

SPECIAL SECTION: **GOVERNMENT CONTRACTS**

MCC INTERVIEW: Anthony Faugno / EisnerAmper LLP

Doing Business with the Government – Importance of Accounting Compliance

Be well-prepared to meet all compliance requirements

Doing business with the government can be a winning strategy. It is not, however, easy. Below, Anthony Faugno, an authority on government contracting with EisnerAmper, discusses the promise and the peril of working with the government in remarks that have been edited for length and style.

MCC: What services does EisnerAmper offer to government contractors?

Faugno: Our main focus tends to be on accounting system compliance for the government and representation and assistance with government audits. Under those two categories, there are many sub-categories for different projects.

MCC: Can you elaborate on some of those?

Faugno: With accounting systems, we provide services to set up or review current systems to comply with government accounting requirements, which include cost accumulation and allocation of costs. We assist in modifying existing accounting systems to provide adequate controls over job costs for specific grants or contracts. We also assist our clients with maximizing their cost reimbursement from the government, especially on cost-plus contracts. We also assist with establishing indirect cost rates for reimbursement from the government. We evaluate company policies and procedures that are required under government regulations.

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In the government audit area, the Deferred Contract Audit Agency (DCAA), which audits contracts of government contractors, we assist clients with the DCAA, helping them prepare for the audits and representing them during the audits. Those can be accounting system audits or various other kinds of audits – pre-award audits and post-award audits, etc.

Another type of audit we do is a compliance audit for grant recipients. (For instance, grants from the National Institute of Health.) These compliance audits are under the government audit guidelines because they have to issue a compliance audit to the granting agency in certain circumstances. This applies to grants, not contracts, when expenditures are \$750,000 or more on government grants within the company's fiscal year.

We also can support attorneys when a company gets into an investigation or other situation with the government. We have a litigation support group that performs those services, which may require forensic work.

MCC: How can EisnerAmper assist early-stage or established companies looking to get into doing business with the government?

Faugno: We work with early stage companies with the set-up of accounting systems when

they get their award. In addition to educating the client on the various compliance issues, we try to simplify the process and make it cost-effective for these smaller companies.

With more established businesses, of course, we get involved at any level with the government contract accounting system and issues. We can assist with most areas of accounting for companies doing business with the government.

MCC: Companies doing business with the government have to undergo a government audit. How do you advise companies to prepare?

Faugno: It's very similar to dealing with an IRS audit. You don't want to wait until you're notified of an audit. You have to prepare yourself. That's what we do, especially with early-stage companies. With government audits under the DCAA, once you're notified things tend to happen quickly. You need to have your policies and procedures in place and your accounting system needs to be up to date. We go through a checklist with our clients, especially the newer clients, to educate them so they're ready when they're notified. The last thing you want to do is leave this on the back burner because you're busy. When a company has to scramble to clean things up mistakes can happen. DCAA uses a pre-award survey of a contractor accounting system (SF-1408 checklist), when evaluating the basic areas of accounting compliance. There are 14 key areas of accounting systems included in the checklist which can be found at www.DCAA.mil.

If you're doing business with the government, it could be a significant source of revenue. You want to protect that by meeting all compliance requirements so that you continue to receive awards and get paid by the government. Otherwise, you could easily be put out of business.

MCC: What are some of the major areas that companies should address to assure their accounting systems are compliant regarding doing business with the government?

Faugno: First, the accounting system has to be based on a generally accepted accounting principles (GAAP) reporting system for all financial accounting and reporting. That means an accrual system, not a cash basis.

Second, they have to accurately capture transaction costs by what's known as final cost objective. That means they have to track direct and indirect costs by job or contract or grant. They must reconcile to their general ledger

and to all their payroll documents. They have to allocate costs to the proper contracts.

Generally, you want to have an integrated accounting system that minimizes opportunities for errors. The government is looking for books to be closed on a monthly basis. There has to be a timekeeping system for employees to track their time by job, by type of contract and by cost, whether it's direct or indirect. They need written policies and procedures, which we can assist with. For instance, if the company allows employees to work at home, they need to have a work-at-home policy. This has to be in writing and it must acknowledge that the employee has received it.

MCC: Given the requirements and restrictions, is doing business with the government worth the bother?

Faugno: It is a good area to be in. The profits on government contracts are generally controlled, so you have to be efficient and you

have to control your costs to maximize your profits. That's what a good accounting system – a compliant accounting system – will help companies do.

I have a number of clients that exclusively do business with the government, and they do quite well. Companies need to develop a network within the government in their area of focus to continue to have the opportunity for new business. As long as they play by the rules – and there are a lot of rules with the government; I'm not saying a complex level of compliance is easy – they can succeed.

One key area government contractors have to deal is the Federal Acquisition Regulations (FAR). This is a very lengthy and complex set of rules, including the area I frequently get involved in, "FAR Part 31," which includes the cost principles on the accounting side.

We help companies maintain accounting compliance to do business with the government. It's a good niche for us. We plan to continue to grow and help as many companies as we can.