



## Acquisition Thresholds Are Elevated

Federal Acquisition Circular (FAC) 2005-13 was recently issued that elevates certain acquisition-related thresholds, effective September 28, 2006.

A few notable increases are:

- TINA/cost or pricing data—from \$550K to \$650K
- Micro-purchases—from \$2.5K to \$3.0K
- Commercial items test program—\$5.0 mil to \$5.5 mil

The increases reflect adjustments for inflationary trends every five years.

We're still waiting to see if certain CAS applicability thresholds are also increased. Proposed CAS threshold increases were published in a separate CAS Board proposal, and a final ruling has yet to be made.

## DCAA Issues Guidance on CAS Segment Identification

On October 16, 2006, DCAA issued guidance to its auditors to assist in determining if contractor "offsite locations" may be a "segment", as contemplated by Cost Accounting Standards. Offsite locations, as defined in the DCAA memo, are operations at separate geographic locations where such locations are not considered a segment.

The guidance states that audits of such locations will be performed where costs exceeding \$10 million in the preceding fiscal year were incurred. DCAA has created a draft audit program, and that program identifies certain attributes for auditors to look for in ascertaining if an "offsite location" is a CAS segment.

Such operations may be considered a segment, and therefore subject to CAS applicability as a separate business unit, if the location:

- Is responsible for submitting a Disclosure Statement
- Has profit/loss responsibilities
- Has a separate G&A pool
- Has management personnel responsible for overall management and operations of the location
- Reports to a home office, or other segment

If such locations are segments, those locations would be responsible for compliance with applicable CAS requirements as a stand-alone "business unit" and subject to individual CAS compliance audit evaluations.

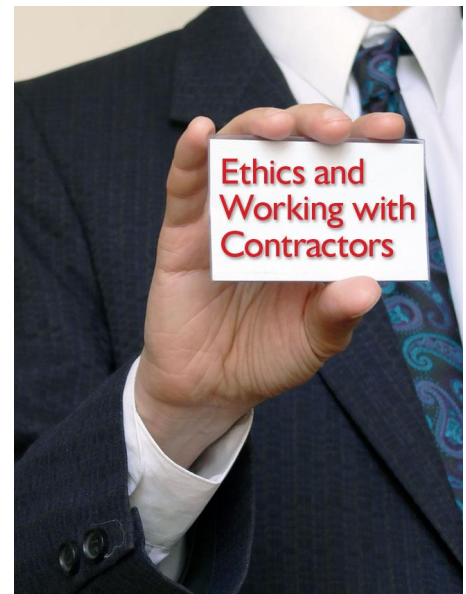
## Ethics and Working with Contractors

On October 27, 2006, Paul Denett issued a memorandum to chief acquisition officers and senior procurement executives. In the memo he states "We are in a new contract environment with a much greater reliance on service contracts and, increasingly, government employees work alongside contractor personnel in a 'mixed workplace'." Mr. Denett urges contracting officers to avoid even the appearance of a conflict of interest and to cooperate fully with the National Procurement Fraud Task Force, established by the Justice Department to promote early detection, prevention, and prosecution of procurement fraud.

We have witnessed the shift during the past 5 years of more contractor employees moving from contractor facilities to government facilities. With this shift we have more contractors and government employees working side by side than ever before.

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How can you be sure your company is compliant and protected from even an appearance of fraud or misconduct? The website at [http://www.usoge.gov/pages/daeogram/s/dgr\\_files/2006/do06023a.html](http://www.usoge.gov/pages/daeogram/s/dgr_files/2006/do06023a.html) contains a 32 page document entitled "Ethics and Working with Contractors Questions and Answers." This document which was attached to the memorandum issued by Paul Denett covers in depth the following ethical topics:

- I. Revolving Door Questions
- II. Other Financial Conflicts
- III. Other Impartiality Issues
- IV. Gifts
- V. Miscellaneous Ethics Questions

We urge our clients to carefully read the document and insure that your own corporate ethics policies are adequately written and communicated on a regular basis to your workforce. Project Managers must be well versed on these policies and must monitor and reinforce them on a regular and consistent basis to their work groups, especially those that work in the same facilities as government personnel.



## ***DCAA Issues Audit Guidance on Compensation Costs Arising from Stock Options***

On July 7, 2006, DCAA issued audit guidance aimed at potential unallowable stock option compensation costs resulting from contractors that have implemented FAS 123 (R).

For financial accounting purposes, effective June 15, 2005, FAS 123 (R) requires companies to recognize the value of certain stock options as compensation costs. FAS 123 (R) requires that compensation costs for stock options awarded to the

employees be measured at their fair value on the grant date, i.e., the date the key terms and conditions of stock option awards are known. The fair value of the option is usually determined by the use of an option pricing model such as the Black Scholes Merton Pricing Model.

DCAA points out in the guidance memo that FAS 123(R) only applies to GAAP based financial statements and not to the measurement and allowability of costs for Government contracts.

Auditors are urged to use CAS 415 and for non-CAS contractors FAR 31.205-6(k) which states that compensation costs arising from stock options awarded to employees be measured by the difference between the fair market value of the stock and the option's exercise price at the measurement date. The measurement date is the first date when both the number of stock options awarded and the option price are known.

DCAA also states that they believe many companies award stock options to employees at an option price that is equal to or higher than the market price of the stock on the measurement date, which would result in no allowable compensation. The memo says that only in rare instances where stock options are awarded at an option price below market would it result in compensation costs that would be considered allowable.

In conclusion, if you are recognizing compensation expense under the new FAS 123 (R) rules, you need to be certain that the compensation meets the criteria either under CAS 415 or FAR 31.205-6(k) before those costs are included in the incurred cost submissions or in your rates for forward pricing purposes.

## ***Importance of Written Policies and Procedures***

Maintaining well written, comprehensive policies and procedures related to your business operations are a must for all Government contractors, especially companies who have significant dollars that are billed to Government customers.

Most important to auditors are those procedures that surround your financial accounting, cost accounting, and supporting financial systems. Government procurement officials believe that written documentation defining these procedures supports a contractor's commitment to enforcing internal controls that will mitigate financial risk to procurement customers.

Critical procedures that should be in writing include:

- General accounting processes (AP, AR, etc.)
- Cost segregation among final cost objectives
- Identification of direct and indirect costs
- Purchasing and subcontracting
- Accounting for unallowable costs
- Timekeeping and labor distribution
- Budgeting and planning
- Employee travel and relocation
- Bonuses and other incentive compensation
- Cost estimating

Sections of FAR Part 31 Cost Principles and the Cost Accounting Standards make some procedures mandatory for compliance to these regulations. Examples of such procedures are incentive compensation, depreciation, and employee relocation.

All Government contractors, large or small, should periodically review their existing written procedures to ensure they are up to date, or if they do not exist, should prepare those procedures. Maintaining written procedures for cost accounting processes that are most frequently subject to audit oversight will reduce the risk of audit findings and help your company consistently follow its established guidelines.

## Government Contract Training

### Primer on Intellectual Property

**Sponsored by:**

NCMA Huntsville Chapter

**Date:**

Tuesday, December 5, 2006

**Time:**

7 – 7:30 a.m. – Registration  
7:30 – 9 a.m. – Instruction

**Place:**

Hilton Garden Inn – Huntsville/Space Center, 4801 Governor's House Dr.

**Speakers:**

Jerome S. Gabig, Attorney

**Cost:**

\$25 for NCMA Members;  
\$40 for non-members

Go to <http://www.ncmahsv.org> for registration information.

### Government Contract Accounting Systems Compliance

**Presented by:**

Federal Publications Seminars

**Dates:**

Dec. 6-7, 2006, Las Vegas, NV  
May 2-3, 2007, Washington D.C.

**Course Instructors:**

Darryl Walker and Charlie Broome

Go to <http://www.fedpubseminars.com> and click on the Government Contracts tab or call Beason & Nalley at 256-533-1720.

### Specialized Training

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.



### 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).

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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:

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