



## Evaluating Your Executive Compensation Package

No matter how small your investment is in doing business with the Government, the compensation packages you provide your executives are likely to be evaluated by procurement auditors.

If you have Government contracts that are subject to FAR Part 31 Cost Principles, you should have procedures in place to determine, on a recurring basis, the market worth of compensation provided to your highest paid people. FAR Part 31.205-6 requires you, the Government contractor, to demonstrate that compensation paid to all employees, especially executives, are reasonable. The general benchmarks for determining reasonableness of employee compensation are salaries and benefits paid to employees in other companies in similar industries, of the same size, and in the same geographical area, for the same categories of personnel.

Of particular interest to Government auditors are the compensation packages provided to your top level executives. The auditors of DCAA are chartered with the responsibility for determining that compensation packages provided to those senior people are reasonable, given the benchmarks delineated in FAR 31.205-6.

If you haven't performed any documented analysis of those compensation levels for several years, you may find yourself in a hangman's noose if the auditors come around asking questions. Now is the time to establish processes for supporting the market worth of compensation paid to your executive cadre.

## Preparing CAS Disclosure Statement: Easier Than You Think??

I recently discussed with a fellow consultant, from another firm, the intimidating factors surrounding the preparation of a CAS disclosure statement for the first time. A disclosure statement is a formal document that

describes, in a specific format, job cost accounting practices. That documented list of procedures will apply only in certain circumstances, and only when a contractor has received, or is about to receive, a CAS covered Government contract. The form that is required to be prepared is identified as the CASB DS.

The preparation process of the CASB DS has been equated to preparing one's personal income tax form where multiple income and expense issues are involved. For many contractors new to this requirement, preparing this form can be intimidating. Although overwhelming in its appearance, preparing a disclosure statement that adequately describes your cost accounting practices should not be that difficult.

The fundamental principle in completing the CASB DS form is to carefully read the instructions that precede each of the eight sections of the form. Each section of the CASB DS form describes the type of detail and content that is required. We suggest reading the form thoroughly and completely before beginning the preparation process.

If you are unable to discern the information that is required for the CASB DS, there are a number of Government contracting consultants, including Beason & Nalley, who can facilitate the preparation process. In some cases, a few minutes on the phone with a qualified consultant can overcome barriers in successfully preparing an adequate disclosure statement.

## Research & Experimentation Credit for Government Contractors

In 2001, the federal government expanded the R&E tax credit rules allowing smaller companies to take advantage of their research and development activities. In 2003 these changes were finalized. Specifically, the government broadened the discovery test and reduced the documentation requirements. Previously, for activities to qualify for the credit there had to be an "industry changing" development. Now the rules allow activities that benefit the

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company through new product development or improvement of processes.

Another change in the rules relates to the definition of "funded research". A government contractor is paid or reimbursed for its costs in undertaking an otherwise qualified activity. In the past, this has been labeled as "funded research". The new rules have adopted a more favorable approach of demonstrating "economic risk". Several court cases have addressed this interpretation in recent years. Lockheed Martin and Fairchild have both won R&E tax credit cases in court by showing they have an "economic risk" in contract work for the federal government.

Direct and indirect research activities may qualify for the credit. An indicator of R&E type activities is the employment of engineers, scientists, PhDs, software developers, and programmers. The costs allowable for the credit are direct labor, materials and 65% of subcontracted work.

## Meet your GCC Consulting Staff

**Darryl L. Walker, CPA, CFE, CGFM** – Darryl is the owner in charge of our government contract consulting services to our government contractors. He has written several articles for publication, provides training



courses to government contractor and business community leaders, and consults with government contractors regarding a vast range of issues including cost proposal and presentations, compliance with FAR and Cost Accounting Standards, litigation support, specialized claims, liaison with procurement and DCAA audit officials, and accounting and management systems compliance. His 38 year experience in dealing with government contractors has enabled him to serve our clients with a high degree of technical competence.

**R. Scott Butler, CPA**

– Scott is a Director at Beason & Nalley, Inc. and currently leads our assurance and advisory group and also serves as a consultant in government contracting issues. He writes articles, leads training courses around the country and consults with contractors on a myriad of issues. He has been a CPA since 1986 and was formerly the Director of Finance and Accounting for a large publicly held Government Contractor. His 15 years as a consultant advising contractors, together with his 5 years as a Director within the industry has enabled him to better provide a full spectrum of services to the clients he serves.



**Charles Broome, CPA** – Charlie is a Senior Managing Consultant who possesses twenty years of experience in diverse corporate settings highlighted by major achievements in business process reengineering, financial management and project management. He has held several executive management positions with The Boeing Company since 1996, serving as the primary executive interface with the Divisional Administrative Contracting Officer and Defense Contracting Audit Agency on all financial matters conducted onsite. He was Director of Business Management for IDS, Missile Defense Systems in Huntsville, Alabama. He was responsible for providing employees, processes and tools to support all programs at the Huntsville site in the areas of Financial Reporting, Direct Budgeting, Rate Management, Contract Administration, Estimating, Pricing and Program Budgets and Schedules, Property Administration and Supplier Management & Procurement.

**Courtney Edmonson** – Courtney is a Senior Government Contracts Consultant with Beason & Nalley and provides consulting services for our government contractors. Courtney has been a Consultant with Beason & Nalley for five years. Courtney's experience includes FAR and CAS compliance, cost proposals, indirect rate analysis, revenue recognition, contract review and overall financial presentation from a GAAP (Generally Accepted Accounting Principles) and government regulator aspect. Courtney's past experience also includes the financial statement audits of government contractors, most of which are service related contracts as well as manufacturers, not-for-profit and employee benefit plans.

**Training Opportunities**

**FAR Part 31 Cost Principles Training Course** presented by Beason & Nalley, Inc. (Aug 22, 2006 class is full – alternate date below)

**Date:** Sept. 26, 2006  
**Course Lecturer:** Darryl Walker  
**Course Format:** Classroom, with lecture and interactive discussion  
**Course Length:** 1 day, 8:30 am-4:30 pm  
**CPE Hours:** 8 hours

**For more information and registration,** go to [www.beasonnalley.com/default.asp?ID=261](http://www.beasonnalley.com/default.asp?ID=261) or contact Beason & Nalley at 256.533.1720.

**Government Contract Accounting Systems Compliance** Presented by Federal Publications Seminars

**Dates:** Nov. 1-2, 2006, Washington DC  
Dec. 6-7, 2006, Las Vegas, NV  
**Course Instructors:**  
Darryl Walker and Scott Butler

**For more information,** go to [www.fedpubseminars.com](http://www.fedpubseminars.com), and click on the Government Contracts tab or call Beason & Nalley.

Beason & Nalley will develop and provide specialized Government contracts compliance training for client/contractor audiences. Topics on which we can provide training include estimating systems, FAR Part 31 Cost Principles, TINA and defective pricing, cost accounting system requirements, and basics of Cost Accounting Standards, just to name a few. If you have an interest in training, with educational needs specific to your company, please contact Ms. Sandra Baker at [sbaker@beasonnalley.com](mailto:sbaker@beasonnalley.com), or at 256-533-1720.

**August 22-25 NAITA Trade Education Tour Briefings – Navigating Export Finance & Getting Paid** - Wachovia Bank in Muscle Shoals, Decatur, Guntersville and Anniston.

**September 12 - Navigating Export Finance & Getting Paid,** 1/2 day NAITA Export Finance Seminar, at BizTech, 505 Sparkman Dr., Huntsville, 8:30-12:00 p.m.

For more information on the above programs, contact [naita@naita.org](mailto:naita@naita.org), [www.naita.org](http://www.naita.org) or 256-532-3505.

**September 26 - Beyond the Export Administration Regulations: an Export Compliance Seminar** at Lockheed Martin, 4800 Bradford Drive, Huntsville - 8:00 a.m. - 4:30 p.m. For further information or registration, contact the Birmingham Export Assistance Center at 205-731-1311 or [nelda.segars@mail.doc.gov](mailto:nelda.segars@mail.doc.gov) or [www.naita.org](http://www.naita.org).

**Future Newsletter Editions**

Beason & Nalley welcomes any feedback from the readers of this newsletter. We appreciate any suggestions that you may have as to future content, presentation and format, or interesting developments in the procurement community that would be of interest to our readers. Please provide any feedback or suggestions via our email address at [dwalker@beasonnalley.com](mailto:dwalker@beasonnalley.com).

Beason & Nalley, Inc. is an accounting firm with a focus on serving government contractors. With this focus, we go well beyond the bounds of what one would normally consider to be "typical" accounting services. We provide services such as Deltek GCS Premier™ and Deltek Costpoint® consulting, outsourced accounting, government contract services, and more. Our goal is to provide the business owner with options for their financially related administrative needs. Our service list is comprehensive. Contact us:

**Beason & Nalley, Inc.**  
101 Monroe Street  
Huntsville, AL 35801  
Tel.: 256.533.1720  
Email: [info@beasonnalley.com](mailto:info@beasonnalley.com)  
[www.beasonnalley.com](http://www.beasonnalley.com)