

Intro:

**Welcome to Game Changers for Government Contractors. Game Changers is dedicated to helping you position for and win more government contracts. And now your hosts, Josh and Mike.**

[00:00:00] **interviewer:** My name is Michael and I will be your host today on Game Changers. I want to get right into the show by welcoming our guest Robert Jones. Robert is the founder of Left Brain Professionals. Robert welcome and please take a minute to tell our listeners a little bit about yourself and your company.

[00:00:12] **respondent:** Thank you Michael. Just a quick background on me. A mixture of government contracts and accounting -and I really work where the two come together. Some people see government contracts and accounting as separate functions. But as you dive in into government contracts especially the various types of T&M and cost plus, understanding the contract type and the regulations really does a lot to drive your accounting system set up reporting and other functions.

[00:00:44] **interviewer:** When your small this is very intimidating, am I right? #00:01:06-5#

[00:00:51] **respondent:** It is intimidating. My general experience is that a lot of small business owners are very good at the product or service that they provide but they struggle with a lot of those back-office functions of - accounting kind of being near the top of the list. And then when you add in the complexity of government contracts on top of that it's even more bewildering for a lot of people. #00:01:30-5#

#00:01:30-6 **interviewer:** Yea - So especially if you're if you're brand new to government contracting and listening today, I think we're going to try to demystify a lot of this stuff and make it a lot easier for you to really wrap your mind around. because the topic today is implementing an approved accounting system. I think when most companies think accounting systems they think they think in either very simple terms like QuickBooks or something like that, or they think in very complex or enterprise level stuff such as SAP, Dynamics, Sage, or some other big system. But the consistent thing that most companies face is they don't know where to start - especially in this realm of getting an improved system, or should I say government approved systems so let's dive in and give folks some basics of why this topic is so important to government contractors.

[00:02:02] **interviewer:** First off what is an approved system so an improved system?

**respondent:** So, an approved system is more than a software. Some people think that if they simply buy a brand name software that all of a sudden they're magically going to be approved and that's not true. Your accounting system includes the policies procedures all of your software that relates so it's not just accounting whether that's QuickBooks or some other program. But if you're using a timesheet program or project management program or anything else that connects to your accounting it affects that data. All of those become part of your accounting system as do any of the reports in any previous audit results. So, whether you've had an external or internal audit could even be a financial audit that you know a lot of companies get audits or reviews of their financial statements. The findings from those all come into play because you have to have a GAP approved system and you know there's a lot of pieces of the puzzle and the results of those can help auditors understand what's going on in your business.

[00:03:14] **interviewer:** I am familiar with GAP. I don't know if everybody who is listening on here is. can you explain that a little bit for folks?

[00:03:22] **respondent:** Sure. So, GAP is the generally accepted accounting principles. It's the basic principles that everybody is supposed to follow. There is a - you know especially if you're a large company and there are a lot of

there are a lot more regulations especially if you're a publicly traded S.E.C. and things - The Securities and Exchange Commission come into play. But even as a small company there are a lot of fundamental accounting policies or procedures that we're supposed to be following. And then if you're a government contractor, things like FAR 31, which is the Federal Acquisition Regulation FAR 31 and deals with cost principles, the DCAA, which is the defense contract auditing agency they're often viewed as the primary. Government auditors - certainly if you're in the DOD realm they have their own policies and procedures audit guidelines that they do. You have CAS which is which are the Cost Accounting Standards.

[00:04:30] **respondent:** that kind of overlay. And if you think in terms of you try to compare FAR 31 and CAS to GAP remember I said that gap. There are some more stringent guidelines for a very large companies and so CAS is kind of the equivalent if you're a very large company you're going to have to comply with all aspects of CAS. But even as a small company you may not have a CAS covered contract. There are some principles within CAS that you still need to follow.

[00:05:00] **interviewer:** And I think this leads perfectly into my next question of why do government contractors need an improved system in use? You started to touch on some of those but what are what are the basics. Why did government contractors need an improved system and what are the benefits of that?

[00:05:16] **respondent:** Well primarily the government wants to know that you are spending their money appropriately, that you are properly tracking your expenses, that you're accumulating all of your cost appropriately, that you're segregating direct costs from indirect costs, and that your indirect costs are being properly allocated to your final cost objectives. So, you could direct costs are essentially those things that are spent directly servicing your customer - whether it's providing the service in the form of labor or could be materials travel ODCs or something else that's directly relatable to an end project. Your indirect costs are things like Fringe, which is your health insurance and employer taxes, overhead which are those expenses that you need to support clients in general. It's not expenses that are directly attributable to a contract or a project, but you know the expenses that you have to incur basically you keep customers happy to manage those things. The other primary pool is G & A which is your general administrative and things like your I.T. department, your accounting department, H.R., and the government just wants to make sure that you're accumulating all those costs appropriately and you're allocating them out appropriately to all the contracts.

[00:06:49] **interviewer:** Yeah, I mean it totally makes sense. I want to back up for just a moment because this a little rabbit trail here, but I think it's super important for a lot of people is there are there people who are listening. who are brand new to government contracting but I've actually run into clients that were 60, 70, and 80 million-dollar companies that didn't have an approved accounting system. I mean I don't know how you get that big without that but there are companies that big. When does this come into play for government contracting? Is it on certain contract types? Is it all contracts across the board? When do you really need to look at getting this approved accounting system when you're in a government contracting space?

[00:07:30] **respondent:** That's a great question and it's funny that you mention you know companies that are 60 and 80 million dollars that don't have it. And that's true. It's not terribly uncommon to come across you know a good medium sized company with significant revenue that doesn't have an approved system. Sometimes that happens because they have a mixture of government and commercial work. Maybe they haven't had enough government work to be on the radar to have an approved system. But the real factor that drives that is the contract type. So, if you are doing T & M, which is time and materials, or a cost reimbursable type of contract, that might be a cost-plus fixed fee or a cost plus or award fee or cost-plus incentive fee, you definitely have to have an approved system for that. And that's true at both the prime and the subcontract level. So, some people think oh I'm never going to be a prime I don't have to have an approved system and that's not true. If you are a subcontractor and you're doing cost reimbursable work to a prime on a government contract. You used to have an approved system.

[00:08:42] **interviewer:** I think that is a huge point for people to understand because I think there are people who started listening to this and said, "Well you know, we're probably just going to be a sub most of my life.:" and then they heard that and went. "Oh, I better pay attention."

**respondent:** It is a big distinction and it's also important for subs because even if I'm with you I hear I hear clients sometimes say I'm always going to be a sub I don't have any interest in being a prime. But a lot of companies you know they think for a while and then they get a taste of the government contracts and they realize they like it and they realize they want to do more. And sometimes their customer or somebody else invites them to be a prime sometimes the prime that they were working with kind of steps aside and you know it gives them an opportunity to step up. And so even if you're a sub I'm always about continuous improvement and looking forward to the future. Don't wait until you're ready to bid on that contract and you haven't done any of the homework to prepare yourself. There are a lot of these pieces of the puzzle that you can work on over time so that when you do decide to go after a prime contract you're prepared. There's another interesting piece in here as well that has to do with these large MACs or GMACs which are those multiple award contracts. So if you think some of the big GSA - big contracts like that, even if the type of work that you do and you're in you only expect to be awarded a fixed price task order, the fact that the contract itself issues T & M and cost reimbursable task orders means that you still need to have an approved system in order to bid on that and you'll see that in these RFPs that come out that having improved system is either required we're strongly encouraged and it gives you more points in the evaluation process because the government has the potential to issue all three of those contract types.

[00:10:56] **interviewer:** I think it's very important for people understand that while in just getting one, just getting ahead of the curve on that because wouldn't it be horrible if a contract opportunity shows up on an RFP and you're going through and you're a perfect fit except you don't have an approved system? And that's the one thing you know in a lot of times contracts are very competitive. So, every edge you can get is very important and so something like this that you could do and just choose not to, you wouldn't want that to limit you getting a contract. So, I definitely agree in getting ahead of the game on that. So how do contractors get approval for their system.? Because the thing that you tricked me right out of the gate in this conversation was it's not about the software. The software is just a piece of this. It is going down a Wal-Mart and grabbing a copy of click books or getting online and grabbing a copy of whatever. This is much more complex than that. So how does a contractor get approval for this system?

[00:11:55] **respondent:** Well first of all I want to be clear that if you do research you'll come across some vendors who all but guarantee you approval. They say they have a DCAA approved system and they make it sound as if you install their system you're golden and that's not true. Again, back to the first part, it's more than just the software but the government doesn't approve you as well when they're looking at stuff they say, oh you use xyz software, you've got a leg up. That's not true.

[00:12:29] **interviewer:** I recently talked to a contracting to an auditor a government auditor and she had audited a company that uses one of the big brand name software and the client had failed. And she'd also recently audited a company that was using a small QuickBooks, we've already mentioned them, but they were using QuickBooks and got approved because they were doing all the right things. The real key is to make sure that you understand that it's not the software that approves it. Even if you have an auditor say DCAA is your auditor, it's not DCAA that's actually approving your system. They are simply performing a survey of your system and making a recommendation. The contracting officer is the person who makes that final determination. They take the feedback from the auditor in the report and make their determination from there. And with that I want to add in] a lot of people know the DCAA is backlogged and has been for a long time and all of their audits trying to get DCAA to come in and do an audit can be very difficult - especially if you are small you just may not be big enough for them to be on the radar and somebody really pushes. Also, you cannot call DCAA and ask for an audit. It has to be requested by the contracting officer. So, then people say well what happens in that case? I'm a small contractor. I'm going after this cost reimbursable contract. I have to have an approved system. DCAA., you know, I'm not on their radar I'm too small. They're not going to come see me. What are my options? Some of the government agencies- think of it like HHS Health and Human Services, they have their own audit staff and they will sometimes send their own audit staff out to do that survey. And again, the same thing applies, they're only providing a report back to the contracting officer. The other

option is to have a third-party CPA come in and do this. This is an area that is still I would say relatively new to government contracts. There are more agencies and offices utilizing this and open to this. They recognize that DCAA is backlogged and they're not getting the work out of there that they would like. And so, you will see a number of these RFPS state that need to have an approved system and it could be from a prior government approval or it could be a recommendation letter from a CPA. So, you do have a few options.

[00:15:13] **interviewer:** A lot of good stuff there and it brought up a couple of questions for me. The first one is, does this happen with each contract? So, I get an audit every single contract or is it, hey I get a I get an audit on contract number one and that it's good for two years I just show it next time I try to win a contract? Because I know the answers to some of these questions, but I think some of the people listening have them some trying to be their voice here because I think this is a complex area.

[00:15:42] **respondent:** It's a great question and it's interesting because when you get an approval there's no expiration date. So, some people might think it's two years or three years and that's not true. You can actually invalidate your approval the very next day. Because the survey is based upon the system that's in place at the time they're doing the survey. so, they're looking at your policies, procedure, software, reports and saying okay, this contractor has everything in place that satisfies the requirements. If the very next day you take a portion of your policies and procedures and decide you're no longer going to follow them, that has the potential to invalidate your group or that you just receive. And what I see happen is when I talk to clients they say oh I have an approval from five years ago or six years ago. And I started asking questions like have you replaced any personnel? Have you made any changes to your policies and procedures? have you updated any of your software? Have you introduced any new software such as maybe a new timekeeping system? Any of those things requires a new approval.

[00:16:54] **interviewer:** Wow that net really gets to my next question. I was actually going to ask was what all does the approval process involve because you just hit on a couple of things. Around like swapping out staff. Talk to me about the approval process and some of the things that you are surveyed on as you say.

**respondent:** If you look at this list and walkthrough your policies and procedures: how do you handle travel expenses, how do you handle unallowable expenses? are they appropriately segregated, do you have a policy that identifies uncompensated overtime -which is if you're salaried employees who are working more than 40 hours a week. So, you have a policy that addresses the key personnel, it is an interesting one because some people you know if you change a manager or a supervisor in a department, that can have a huge effect. The new person coming in may not realize the policies and procedures even though they're written down. I think it's safe to assume and admit really that we don't always get out the policy procedure book every single day for everything that we do, right? We get comfortable with and feel like we know it and we keep doing it. Well what happens if somebody is out sick? What if somebody is out for an extended period of time? What if you lose somebody now somebody else comes in you hire a replacement for that position? They may not be as familiar with some of the nuances in your policies and procedures and may not be doing all of the things that need to be done. And so that's why the key personnel question always comes up.

[00:18:41] **interviewer:** Yeah that's a big one and you're absolutely right and I always tell people especially, in sales, when it comes to policies and procedures, you've got to at least have a cheat sheet if you're not going to crack the book open to look at it. Yeah, I have a cheat sheet on my desk for a lot of things like that because you will forget steps. You will get policies you will forget procedures. I always tell you will forget your name your phone number you're at you will forget things like that from time to time. And it's great to have a cheat sheet, at least as a guide, in a situation like this where it's so critical. I can see you having ongoing training around it. You know there's just a lot of different aspects of this. It's something that sounds so easy to take care of. It just takes the time and the diligence to stay on top of it. So, the couple questions that I know people are wondering right now. First one is, how long does it take? Because I know people are thinking how long it takes to put together my policies and procedures and to make sure that the accounting system is done properly and train my folks and all that kind of stuff and then go through the audit process.

[00:19:50] **respondent:** So, if it's just a matter of valuing the policies and procedures, getting them tightened up, maybe you need to write some that you don't have, doing that training and going through the audit, it's certainly several weeks. I mean you're probably -could be 12 to 16 weeks. The answer to this is it's one of those it really depends. It depends on how much you already have in place as far as your policies and procedures how. How good are they? How much training have you already done with your employees? Obviously the more that's done that it's easier to go through this process. You know if you are a small company you've never had an approved system and you've never jumped through all these hoops before. I would say you're looking at the high end of that and again possibly even longer.

[00:20:45] **interviewer:** Wow, that can be a long time in. And again, it's one of those things you don't want to start because there's an RFP we want to bid on because this is going to be outside that time. Getting it started way ahead of time is a really good idea. So how much does it cost and maybe what costs are involved in getting in a free system?

[00:21:07] **respondent:** So again, the cost area is another one as I say it really depends. There are a number of factors that go into it. There are software solutions on the market that range from a few thousand dollars for and investment to well over 100 or 200 thousand dollars if you're a larger organization, very complex multiple sites, you're probably on the high end of that scale. If you're a service provider only and you have one location and maybe a dozen or 20 employees you're obviously on the lower end of that scale. If you do manufacturing, that makes a system very complex you've got to have a software that can handle that. And that alone is going to drive up your software expense. But there are there are five main buckets of cost to consider. One is the software license, and that's your basic fee out of the box to get the software and get it installed or get it hosted, your annual maintenance, and you will definitely want to have a maintenance plan because you want to get any patches that come along. Software companies, depending on who you go with, they do things a little bit differently. But at the very least again you want the patches some software companies offer enhancements and new functionality new features with some of those updates. you might want to be part of that, but also that maintenance usually includes phone support. Sometimes it's a separate fee. You want to make sure that you've got somebody that you can reach out to. Say get a new contract type. Maybe you've been doing T & M for a while and fixed price and now you're getting ready to do a cost reimbursable even though the system is capable of handling cost reimbursable, this might be your first time through and you need somebody to help with making sure you get the fields and everything set up appropriately.

[00:23:16] **interviewer:** You mentioned something there that was, I thought was really important, for the bigger companies that were listening. Or maybe midsize let's say you're a 100-million-dollar company and your mostly commercial. You're now dabbling in the government space you've got several divisions of what you do. your government space is only you're only projecting three to five maybe 3 million dollars in revenue out of that. Do I still need to put this accounting system across my whole enterprise or can I segregate it down to my government division? because I've got to assume if I'm going to go enterprise wide and I've got products and services and all kind of complexities it's going to be much more expensive to go enterprise wide vs. focused in on my government division. Can you segregate it like that or if you're in you're in it needs to be companywide?

[00:24:08] **respondent:** I think with the scenario that you just presented, and I come across this at times, the companies that have a relatively small amount, which would kind of to me signal a couple of things. It's very likely that they have just fixed price contracts. They're not on the radar for T&M or cost reimbursable and they don't have to have an approved system. There are certainly some things they should still be doing from an accounting standpoint. But they probably you know in reality in that scenario they probably don't need a fully approved system. Now the second part of your question is, do I have to implement it across the board? And the answer is no. there are plenty of medium to large companies who do have different divisions. They performed, and they have some divisions or services that the government doesn't purchase. So as long as they can clearly segregate that in their functions and in their inventory or whatever what the resources that are being employed to service those government contracts, if those can be clearly segregated, yes you can create a separate accounting system just to handle those costs.

[00:25:22] **interviewer:** You know I think that's one of the game changers that I'll take away from this podcast today. because I think a lot of people get into this with misinformation or a lack of knowledge and they do a google search and somebody is going to go to their boss with their head hanging low and say we got to do this enterprise wide. And it's just a google search that just makes somebody go and start reviewing hundred thousand-dollar systems instead of five or ten thousand-dollar systems. And once you pull the trigger and made that mistake you can't get the money back. So, I think it's a very important point that you nail there around you can segregate the business divisions and do this properly. So, as we're starting to run low on time here I want to give you a chance to talk about two things: one your advice on avoiding some of the common pitfalls in making this less painful and then just any final thoughts you have for our listeners.

[00:26:21] **respondent:** I think the pitfalls - One of them you just mentioned is that the Internet is a great resource. There is a lot of information out there. I would say don't rely on any specific movie one particular Web site you know do your research. And I think if you begin to query some different sites you're hopefully get enough information that you can separate it. Reach out to a professional, whether it's somebody like me, maybe a CPA, or somebody that you're already using. I hate to say that it depends, but it really does, every business is so unique in the type of products or services that they do that mixture, the amount, the size and types of contract. There are so many factors that go into making these decisions. I can't sit here on our podcast and tell you know you meet these criteria you absolutely to meet those criteria, you absolutely have to do that a lot of times there's a lot of gray area and it's kind of sorting through that and making the best decision you can make.

[00:27:26] **interviewer:** I think that's really good advice and you know the one thing there the one caveat add on the CPA side is, I wouldn't just call my local small-town CPA that just does tax returns on this. That guy probably doesn't get it. I would maybe ask them, "Are you involved with government contracts? Do you understand DCAA? Do you understand what's going on with a lot of this stuff?" If they don't, you need to move on. You need to get a recommendation from somebody else. You need to call Robert and say Robert you know here's the situation. What do I do.? And I think even if you spend a little bit of cash on just some advice and decide to go on your own. It's so much smarter to call an expert like Robert right out of the gate and get that information because it could save you tens of thousands of dollars. And more importantly, win you contracts. because that's really that's why we're talking about this. we're not talking about this so you can get educated on accounting systems. We're talking about this so you can win more contracts and be properly awarded stuff that you deserve. If you're listening to this today and you don't know about this subject and this is something that you know you're going to have to go through or you foresee it, pick up the phone get, on the website, reach out to Robert. Ask him to get on the phone with you and walk through this. He makes a big point. People do not invest enough in the experts up front. And again, this is not like just calling any old accountant in the phone book. This is very specialized, and you need somebody with the special knowledge. So, Robert, I thank you for coming on today. You've given us a lot of wisdom about this. You've educated me on different aspects of it and I hope you've educated the listeners here. I think it's been really good and I appreciate it.

[00:29:32-4] **respondent:** Thank you. It's been a pleasure.

**interviewer:** And I want to have you on again sometime and maybe just talk DCAA because we actually have a client that just reached out to us about and they were going through it, they are almost done with it. But it's an intimidating subject. I think there's a lot of ground we can cover specifically back in that. thank you again. I also want to thank all of our listeners for joining us today on this episode. remember you can find every episode on items. just look for game changers for government contractors and subscribe to the feed to make sure you get every episode. You can also learn more about each of our guests by visiting the official game changers website at [arsonfederal.com/gamechangers](http://arsonfederal.com/gamechangers) where we will have links to their bios, episodes and contact information, things like that if you want to call Robert, all of his contact information is linked there, all of that will be on there. Last but not least, please visit our sponsor for today's episode, the federal access program at [rsmfederal.com/fa](http://rsmfederal.com/fa) for more information about how you can find and win more government contracts. #00:30:31-6#

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