



Reduce Risk, Improve Efficiency, Increase Revenue

Well-designed compliance programs help small government contractors minimize the risk of penalties or prosecution, streamline business processes, and demonstrate responsibility.

Executive Summary

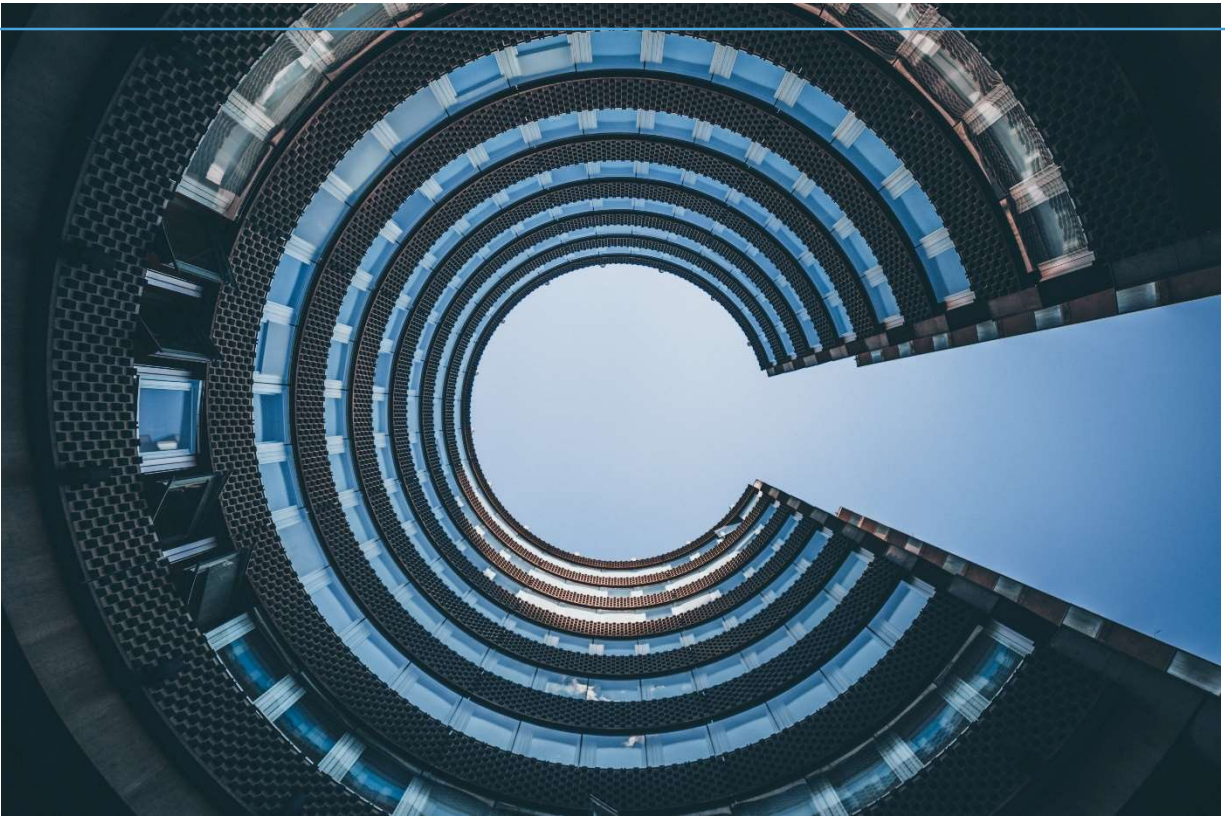
Over the past 25 years, U.S. Government spending has ranged from 34.3 to 43.3 percent of the nation's Gross Domestic Product (GDP). Over one-third of our nation's economy is related to public procurement, with government agencies buying everything from office cleaning and food services to stealth bombers and space shuttles. The Federal government is a massive buyer in the marketplace, and it is likely the government is actively seeking to purchase what you have to sell.

Small businesses can find lucrative opportunities contracting for the Federal government. But to avoid corruption, secure the lowest prices through competition, and promote uniform rules, the government has implemented strict regulations. Contractors who fail to comply with these regulations put themselves at risk for suspension, debarment, or even criminal prosecution.

No matter how small the business, a compliance program helps mitigate the risk of unintentionally running afoul of the law. And accounting-focused compliance measures also improve efficiency, leading to the following:

- **Reduced risk.** A well-documented compliance program makes it easier for businesses to identify and address non-compliance early—one of the easiest ways to minimize the risk of costly litigation while demonstrating responsibility as a government contractor.
- **Increased revenue.** A Defense Contract Audit Agency (DCAA)-compliant accounting system with approved practices opens a broader range of revenue opportunities, including cost reimbursable contracts. It can also improve cash flow by minimizing the risk of common errors that result in rejected invoices and delayed payments.

The Salt Mill, Inc. provides comprehensive compliance guidance for government contractors who are too small to hire a full-time compliance officer, but who also understand the risks involved and benefits of implementing a compliance program.



OPERATING IN A HIGHLY REGULATED INDUSTRY

Selling goods and services to the Federal government can be very lucrative, but small businesses often lack the resources to implement critical compliance measures required by the Federal Acquisitions Regulation (FAR).¹ Operating in a highly regulated industry without an effective compliance program puts many business at risk for steep penalties, suspension, debarment, or even criminal prosecution stemming from mistakes, omissions, and employee misconduct.

Debarment is often referred to as a “corporate death penalty” because the consequences are drastic, and the potential loss of revenue can be catastrophic. Debarment can mean the following:

- **Loss of bids.** The business immediately loses the ability to bid on any contract, in any agency, for up to three years.
- **Loss of orders and options.** All task orders, options, and subcontracts the business is engaged with are immediately revoked.
- **Contract termination.** Current contracts may be immediately terminated or phased out.

Mitigating Factors

Suspension and debarment measures are in place to protect the government as a buyer and are not intended as punishment. But these actions can devastate small businesses. In the United States, suspension and debarment procedures are discretionary and flexible, applied on a case-by-case basis, making the presence of a compliance program especially important. Suspension and debarment officials recognize corporate ethics and compliance programs as a mitigating factor in their decisions. Therefore, when compliance failures are discovered, it is critical for the contractor to be able to demonstrate an active, integrated compliance program as a measure of contractor responsibility.

A comprehensive corporate compliance program should address three areas of standardization: legal, human resources, and accounting. The Salt Mill, Inc. provides services and guidance on accounting and finance for small government contractors who must comply with federal standards but are too small to hire

a full-time compliance officer. Strict accounting compliance measures can help mitigate the risk of penalties for violations of federal law, promote more efficient business practices, and provide documentation establishing responsible practices.

Consistency in Cost Accounting

Cost accounting standards (CAS) were created in response to government concerns about the lack of comparability between estimates used to bid on government contracts and the subsequent cost accounting practices used for billing during performance. The lack of consistency resulted in the following:

- Auditors could not verify supporting cost data on cost type contracts.
- Post-award audits were difficult to perform.
- Stakeholders could not compare the costs incurred with those proposed.

The CAS govern cost accounting practices so that the Federal government can consistently analyze and apply financial rigor to such items as measurements of costs, assignments of cost accounting periods, and allocations (among others).

Although small businesses are typically exempt from full CAS requirements due to size thresholds, many of the CAS have been integrated into the Federal Acquisitions Regulation (FAR). Therefore, it is important to know and understand CAS requirements (no matter the company size) to remain consistent over time with compliance policies and procedures. Better cost accounting policies also provide contractors with greater visibility into their own bid-to-actual cost metrics. Likewise, adhering to basic cost accounting standards is also an excellent preparation for future growth.

FINANCIAL COMPLIANCE

Federal procurement regulations are complicated. In addition to the terms and conditions of individual contracts, businesses must comply with a slew of regulatory requirements, including adherence to the cost accounting rules found in the FAR and multiple Defense Contract Audit Agency (DCAA) accounting or purchasing audits. Contractors may also be required to provide Certification of Final Indirect Costs, Certificate of Current Cost or Pricing Data, or Certificate of Independent Pricing, depending on the contract type.

Additionally, all contractors should be concerned with the False Claims Act (FCA), which imposes criminal or civil penalties for attempts to claim money from the government using false

information. A claim under FCA can stem from something as simple as an incorrect amount on an invoice or an invoice for goods or services that were not in accordance with contract

specifications. Common FCA violations include billing for services not rendered, billing for parts that differ from those ordered, submitting inaccurate claims for services, or taking a kickback for a referral. A clear, documented compliance process prevents inaccurate claims and helps detect employee misconduct.

Depending on the industry, contractors may also be at risk for violations of the Foreign Corrupt Practices Act, the Federal Anti-Bribery Statute, the Anti-Kickback Act, the Equal Employment Opportunity Act, the Service Contract Act, or the Davis-Bacon Act.

COMPANY-SPECIFIC SERVICES

The Salt Mill, Inc. provides comprehensive company-specific services to help businesses comply with FAR, FAR agency supplements, CAS, the Truth in Negotiations Act (TINA), FCA, and the Foreign Corrupt Practices Act (FCPA). Our services include:



Current Risk Assessment. The initial risk assessment identifies current compliance gaps and future needs. We review all current contracts and relevant clauses, review solicitations to determine potential compliance risk, and interview senior management to identify company goals impacting compliance risk.



Standard Policies & Procedures. We develop standard policies and procedures that address a comprehensive range of issues, including code of conduct and business ethics; conflicts of interest; anti-corruption; contracting with the U.S. Government; government relations; mandatory disclosures; information security and acceptable use of information technology; insider information; environmental, health, and safety; non-harassment; workplace violence prevention; human trafficking prevention; smoke-free, drug-free workplace; non-retaliation; time-charging and labor reporting; procurement; contract billing and reporting; accounting and financial reporting; and unallowable costs.



Internal Controls. We review existing internal controls across operations, financial reporting, and compliance with laws and regulations, and provide recommendations for improved compliance. We assess the control environment, including processes and procedures, as well as the activities used to mitigate risks to entity objectives.



Anonymous Reporting Method. Compliance programs are often less effective when employees fear repercussions for reporting non-compliance. We develop an anonymous reporting method that ensures people can report compliance issues without professional or personal risk.



Training. We provide online compliance training for all current employees, including a review of relevant policies and procedures related to Federal regulations. Regular training addresses current contract clauses and ensures that all employees are aware of the compliance requirements associated with their specific roles.



Ongoing Assessments. As part of our ongoing support, we schedule annual risk assessment updates, which may include additional training on new regulations or changes to company-specific policies and processes.

CONCLUSION

Contracting with the Federal government can be rewarding, helping many small businesses grow and prosper. But without a well-designed corporate compliance program, those small businesses operate with much higher risk of suspension, debarment, and criminal prosecution. The Salt Mill, Inc. recognizes that small businesses often do not have the resources to hire a full-time compliance officer. We help achieve government contract compliance in accounting and finance, while increasing business efficiency in ways that lead to lower risks and greater revenue.

For more information on The Salt Mill, visit saltmillconsulting.com.

Acronyms

CAS	Cost Accounting Standards
DCAA	Defense Contract Audit Agency
FAR	Federal Acquisitions Regulation
FCA	False Claims Act
FCPA	Foreign Corrupt Practices Act
TINA	Truth in Negotiations Act

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ⁱ Chapter 1 of Title 48 of the Code of Federal Regulations, 48 C.F.R.

