensures the contractor is requesting the appropriate funds from the US government regardless of the contract vehicle in place (Firm Fixed Price or Cost type). A Kline team member meets with the contractor to review the budget process and explains in detail the budget process."

She continued, "The contractor completes the budget template which is reviewed by Kline to ensure calculations are accurate and expenses are recorded to the appropriate pools. In order for the budget to be accurate and complete, it requires a team effort. The contractor provides the details and the Kline team reviews, asks questions and the process is repeated until both parties are satisfied."

In this issue you'll find our most recent case study as an insert. You'll note that the leadership team at Gemedly, Inc. embraces the wisdom of Aesop's Fables.

Inside Scoop: Accounting Systems...

An Adequate Accounting System is Essential to Properly Manage Your Federal Contract Funding

We have identified ten common “mistakes” that many federal contractors make in the deployment of their accounting system. Here are five areas that deserve closer examination by every contractor (remainder in Fall issue, or call for points 6-10):

1. SUB-STANDARD AND INACCURATE TIME KEEPING SYSTEMS

Timekeeping systems are a key part of DCAA audits. Inaccurate time keeping may result in your accounting system being deemed inadequate for government accounting. This could cause suspension of billings or missed contract awards.

2. EMPLOYEE LABOR DISTRIBUTION NOT MATCHING 941 RETURNS

All labor reported in the books must reconcile to quarterly 941 filings. DCAA will not accept reported compensation unless it matches payroll reporting.

3. INACCURATE INDIRECT RATE CALCULATIONS

Incorrect provisional billing rate calculations can cause overbillings to the government which must be repaid.

4. NOT EXCLUDING UNALLOWABLE COSTS

Unallowable costs should be excluded from direct costs and allowable indirect cost pools. Significant penalties (up to 200% of the cost) may be applied to contractors who claim unallowable costs as allowed costs.

5. NON/LATE FILING OF INCURRED COST SUBMISSIONS

For calendar year contractors performing on cost reimbursable and certain time & material contracts, a true up of provisional and actual direct & indirect costs must be submitted by June 30th of each year.

F.R.E.D. Contest Winner Announced

Kline & Company is Friendly, Reliable, Experienced and Dedicated

Sharon Krawiecki from Exothermics, Inc. is the lucky winner of an Omaha Steaks package! You'll find more about what F.R.E.D. stands for when you visit our “About Kline” web page at www.klineco.com.

Relax and De-stress

Every one of us faces stress in our life, and chronic stress can lead to physical ailments, as doctors are well aware. Increased stress results in increased absenteeism, lower productivity, higher healthcare costs, and it can result in more accidents. Employers and employees alike all have an obligation to help lower the stress levels in the workplace. Employees with manageable stress levels will be happier and more productive.

Here are some easy tips to help lower stress (best if seated):

1. Learn how to take a full belly breath. Breathe in through your nose. Hold it. Exhale through your mouth as you say “relax”.
2. If possible, allow your eyes to close, and let your entire body relax. Imagine peace. Focus on your breath as you say “relax” on exhaling.
3. Say to yourself “I am calm, I am relaxed, I am in control of all I can control”. 3 times
4. Breathe... repeat 1-3 twice.





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SUMMER EDITION

DCAA Annual Report to Congress: Audit Backlog Is Reduced: How New Audit Model May Affect You?



DCAA reported a 'banner year' to Congress in February. New audit model reduces audit backlog. In other words, they have caught up! Full report at DCAA.mil or call us if you'd like us to email a copy.

Congress has been pressuring the DCAA to close the audit backlog and the DCAA has complied! In the words of Anita Bales, the DCAA Director, "Incurred cost audits continued to be a top priority last year, and our workforce did an outstanding job reducing the backlog to an average of 14.3 months. We are on track to eliminate backlogs by the close of FY 2018". Other reports have stated the DCAA's goal of eliminating all ICE proposal audit backlogs by October 1, 2020. The agency also plans to introduce private audit firms to assist, starting in April of 2019.

We expect that the incurred cost audit process may, indeed, change over the next several years. We expect ICE proposals to be processed faster, and we expect a learning curve for private auditors. These changes signal all the more diligence in audit preparation, and general business system reporting.

Kline & Company is here to help you navigate your way to a successful audit!

Access our informational videos at our web site: www.klineco.com

Call us at 603.881.8185 if you need immediate attention!