



Government Contracting Today

ACCOUNTING AND FINANCIAL NEWS

THERE ARE CHANGES IN THE AUDIT WORLD

By Michael A. Brown, CPA and Allison K. Huss, CPA, Goodman & Company, LLP

Current hot button topics include: steroids in baseball, increased penalties for driving violations in Virginia and the New Risk Assessment Audit Standards in Public Accounting. During 2006, the AICPA issued a suite of new auditing standards collectively known as the "Risk Assessment Audit Standards," which will substantially change and provide a new framework for audits of non-public companies. These standards will affect all upcoming audits.

The New Risk Assessment Statements on Auditing Standards (SAS) are as follows:

- SAS No. 104, Amendment to Statement on Auditing Standards No. 1, Codification of Auditing Standards and Procedures ("Due Professional Care in the Performance of Work")
- SAS No. 105, Amendment to Statement on Auditing Standards No. 95, Generally Accepted Auditing Standards

- SAS No. 106, Audit Evidence
- SAS No. 107, Audit Risk and Materiality in Conducting an Audit
- SAS No. 108, Planning and Supervision
- SAS No. 109, Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement
- SAS No. 110, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained
- SAS No. 111, Amendment to Statement on Auditing Standards No. 39, Audit Sampling
- SAS No. 112, Communicating Internal Control Related Matters Identified in an Audit
- SAS No. 113, Omnibus - 2006
- SAS No. 114, The Auditor's Communication with Those Charged with Governance

The primary objectives of these new standards are for the auditor to obtain a more in-depth understanding of the

entity being audited and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the entity is doing to mitigate these risks and how to communicate internal control related matters to Company management and individuals charged with governance. A more rigorous assessment of the risks of where and how financial statements could be materially misstated will need to be made. It is important to note that the standards have not changed in relation to the purpose of an audit. The audit is not designed to identify control deficiencies.

Now you are probably asking, how will this affect your upcoming audit? We anticipate that the new auditing standards will result in an overall increase in the effort of both the audited company and the audit team. The exact increase in effort will depend on the engagements risks and complexity. The common industry esti-

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LETTER FROM THE EDITOR

12TH ANNUAL GOVERNMENT CONTRACTING UPDATE

The Government Contracting Industry Group is proud to sponsor our 12th annual Government Contracting Update to be held at the Ritz Carlton on October 9, 2007. The day long conference will provide attendees with an update of the latest developments affecting government contractors in the areas of Accounting, Tax, DCAA, SBA, FAR, Legal, Schedules, HR and Business Valuations. In addition, we will end the seminar with a Q&A session to ask our panel any questions or issues you would like to discuss. We encourage early sign up since the seminar fills rapidly. As usual, we will offer discounted rates to clients but understand the seminar is run at a breakeven cost, our intent is to educate and give back to the GC community. Hope to see you at the seminar.

SPEAKING ENGAGEMENTS

We just returned from our sponsorship at the DELTEK convention in Las Vegas where Scott, Ken and I spoke on Current Government

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“S” CORP: ARE THE TAXES YOU TAKE AS AN ALLOWABLE COST IMPORTANT TO YOU?

By William Lecos, President & CEO, Fairfax Chamber of Commerce

If your business involves entering into cost plus contracts with the federal government and you operate under Subchapter S of the Internal Revenue Code for tax purposes, you might want to know about a recently decided case called *Information Systems & Networks Corporation v. United States*. If you claim state income taxes paid on income derived from federal contracts as reimbursable costs you may be in for a rude awakening as a result of this case.

The case began several years ago when ISN, a Subchapter S corporation, came under audit by the Defense Contract Audit Agency (DCAA). During the course of the audit, which covered a number of issues, DCAA took note of the fact that ISN's sole shareholder—and not the corporation—had paid income taxes to the State of Maryland, a state which exempts S corporations (but not their shareholder/owners) from income tax. DCAA took the position that taxes that are “allowable” under the Federal Acquisition Rules (FAR) are only those that are paid by the “contracting entity”—in this case ISN. Under a prearrangement with the S corporation, the sole shareholder was subsequently reimbursed by ISN for the taxes she paid on the income she derived from the corporation's defense contracting activities.

This dispute over how to interpret federal law and the Federal Acquisition Rules (FAR) led to litigation. The arrangement by which the shareholder was reimbursed, according to the Federal Court of Claims, which was trial court, was just fine. The Court, in a March 2005 decision, reasoned that the S corporation was not “exempted” or “relieved” of state tax liability, but simply passed the liability to its sole shareholder. The “exemption” terminology in the FAR statute, it opined, is not an “exemption” in the normal sense of the word, or any kind of “abatement” of the requirement that income taxes be paid. Maryland still required the taxes due to be paid and *someone* who is economically one with the corporation wrote a check and *paid* the tax. The Court's reasoning correctly tracked the “pass-through” nature of S corporations, and recognized the legal benefits and economic realities involved when business entities, most of which are small, choose Subchapter S solution.



The federal government, at DCAA's urging, appealed the Court of Claims decision, and won a reversal in the United States Court of Appeals for the Federal Circuit. Its February 2006 decision concluded that *who* pays the taxes initially is really what counts, and in this case it was not the “contracting entity.” In fact, the Court reasoned, ISN *never actually paid the State of Maryland anything*—only its sole shareholder/owner did.

Despite the submission of articulate briefs from ISN and the U.S. Chamber of Commerce Foundation, which filed an amicus brief, the U.S. Supreme Court, in its wisdom, decided not to entertain the case by denying certiorari in the spring of this year. It thus left standing a decision upending a widely accepted, public policy oriented, and longstanding practice theretofore honored by the federal authorities in which it did not matter under what structure a contractor chose to operate for its taxes to be deemed allowable costs, and which ignores obvious economic realities. The decision arguably puts at risk other “pass-through” structures doing cost-plus federal contracting, including partnerships and limited liability companies. Contractor entities in “pass-through” structures, therefore, should be anticipating the possibility at the next audit cycle of a challenge to *any open year* in which state taxes paid have been taken as allowable costs.

The dollars involved are thought to be enormous in a macro sense and, more importantly, certainly are in a micro sense for the companies involved. Average margins on government contracts are relatively small. Almost at once, thousands of Subchapter S corporations have been put at an economic disadvantage with other

contractor competitors, such as large Subchapter “C” corporations, because they cannot submit their state taxes paid for federal cost reimbursement. In an instant, the courts have distorted the playing field, ignoring the fact that the taxes owed and derived from the activity of the contracts *are actually being paid* to state governments by the parties with the true economic interest in the enterprise. They have ignored the strong historical and beneficial purposes behind Subchapter S, and singled out for negative treatment the very group—many small businesses—most identified as needing federal encouragement in the contracting space. It is equivalent to fining car-poolers and drivers of hybrid cars for taking advantage of the rush hour express lanes created for just for them.

Fortunately, all is not lost—not yet at least. Slowly, recognition of the issues involved is seeping into the consciousness of the federal contracting community. Some S corporations have already seen the issue come up on audit, and every day that number grows. Efforts are underway in the Washington, D.C. area—home to numerous victims of the ISN decision—to organize a true grass-roots reaction to encourage Congress to act, for federal legislation is what it will now take to restore what had been accepted practice. Although time and resources are very tight, there may be an attempt to add language this year to the Defense Authorization bill now wending its way through the Senate. Otherwise, it is likely the problem will not be addressed in Congress until early next year—perhaps just before federal auditors come calling. ■

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Under previous SBA regulations, a company's size status was determined at the time of contract award. If a company was considered small at the time of the award, it would retain that designation for the life of the contract. This can be a tremendous advantage to a growing contractor as certain contract periods of performance can be up to 20 years in length. Also, under previous regulations, if a large contractor were to acquire a small business set-aside contract from a small business, or if it were to acquire the small business as a whole, the large contractor was able to continue the contract performance through the remaining life of the contract. This has always been an important factor in the acquisition of a small business.

These old regulations also applied to 8(a) contracts. If a company was a qualified 8(a) contractor at the time of the award, it was able to continue contract performance through the life of the contract, even if the company graduates from the 8(a) program during the period of performance. This is one of the reasons that most 8(a) companies attempt to win as many contract awards as possible prior to graduation. One difference between 8(a) contracts and small business set-aside contracts is that 8(a) contracts contain a certain provision that if the contract or the company were to be acquired by a non-8(a) qualified company, the Government could immediately terminate the 8(a) contract. This provision resulted in much lower valuations for 8(a) contractors versus other contractors. However, it has been my experience that the provision to immediately terminate is rarely, if ever, invoked by the government.

The new regulations should help achieve the SBA's objective of ensuring that small business contracts and task orders are going to actual small businesses. In a study performed by Eagle Eye Publishing, they found that contractors such as Boeing, Lockheed Martin, Northrop Grumman, SAIC, General Dynamics, among others, were performing work under small business set-aside contracts. These contracts were of course obtained through the acquisition of small businesses by these large contractors. In addition, the Government was taking credit for these as small business contracts in reporting their small business goals even though they were performed by the nation's largest contractors.

Another area that is going to feel the effects of these new regulations are long-term (in excess of 5 years) GWAC contracts. An example of this is the Department of Commerce's COMMIT'S NexGen contract vehicle. Set-aside only for small businesses and having a period of performance of 5 years with options that could extend it another 5 years, this contract vehicle provides small businesses with a terrific opportunity for growth. However, under the new regulations, the awardees will have to recertify after 5 years, or after acquisition. There are many companies that were small at the time of award of this contract, but have grown substantially since. Examples include:

- RS Information Systems - \$347M annual rev.
- SI International - \$276M
- STG - \$154M
- QSS Group - \$151M
- NCI - \$123M
- MSD - \$75M
- Indus - \$75M

If the old regulations had remained in place, these companies would have been able to continue receiving task orders under this vehicle for many years to come. Now, under recertification, they will be unable to receive such orders.

IMPACT ON VALUATION

There are, in essence, two types of buyers in the marketplace - financial and strategic. Financial buyers are looking to make a return on their initial investment above and beyond what they could earn elsewhere (publicly-traded stocks, bonds, real estate, etc.). Owning a privately-held business involves significantly more risk than these other types of investments, thus the returns they seek are much greater. There is an inverse relationship that exists between risk and valuation - the higher the risk, the lower the valuation. Thus, financial buyers typically will value a company at lower levels in order to obtain higher returns. Strategic buyers are acquiring companies for reasons other than just financial (i.e. product/service offering, Agency relationships, intellectual property, contract backlog, etc.) though financial performance is a considerable factor. Because of the other factors being considered in their acquisition decision, strategic buyers are generally willing to pay more for a company than a financial buyer.

The new regulations will affect both types of buyers. They will be impacted by the fact that, upon the sale of the company, the acquirer will have to recertify as small, or if it is not, will lose those contracts that were small business set-aside. When establishing an acquisition price, both types of buyers project the anticipated revenues and earnings of the seller. A significant factor in this analysis is the company's contract backlog. The new regulation can have a material impact on the contract backlog of the seller and will result in a lower valuation.

Strategic buyers can be further affected due to other losses that can occur with the loss of these contracts. These include:

- Loss of project management and a skilled workforce performing under these contracts
- Loss of customer/Agency relationships
- Loss of ability to cross sell other product/service offerings to customers
- Loss of possible ability to perform follow-on contracts.

The end result will be a lower valuation for these contractors.

IMPACT ON MARKETABILITY

In addition to the impact on valuation, the marketability of the company will also be affected. Marketability is the ability to convert an asset (i.e. the value of the company) into cash. Different types of assets are more readily converted to cash. An example is owning stock of a publicly-traded company. There is a ready market available for selling these shares and converting it to cash in a relatively short time period. Selling the stock of a closely-held company is a much more difficult and arduous task. Even the most attractive closely-held companies generally take 6 to 9 months to complete a sale.

The marketability of a closely-held contractor with these long-term contracts has now been impacted by these recertification rules. This is due to the fact that the pool of potential buyers has been significantly reduced. While a large contractor may still be interested in purchasing the company for the other contracts and capabilities that the company may have, the loss of the ability to continue performance under these contracts will significantly reduce this interest. In addition,

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THERE ARE CHANGES IN THE AUDIT WORLD

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mate has been about a 30% increase from the prior year.

SAS 112 - SAS 114 are already in effect. SAS 104 - SAS 111 are in effect for all audit engagements for periods starting after December 15, 2007, or in non-accountant language, fiscal years starting January 1, 2007.

At the end of an audit, there are typically three things a Company looks forward to - getting the auditors out of their hair, receiving a clean audit opinion, and the auditor's comments on areas for improvement. In the past, auditing standards have allowed CPAs to communicate, informally to management, issues they noted during the audit regarding the Company's processes and internal controls. These comments were typically seen as a helpful management tool when evaluating new processes to put in place.

SAS No. 112 *Communicating Internal Control Related Matters Identified in an Audit*, states that informal communications to management of material weaknesses and significant deficiencies in internal control are no longer acceptable. In addition, the scope of what is considered to be a matter for communication has been broadened and redefined. Communications are now to be formalized in writing and provided to management and to those in the Company charged with governance.

The starting point for understanding how SAS 112 will affect your audits, is to first understand the broad spectrum of what is considered to be a matter for communication. The AICPA defines a *control deficiency* as the following: "when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect material misstatements on a timely basis."

The auditor is required to evaluate this control deficiency and determine the magnitude of potential misstatements both qualitatively and quantitatively. Even though a control deficiency exists and it doesn't result in a misstatement, it may still be considered a matter for communication based upon an assessment of the likelihood of potential misstatement.

Quantitative assessments revolve around how the misstatement would affect the various balances on your financial state-

ments. For example, the Company does not perform reconciliations of subsidiary ledgers and the general ledger. At year-end the Company posts adjusting entries to the Accounts Receivable general ledger control account and not through the Accounts Receivable subsidiary ledger module, resulting in a variance between the Accounts Receivable Aging Report and the trial balance.

Qualitative assessments could revolve around whether the potential misstatement would affect compliance with debt covenants in a Line of Credit. Even though a potential misstatement is quantitatively immaterial, it has still caused the Company to fail to meet its debt covenants and may be a matter for communication.

Often times, adjustments are routinely posted by the auditors due to the lack of expertise within a Company to prepare US GAAP statements. Such adjustments typically include deferred income taxes, deferred rent, and stock options. The AICPA has defined a material weakness in control as any material adjustments that are made by the auditors. Therefore, it may be beneficial for the Company to review prior year material misstatements posted by the auditors and review their internal competencies and procedures to ensure these errors or adjustments are not continued in the current year financials and left for the auditors to propose adjustments.

SAS No. 114 *The Auditor's Communication with Those Charged with Governance* defines who is considered management and as well as those charged with governance. Management is defined as: "the person(s) responsible for achieving the objectives of the entity and who have the authority to establish policies and make decisions by which those objectives are to be pursued." Those charged with governance are defined as: "person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity."

What does all of this mean for your audit? More detailed reviews of internal control processes through new auditing standards could lead to more exposure of control deficiencies that previously were not apparent. Additionally, formalized management letters are required to be submitted to DCAA and other cognizant audit agency auditors when requested. Therefore, your control deficiencies will be exposed for DCAA to see when they review your system. If you do not correct control deficiencies commented on in previous years, the auditor is required to carry forward those comments into future

years' letters. It will also require additional work to be performed by the auditors when evaluating the nature of the control deficiencies.

SAS 113 *Omnibus - 2006* revised how the auditors date the audit opinion. Most of the changes made effect how the audit process will flow internally for the audit firm. The audit report date is now driven not from the last date of fieldwork but as of the date of managements' representations to the auditors. This will essentially extend the period of time for which the auditors are accountable to review transactions subsequent to year-end, changes in information used in making accounting estimates at year-end, legal matters to be disclosed, and reperforming a going concern analysis.

Once the audit report has been dated, significant delay between management signing the representation letter and returning it to the auditors could result in re-dating of the audit report and the requirement to perform additional audit testing. For example, the auditor may be required to obtain updated legal letters from attorneys received during the audit and expand subsequent to year-end testing through the new report date. This could cause significant additional time for the Company's staff, and could require the audit firm to spend significant time revising audit workpapers and potentially the need to return to the field.

What can you do as management and what can we do as auditors to minimize the lag and in return reduce costs? Communicate. Appropriate audit planning and communication of expected roles of the audit team and management (and Company personnel involved in the audit) is necessary in order to facilitate a smooth audit process and wrap-up. The new standards indicate that the auditor must obtain a better understanding of the entity, its environment and its internal control.

SAS 104 -111 has significantly changed the audit approach used to audit most non-public companies. It should be noted that the majority of these changes will not be tangibly noticed by the Company under audit but instead will change the audit approach and increase overall planning time for the auditors. With the help of our clients our prior audits have more than met the standards previously in place, and we expect that the upcoming audits will meet the new standards' requirements as well. There will be a closer look at the Company's operations and the risks associated with such operations.

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You should expect to see a longer, more detailed look at the Company's internal controls with an emphasis on understanding controls in areas determined to be high risk. You will most likely be asked for documentation in areas that the auditor has not tested in the past. In the past, the auditor may have spent up to two days documenting controls and required only a few hours of your time to answer their inquiries. Now you may see a significant amount of additional time spent on the documentation for the upcoming audit and a significant increase in your time as well as the rest of the accounting staff's time to address inquiries. In addition, it is quite possible that some of our information will be gathered from individuals outside of accounting function during the upcoming audits.

An auditor cannot use inquiry alone to test the operating effectiveness of controls. Other tests such as observation, document inspection, and reperformance will need to be incorporated and tested during the period under audit - in other words before the end of the current fiscal

year. Goodman & Company is currently planning to perform interim work when possible to address these new requirements.

While the initial implementation of these standards may cause some added work and increased fees, the long term benefits will be rewarding. The standards focus on gaining a better understanding of the client and performing a more effective and efficient audit. The emphasis on specialization and gaining an understanding on internal control will allow Goodman & Company to help our clients identify areas that may require improved controls, which could lead to significant savings and may help prevent losses due to fraud or error in the future. The spirit of the new risk assessment auditing standards will result in a more thorough and better planned audit with audit procedures that focus on the risks of the individual client. ■



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THE IMPACT OF SMALL BUSINESS ...

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small contractors who would be able to recertify as small, for the most part do not have the financial resources to execute such an acquisition.

It should be further noted that the cost and effort of acquiring a small contractor is generally the same as that of acquiring mid-sized and larger contractors for the prospective buyer. Because of this, these buyers tend to shy away from smaller deals unless there is a compelling reason to pursue it. By eliminating the ability to continue performance under these contracts will further dampen the interest of these prospective buyers in smaller deals.

CONCLUSION

The goals of the recertification rules by SBA are to increase the opportunities available for small businesses and to improve the reporting of small business awards. The new rules should go a long way towards achieving these goals. However, a consequence of these new rules is a significant reduction of the value and marketability of small contractors. ■

CIRCULAR 230 DISCLOSURE

The following disclosure is required pursuant to IRS Circular 230 and applicable state and local tax provisions, the regulations that govern the practice of tax advisors. Any advice concerning Federal, state and local tax issues contained in this written communication (and any attachments) has not been written nor is it intended by the author or Goodman & Company, L.L.P. to be used, and cannot be used, for the purpose of (i) avoiding federal, state or local tax penalties that may be imposed by the Internal Revenue Service or applicable state or local tax provisions, or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein. If a formal covered opinion intended to provide such protection is desired, please contact us to discuss the issues and costs involved in preparation of such a covered opinion. ■

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Goodman & Company

12th Annual Government Contracting Update - 2007

\$50 FOR CLIENTS OF GOODMAN & COMPANY, L.L.P., AND FEATURED SPEAKERS / \$200 FOR NON-CLIENTS

Tuesday, October 9, 2007 - 8:00 am to 4:30 pm - Ritz Carlton - Tysons Corner, Virginia

Prerequisites: A working knowledge of government contracting
Level of Knowledge: Intermediate to Advanced
Advanced Preparation: None
Objective: This conference will provide an update of the latest developments affecting government contractors.

Participants will receive update information on current DCAA Audit Initiatives, SBA, FAR and CAS updates, Accounting issues, Business Valuations and Strategic planning opportunities.

8:00-8:30	REGISTRATION
8:30-9:20	INTRODUCTION & CURRENT EVENTS: A discussion of current events not covered in other presentations; including the new SAS's issued by the AICPA and their impact on your 2007 audit and management letters. Gregg Funkhouser, CPA, Goodman & Company
9:20-10:10	JOINT VENTURES, PROTESTS, AND LEGAL UPDATE: An update on legislative and regulatory developments that may impact your business or a teaming partner's, as well as a discussion on recent cases and protest decisions that parties to teaming agreements and joint ventures, particularly small businesses and their mentors, should take into account when teaming. Antonio Franco, Partner, PilieroMazza PLLC
10:10-10:30	BREAK
10:30-11:20	TAX UPDATE: A discussion of current legislative updates including the 3% Federal Holdback, new S-Corp Regulations and Multi-State/Municipality requirements. Melinda Davis, CPA & Peter Stratos, CPA, Goodman & Company
11:20-12:10	DCAA AUDIT UPDATE: An overview of DCAA's priorities for 2007 including executive compensation and FAR/CAS updates. Scott Brezler, CPA & Ken Bricker, CPA, DABFA, Goodman & Company
12:10-12:30	BREAK/LUNCH
12:30-1:20	THE HUMAN SIDE OF BUSINESS: A discussion of branding your company to compete in the marketplace. Greg Richardson, SPHR, MA-HRD, Goodman & Company
1:20-2:10	VALUATION OF GOVERNMENT CONTRACTORS: The merger & acquisition frenzy that has occurred within this industry has led to some very high valuations for certain companies. Learn the value drivers of prospective buyers as well as other marketplace occurrences (i.e. small business recertification) that can have a material impact upon your company's valuation. Mike Smigocki, CPA, CVA, ABV, Federal Strategies Group, LLC
2:10-2:30	BREAK
2:30-3:30	GSA SCHEDULES: Address the new developments impacting GSA Schedules contracts, including new GSA contracting initiatives. Information and guidance will be provided about how to effectively obtain, maintain and comply with GSA Schedules contracts in today's environment. Jim Phillips & Barbara Kinosky, Centre Consulting, Inc.
3:30-4:30	Q&A SESSION WITH PANEL: Our panel of speakers will answer any questions from participants related to government contracting which can be sent in with registration, submitted in writing during the seminar, or openly asked. This is a great opportunity to pick the minds of a very experienced panel.

REGISTRATION FORM FOR GOVERNMENT CONTRACTING UPDATE - 2007

NAME	COMPANY	
TITLE	EMAIL	
ADDRESS	PHONE	FAX
CITY	STATE	ZIP

Complete and return this registration form to:
Goodman & Company, L.L.P.
Attention: Kristin Kitchens
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Norfolk, VA 23510
Email: kkitchens@goodmanco.com

FAX (757) 624-5233 / PHONE (757) 624-5227

Refunds are available with two weeks notice prior to the seminar. Substitutions are accepted. We reserve the right to substitute speakers due to scheduling conflicts.

Speaker Biographies

GREGG N. FUNKHOUSER, CPA **Partner, Government Contracting Services Group**

Mr. Funkhouser has practiced in private industry and as a certified public accountant for over 20 years. For over a decade, Mr. Funkhouser has concentrated on the government contracting industry and heads the Government Contractor Services Group for Goodman & Company, L.L.P. Under his direction, the firm publishes a newsletter, "Government Contracting Today," which addresses current financial, tax, compliance, and management issues and economic trends affecting the government contracting industry. Mr. Funkhouser is a frequent presenter and speaker and has authored numerous articles on tax, government contracting, and 8(a) issues.

KEN BRICKER, CPA, DABFA **Partner, Government Contract Consulting Services**

Mr. Bricker has over 20 years of experience in the government contracting arena. He has government experience as a Senior Auditor for the DCAA and as VP/CEO for a government contractor. He regularly assists clients with regulatory issues such as systems reviews (accounting, estimating, purchasing, and billing), bids and proposals, rate structure development, forward pricing, wage determinations, claims, defective pricing and incurred cost submissions. He has also served as an expert witness and provided other litigation support on government contract disputes.

SCOTT M. BREZLER, CPA **Partner, Government Contracting Services Group**

Mr. Brezler has practiced as a certified public accountant for over a decade. He heads all financial accounting services for the firm's Government Contractor Services Group. In addition, Mr. Brezler has obtained a Master's Certificate in Government Contracting from George Washington University. As a result, he has expertise in identification of accounting deficiencies regarding application of technical accounting procedures and reporting disclosure requirements under Generally Accepted Accounting Principles, preparation of tax returns for government contractors and other companies as well as informational returns for nonprofit entities.

MELINDA L.C. DAVIS, CPA **Partner, Goodman & Company, L.L.P.**

Since beginning her accounting career twelve years ago, Ms. Davis has worked with contractors. She has extensive experience with the preparation and calculation of work-in-process schedules. In addition, Ms. Davis has experience working with FAR (Federal Acquisition Regulations), the calculation of allowable overhead rates, the determination of unallowable costs, Service Contractor Act regulations, cost of money calculations and the various regulatory requirements faced by government contractors.

PETER STRATOS, CPA **Senior Manager, Goodman & Company, L.L.P.**

Mr. Stratos is a senior tax manager with Goodman & Company and has over 13 years of experience in the accounting industry, including employment with an international accounting firm in the general business group, where he was responsible for the tax compliance of large multinational consolidated corporate returns.

GREGORY M. RICHARDSON, SPHR **Senior Partner, Human Resource Management Consulting**

Mr. Richardson is a partner of the Human Resource Services Division. With over 20 years of executive experience, he has managed operational functions, training and development programs and human resource obligations. Mr. Richardson routinely conducts professional development seminars for workgroups, especially leadership development, and facilitates strategic and business planning efforts. Mr. Richardson has provided career coaching and outplacement services for executives, managers, and selected staff groups for almost 12 years. For the past seven years he has facilitated the Opening/Closing Retreats for the Leadership Institute of the Virginia Peninsula (Chamber of Commerce)

MICHAEL A. SMIGOCKI, CPA, CVA, ABV **Senior Managing Director, Federal Strategies Group, LLC**

Mr. Smigocki is the Senior Managing Director of Federal Strategies Group, LLC. He is formerly the National Managing Director of the Government Contractor practice for American Express Tax & Business Services, the 9th largest accounting firm in the U.S. In his 20+ years of experience in the government contracting industry, he has performed a wide variety of management consulting, accounting, tax, regulatory consulting as well as litigation support and expert testimony engagements.

ANTONIO R. FRANCO **Partner, PilieroMazza, PLLC**

Mr. Franco is a partner with PilieroMazza, PLLC. His practice includes all aspects of federal government contracting including bid protests, contract claims and contract administration. Mr. Franco has represented clients before the Court of Claims, General Accountability Office, Board of Contract Appeals, and state, local and federal district courts. Mr. Franco's primary focus is in areas relating to government contracts with an emphasis on federal procurement programs, such as the 8(a), small disadvantaged HUBZone programs, representing large, mid-size and small business concerns. In addition, Mr. Franco provides general corporate counseling and advises clients on business strategies and structures, and the effects of various state and federal legislative and regulatory proposals on their business plans.

BARBARA S. KINOSKY, ESQ **President and CEO, Centre Consulting**

Ms. Kinosky is an expert on federal government contracts and federal market channels. She is the co-founder of Centre Consulting, Inc., a professional services firm specializing in acquisition planning and support and GSA Schedules, and Centre Law Group, LLC. Ms. Kinosky is a frequent author and lecturer. She testified before Congressman Davis' 1423 Acquisition Reform Panel in the efficacy of performance based contracting. She was quoted numerous times in the Final Report.

JAMES S. PHILLIPS, ESQ **Executive Vice President, Centre Consulting**

Mr. Phillips is the Executive Vice President of Centre Consulting, a firm specializing in GSA Schedule and federal acquisition consulting, and federal contracts training. Mr. Phillips is an expert in all aspects of GSA Schedules. He is an active participant in the GSA Industry Council. He regularly provides critical advice to government and industry clients on competition requirements in task orders, compliance with the new time and material rules, audit issues and GSA Schedule renewal issues.



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Contracting Issues. The convention was very well attended and will be in Memphis next year for those of you interested in attending. I will be speaking at the VSCPA Professional Development Conference on September 28th. My presentations will be Strategic Planning for Government Contractors and Government Contracting Update. I will be assisted in the presentation by government contracting tax and audit staff including Mike Skretta, Luke Martonik, Michael Brown and Allison Huss. You can find information on the seminar at www.vscpa.com.

ACCOUNTING ISSUES

Not one, not two, but EIGHT new Statements on Auditing Standards have been issued by the AICPA which will significantly affect the 2007 audits. Allison Huss and Michael Brown have been working with our audit committee as we prepare for the challenge of meeting these new

requirements in the performance of our 2007 audits and have authored an article describing the Standards. In a nutshell, the industry is expecting a 30% increase in the work required to audit a company due to the new standards. The AICPA has made it clear that these standards are intended to make audits more functional but not more efficient from a cost perspective. Expect more interim work when possible, an increased look at internal controls and corresponding management comments.

DCAA

DCAA continues to aggressively challenge executive compensation. Ken Bricker and Scott Brezler will cover at the seminar current challenges and defenses which have been successful in defending compensation. Also hot on the audit list, consulting agreements. Be sure all consultants (including subcontractors) agreements are in writing or be exposed

to disallowance. Also, review the wording in your agreements and related invoices since DCAA is routinely requesting and reviewing these documents. They are looking for language which would make the services unallowable.

NEWSLETTER

If you know of anyone who would like to receive our government contracting newsletter please have them email their contact information to jcalabrese@goodmanco.com so they can be added to our government contracting database. ■

Gregg N. Funkhouser, CPA

Chair of the Goodman & Company Government Contracting Industry Specialization Group

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