

DCAA Compliance News: *Insights and Practical Advice*

Spring 2021

President's Corner—With Fred Kline, CEO



We're well into 2021 now, and I am betting you are as happy as most of the world is, now that 2020 has faded into the sunset. Spring is here! We're bullish about the year ahead, if demand for our accounting services is a valid indicator. Federal contractors seem to be doing well, and we expect the DoD's demand for services to the warfighter to increase. America needs to stay strong and we thank you for your part in contributing to our nation's defense.

From an accounting and DCAA Compliance standpoint, last year was certainly unique! This year we are focusing on the impact of federal loan and relief assistance that clients received in 2020. The CARES Act and PPP loans may have impacted your business, for which there may be new tax and audit issues. We are happy to help you with any PPP questions. Simply call the office or send us an email and we'll follow up!

I am happy to report that Kline & Company is continuing to prosper and we have added three new team members. Of course, due to COVID challenges, we have shifted in large part to a remote working model. Hopefully, that has been completely transparent to you! We hope you agree that our services continue to meet our high standards! We've added a new DCAA accountant, a senior tax accountant, and a senior government accountant during 2021. Plus, we are adding a full-time accounting intern from the Philippines, who is scheduled to move to the US in April. We're excited about our recent growth.

Hopefully we will all soon have easier lives now that vaccines are being distributed. We all need to heal from the devastating impact of this virus.

We're still enjoying the thrill of publishing a book on the DCAA audit experience that you get to enjoy! We are happy to send you a copy of *DCAA Compliance: Keys to Your Success*. It's free for the asking! It's good reading for your accounting staff. Of course, you still have to know the FAR!

Fred Kline, CEO and Founder



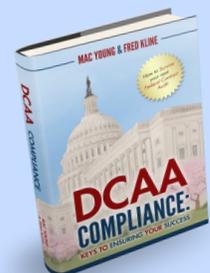
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Count on Kline

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

Our new book is out! Call or email us to request your free copy!



Inside Scoop: Timekeeping Requirements

With the luxury of ‘extra time’, if that exists, you or your contracting officer might enjoy reading some of the DCAA’s guidance to their national staff of auditors. But then again, you may find something else to enjoy! After all, you have the Kline & Company team onboard! While we certainly encourage a friendly and professional relationship with the DCAA auditing staff, we also encourage you to develop insights that help you understand the auditor’s directives, their boss’s expectations, and the government’s audit processes—beyond what you learn in the course of an audit at your company! In other words, you may want to take a periodic look at your compliance with DFARS 252.242-7006 Accounting System Administration Requirements Audit Compliance, which you can find at www.dcaa.mil. There are 18 specific DFARS criteria that guide the auditor. Your compliance requires that you understand them. The Contracting Officer should fully understand the details of the DCAA’s Master Audit Program, found in the Guidance section of their web site. Timekeeping is included in the accounting system audit.

Straight from the document, you can see exactly how the DCAA defines the purpose and scope of their accounting audits: The compliance with DFARS 252.242.7006, Accounting System Administration Requirements Audit is conducted to examine contractor compliance with the system criteria as prescribed in section (c), System Criteria. As a part of the accounting system examination, auditors will:

- Determine if the contractor is compliant with the accounting system criteria in DFARS 252.242-7006(c); and
- Report both significant deficiencies and less severe deficiencies in compliance with DFARS criteria.

Of importance to contractors are the specific steps for determining **Labor Accounting Compliance**, found in section E-1 of the DFARS document. The tracing of direct and indirect labor charges, the proper charging to cost objectives (contract), manual and electronic system controls and access, and the handling of executive compensation are all uniquely identified in the audit requirements.

We recommend that you periodically revisit your timekeeping system to ensure compliance with the FAR. This includes; the right system in place (manual or electronic), policies adequately documented and followed, timekeeping system controls including clocking in and out, the ability to track and trace all changes, and integrating the timekeeping system with your accounting software.

Questions about timekeeping compliance or labor costs? Call or email us!

“If your actions inspire others to dream more, learn more, do more and become more, you are a leader.”
- John Quincy Adams



We are proud to announce that we are now a Unanet Partner. In our opinion, Unanet offers the premier ERP accounting software for federal contractors. It allows for a single streamlined platform to control all the complexities of government contracts.

COO Corner: Mind Your PPP Loan Details



Sheree M. DeFeo
Chief Operating Officer

Happy Spring! We all managed to get through a very memorable year and like many of you, we are welcoming Spring with open arms. A lot has transpired in 2020 that will impact both your personal and business tax returns. Now is the time to ensure your PPP forgiveness applications are submitted, and costs used by PPP funds are clearly noted, and a determination is made as to whether you qualify for a second PPP draw. The new stimulus package signed December 27, 2020, allows taxpayers the ability to deduct those expenses paid using PPP funds. Government contractors obtained some guidance via a DCAA memo issued January 28, 2021 pertaining to section 3610 of the CARES act. Credits/adjustments for government contractors can only occur **after** PPP loan forgiveness is granted. For many contractors, this means credits will not occur until 2021. If the loan is not forgiven, then no credits apply. On a personal note, I returned to Ireland for the New Year and was blissfully confined to my sister's house with a seven-year-old and five-year-old triplets. I would rather take the rigors of tax season than the remote learning my sister has to undertake.

Are You Following DFARS 252.204-7012?

According to the DoD Federal Acquisition Regulation Supplement (DFARS) clause 252.204-7012, all federal contracts must safeguard defense information, and demonstrate adequate measures and policies are in place. This is a topic we've written about in past issues, calling your attention to the importance of Accounting and IT departments to work closely together to implement NIST SP 800-171. We recommend that you consult the NIST Cybersecurity Self-Assessment Handbook for Assessing NIST SP 800-171 Security Requirements. You can find via an Internet search or go to <https://nvlpubs.nist.gov/nistpubs/hb/2017/NIST.HB.162.pdf>.

Among the security guidance addressed in the handbook are:

- Access Control & Personnel Security
- Configuration Management & Risk Assessment
- Identification and Authentication
- Media Protection & Physical Access Protection
- Incident Response Reporting

Providing adequate security and identifying cybersecurity incidents are key priorities. For more information and support start here: <https://www.nist.gov/mep/cybersecurity-resources-manufacturers/dfars-compliance>. See the BONUS chapter in our book for more.



Paycheck Protection Program

Have you applied for a PPP loan if you qualify? Some companies also qualify for a second PPP loan draw. One of the key qualifications for a second draw is a quarter in 2020 that showed at least a 25% reduction in revenue vs. 2019. Of course a drop of 25% for the entire year of 2020 vs. 2019 also meets this requirement. The deadline for either PPP loans is March 31, 2021. Please give this immediate attention before the program ends. Call us if we can be of help with PPP.

Every federal contractor is responsible for accuracy in all costs and pricing associated with any awarded federal contract.

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 your accounting system.

Chapter Seven of our book provides more guidance. Request your free copy!



Tempus Fugit!
Time does, indeed, fly! It's time for ICE Submissions and reviewing your DFARS Labor Accounting Compliance.



Are Your Timekeeping Procedures Accurate and DCAA Compliant?

How would you fare in a DCAA "floor check" audit of your timekeeping system?

Every federal contractor knows the importance (and the benefits) of a compliant timekeeping system. It's essential to day-to-day business operations, for forecasting and business planning, and accurate reporting is required by the DCAA Compliance requirements defined in the FAR. The provisions in the False Claim Act outline civil and criminal penalties for fraud associated with time sheet policies and procedures; a very strong motivation for time reporting compliance! As you know, being a federal contractor, when a government contract is awarded the DCAA time tracking requirements and rules apply to the entire company. Once policies and procedures are defined, the training begins (and continues) so that compliance is achieved and maintained. It's an on-going part of doing business, and a DCAA timesheet audit will certainly examine the company's adherence to the requirements. It's always smart for management to revisit the timekeeping training plan! *(More on page two, inside!)*



Each employee must complete their own timesheet daily, with an accurate accounting of their hours. Management must approve employee timesheets at the end of each work period. Tracking overtime is essential to accurate labor cost reporting, capturing what is called "total time accounting".