



GC Newsletter

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IN THIS ISSUE:

[Increased Justice Department Efforts...](#)

[Along a Similar Note...](#)

[GSA's 30-Day Pledge](#)

[R&D Tax Credit? Yes or No?](#)

[Profit Limits on GSA Schedule Contracts](#)

[Basic Small Business Programs](#)

[Social Security Number Verification](#)

[Coming Events](#)

[Careers at Gaffey & Associates](#)

[Thought for the Day](#)

You will notice that we have changed the format of the GCNewsletter. The articles are still intended to provide you with an executive-level in-sight into current government contract accounting, compliance and contract administration issues no matter what your company's size. We hope you will find them informative, thought provoking and a value added resource to you and your organization. We continue to invite you to visit our website where you can access previous issues of the GCNewsletter, copies of our express notification bulletin GCAAlert, White Papers and presentations on various subjects of government contracting interest. It can be found at:

Visit www.GaffeyCPA.com

If you have any questions or comments relative to our website or the articles included in this issue of the Government Contracting Newsletter please contact us.

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INCREASED JUSTICE DEPARTMENT EFFORTS TARGET PROCUREMENT FRAUD

In February 2005, then U.S. Attorney for the Eastern District of Virginia, Paul J. McNulty created a task force that brought together more than two dozen Defense and civilian agencies to combat fraud among defense and homeland security contractors ("As the Pendulum Swings, Ethics and Business Conduct", GC Newsletter, November 2005, Volume 1, Issue 2). The group sought to boost the number of prosecutions for procurement fraud.

McNulty, now Deputy Attorney General of the United States, has taken this concept to the next level, establishing a national initiative within the Justice Department's Criminal Division to detect and prosecute fraud associated with increased contracting activity for national security and other government

programs. This initiative will involve U.S. attorneys, inspectors general and federal law enforcement is aimed at increasing prosecutions. McNulty emphasized that "Criminals who cheat the government must be identified, stopped and punished." Alice Fisher, assistant attorney general, will oversee the new initiative.

This initiative was announced at a news conference on October 10, 2006 at the same time it was announced that a major government contractor agreed to pay \$98.5 million to settle allegations that it did not share accurate pricing information with the General Services Administration when it was negotiating for a listing on a multiple-award schedule in 1997. The contractor involved did not inform GSA that customers could get discounts of 30 percent or more by buying more than one product at once. Because maintenance services were also tied to these prices, more than 60 agencies that used GSA's



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multiple-award schedule to purchase these products overpaid for maintenance services between 1997 and 2005. The Coalition for Government Procurement indicates that companies experiencing GSA contract audits, may want to pay particular attention to contract compliance and defend any audit deficiencies during the course of the "routine" pre-award schedule audits and points out that this is particularly important when undergoing "pre-award" audits associated with contract extensions.

ALONG A SIMILAR NOTE— EVERYONE ELSE DOING IT DOES NOT MAKE IT RIGHT!

An article in the Wednesday, October 11, 2006, Washington Post contributed by Timberly Ross of the Associated Press indicated that Warren E. Buffett told all the managers of his company Berkshire Hathaway that "Everyone else is doing it" is no justification for unethical business practices. In his September 27th memo, Buffett cautioned managers that many corporate scandals arise because questionable activity is accepted as normal behavior. "Somewhere along the line they picked up the notion ... that a number of well-respected managers were engaging in such practices and therefore it must be OK to do so," Buffett wrote. "It's a seductive argument." "Let's start with what is legal, but always go on to what we would feel comfortable about being printed on the front page of our local paper."

We might add that if it looks like a duck, walks like a duck and quacks like a duck it is probably a duck. If you have any premonition that something may be illegal or immoral it probably is. DON'T DO IT!

GSA'S 30-DAY PLEDGE

At a Northern Virginia Technical Council Business-to-Government Breakfast Meeting on Wednesday, October 11, 2006, the General Services Administration reaffirmed its commitment to bring

the average time it takes businesses to get listed on its contracting schedules down to 30 days. The 30-day pledge was first made by Lurita Doan, the new Administrator of the General Services Administration, in June.

Getting onto a GSA schedule can be an expensive and lengthy process, taking from several months to a year. The bureaucratic hurdles can be especially frustrating for small businesses.

GSA will incorporate management methodologies such as Six Sigma or Capability Maturity Model Integration into its schedule approval process in an effort to accomplish this goal that could also apply to businesses seeking a modification of their existing schedule contract. The agency is to also start sending out acknowledgment of receipt letters to applicants within 24 hours.

John Johnson, the acting assistant commissioner for integrated technology solutions, who was representing GSA at the NVTC Breakfast added that he could not commit to the 30-day timeline. Businesses will have a role to play in meeting this 30-day goal, Johnson said. "We're also going to expect you all to be more timely in responding to any questions we have," he said.

R&D TAX CREDIT? YES OR NO?

Congress created the Research & Development (R&D) tax credit in 1981 to give U.S. companies a better return on their investment in technology advances and to encourage them to spend more on those activities in the United States. Many companies that take full advantage of the opportunity that the R&D credit provides are concerned that this research and experimentation tax credit wasn't extended by Congress.

Also known as the research credit, the research and experimentation tax credit (which covers traditional corporate research and development, as well as experimentation that might not result in a product) offers an incentive for companies to boost spending for technological research. A company can

get a tax credit of up to 6.5 percent of the amount it spends on qualifying research. Companies often qualify for the tax credit in areas other than traditional R&D or engineering such as manufacturing, quality assurance, marketing, purchasing, information technology and other areas.

A provision for such a credit is part of a larger estate tax bill that was passed by the House but has been mired in the Senate since early August.

PROFIT LIMITS ON GSA SCHEDULE CONTRACTS

Here are some facts about GSA's policy on schedule pricing and profit restrictions:

- GSA does not have any rule that limits service contract vendors on schedule contracts to a 10 percent profit margin.
- GSA negotiates schedule contracts in accordance with FAR Part 15 and the consistent instructions contained in the GSA Acquisition Manual (GSAM) 515.4.
- When schedule proposals are based on cost FAR 15.404-4 applies.
- If statutory restrictions in accordance with FAR 15.404-4(c)(4)(i) apply it would also be to cost proposals on schedule programs.
- Schedule contract are not cost-plus-fixed-fee contracts and therefore the 10 U.S. Code 2306(d) and 41 U.S.C/ 254(b) profit limits do not apply.

GSA's pricing policies for schedule contracts are consistent with FAR Part 15.4 for all GSA schedules – products and services.

BASIC SMALL BUSINESS PROGRAMS

Small Business (SB) – Located in U.S, organized for profit, including affiliates is independently owned & operated, not dominant in field of operations in which it is bidding on Government contracts, AND meets Small Business Administration (SBA) size standards included in solicitation. Size standard is based upon the North American Industrial Classification Standard (NAICS) assigned to the specific procurement dependent upon product/service purchased.

Woman-Owned Small Business (WOSB) – Small Business, at least 51% owned by ≥ 1 women, AND management & daily business operations controlled by ≥ 1 women.

Small Disadvantaged Business (SDB) – Small Business, unconditionally owned & controlled by ≥ 1 socially & economically disadvantaged individuals who are of good character & citizens of the U.S., AND SBA-certified.

Small Disadvantaged Business 8(a) Certified [8(a)] – Small Business, SBA-certified as a SDB, AND SBA-certified into the 8(a) Business Development Program for a period of 9 years.

Historically Underutilized Business Zone (HUBZone) – Small Business, owned & controlled ≥ 51% by U.S. citizens, SBA-certified as a HUBZone concern (principal office located in a designated HUBZone & ≥ 35% of employees live in a HUBZone).

Veteran-Owned Small Business (VOSB) – Small Business, veteran-owned as defined in 38 USC 101(2), ≥ 51% owned by ≥ 1 veterans, & management/daily operations controlled by ≥ 1 veterans.

Service-Disabled Veteran Owned Small Business (SD-VOSB) – Small Business, veteran-owned, ≥ 51% owned by ≥ 1 service-disabled veterans, AND management & daily business operations controlled by ≥ 1 service disabled veterans OR in the case of veteran with permanent & severe disability, the spouse or permanent caregiver of such veteran, AND with 0% - 100% service-connected disability as defined in 38 USC 101(16) & documented on DD 214 or equivalent.

Historically Black Colleges & Universities/Minority Institutions HBCU/MI – HBCU is an accredited institution established before 1964 whose principal mission is education of black Americans. MIs are institutions meeting requirements of Higher Education Act of 1965 and Hispanic-serving institutions defined at 20 USC 1059. The Secretary of Education must designate HBCUs/MIs. A list can be located at <http://www.ed.gov/about/offices/list/ocr/edliteminorityinst.html>

SMALL BUSINESS CERTIFICATIONS

Small Business	Self-certify Set-aside authority
Woman-Owned Small Business	Self-certify (may change)
Small Disadvantaged Business [includes 8(a)]	SBA certify 8(a) set-aside & limited sole source authority
HUBZone	SBA certify Set-aside & limited sole source authority; 10% price evaluation preference may apply
Service-disabled Veteran Owned SB	Self-certify Set-aside & limited sole source authority
Veteran Owned SB	Self-certify

SOCIAL SECURITY NUMBER VERIFICATION

Little known software exists within the Social Security Administration (SSA) that can verify names and social security numbers. Its main goal is to ensure accurate wage reporting so the SSA knows which workers qualify for social security. Another use is to provide employers with a means of verifying a workers' legal status (e.g., illegal immigrants).

There are two internet verification options available. You can verify up to 10 names and SSNs (per screen) online and receive immediate results or upload batch files of up to 250,000 names and SSNs and usually receive the results the next business day.

To utilize the Social Security Number Verification Service go to www.socialsecurity.gov/bsowelcome.htm.



CAREERS AT GAFFEY & ASSOCIATES, PLC

The Government Contracting Services Group of Gaffey & Associates is looking for individuals interested in becoming a part of our exciting and rapidly growing consulting practice. A college degree is required. Experience in government contract cost accounting, the FAR and CAS is required. CPA and/or DCAA experience a plus but not required.

Contact Sam Davidson at
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COMING EVENTS

PTAP Seminar at George Mason University

Back by popular demand! On Wednesday, November 15, 2006, Sam Davidson of Gaffey & Associates Government Contracting Services Group is presenting an all day workshop entitled "Business Tool for Success – Costing and Pricing Basics". This seminar is a part of the DoD/DLA sponsored Procurement Technical Assistance Program (PTAP) at George Mason Universities School of Public Policy.

This seminar is an introduction to the establishment of an indirect cost structure that meets the need to:

- (1) accurately determine the actual cost of your products and services,
- (2) establish competitive pricing and
- (3) provide management with accurate and timely information to facilitate their day-to-day decision making process.

The seminar costs \$150.00 and runs from 9:00AM to 4:00PM including extensive course materials and lunch.

To register please call PTAP at (703) 277-7700 or go on-line at www.VAPTAP.org and look under VA PTAP Events Calendar or contact Sam Davidson at 703-748-5816 or at Samuel.Davidson@GaffeyCPA.com

The Coalition for Government Procurement Fall Conference 2006

On Tuesday and Wednesday, November 14-15, 2006 the Coalition for Government Procurement will present their annual Fall Conference at the Arlington Hilton hotel. The new Office of Federal Procurement Policy Administrator Paul Dennet will discuss his priorities for OFPP, as well as on-going agency topics such as time and material contracting, strategic sourcing, anti-bundling initiatives, and acquisition work force training. For more information, or to register, contact Melynda Cutler at mcutler@thecgp.org

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Thought for the Day

Common sense aint' common. - **Will Rodgers**