

# **FRAUD, WASTE & ABUSE**

*UNDERSTANDING THE STRINGS ATTACHED TO GOVERNMENT FUNDING*

**ED JAMESON, CPA**  
**MANAGING PARTNER**

**JAMESON & COMPANY**



# JAMESON & COMPANY

*Jameson & Co. has helped businesses across the country procure, manage and survive audit on more than \$4 billion in government contracts and grants.*

- **Founded in 1978**
- **Account Managers = CPA's w/15+ years experience (3 types of CPA)**
- **Clients in 32 states, all agencies, all types of awards**

# HOUSTON PROFESSORS *INDICTED & CONVICTED*

The 2014 indictment, alleges one count of conspiracy, seven counts of making false statements and 21 counts of wire fraud, all in connection with the Small Business Innovation Research (SBIR) program.

According to the indictment, both men started Integrated Micro Sensors Inc. (IMS), a small business which applied for and received SBIR grants or contracts from NASA, National Science Foundation, Department of Energy and the United States Air Force.

Officials said if convicted of the conspiracy, **both face up to a five-year prison term**, as well as **another five years upon each conviction of making false statements**. For the wire fraud charges, the men face **up to 20 years for each conviction**. All charges also carry a possible **\$250,000 fine**.

***In late 2015, the two men were convicted and sentenced to prison.***

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# WSU PROFESSOR FACES UP TO 30 YEARS IN PRISON

In February of 2016, a Washington State University engineering professor, along with his brother and sister-in-law, have been charged with defrauding the federal government of about \$8 million in research grants.

According to Court records, the trio collected about \$8 million from the National Science Foundation, the Department of Energy, the Department of Transportation and the Department of Agriculture.

U.S. Attorney William Hochul stated, “As charged, the defendants took money intended to foster innovative research by small businesses, and instead used for their own personal use.”

The three were charged in federal court in New York, *with wire fraud, lying to federal agencies and transacting illicit funds. **The charges carry a maximum penalty of 30 years in prison and a \$1 million fine.***

## AGENDA – IF IT'S **UNINTENTIONAL**, IS IT STILL FRAUD?

1. Two mistakes that cause big trouble
  - a. Not having an acceptable accounting system (anal retentive)
  - b. Not using realistic indirect rate projections (Jon from Sunnyvale)
2. Types of DCAA Audits
3. Two questions to ask your accountant to know if you're ok or not

# ELEMENTS OF AN ACCEPTABLE ACCOUNTING SYSTEM

Does your General Ledger segregate?

- Direct Costs?
- Indirect Costs?
- Unallowable Costs?

# TIMESHEET POLICIES YOU MUST HAVE

- Filled out in ink daily
- Must record all time, signed by the employee
- Signed by the supervisor
- Changes must be crossed out (not erased) and initialed



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# MANDATORY ANNUAL INCURRED COST SCHEDULE PAYROLL RECONCILIATION (CASH VS ACCRUAL)

Per General Ledger	Amount
Direct Labor	\$412,353.19
B&P Labor	\$18,735.77
Sick Pay	\$3,262.38
Vacation Pay	\$28,922.18
Holiday Pay	\$34,666.62
Other Paid Time Off	\$435.62
Bonus Pay	\$40,500.00
Overhead Labor	\$48,257.31
G&A Labor	\$29,902.80
Plus beginning accrued payroll	\$7,457.00
Less ending accrued payroll	(\$8,279.00)
Plus beginning accrued vacation	\$32,754.00
Less ending accrued vacation	(\$31,932.00)
<b>Totals Per General Ledger</b>	<b>\$617,035.87</b>

Per 941 Forms	Amount
3/31/2014	\$142,577.95
6/30/2014	\$142,129.95
9/30/2014	\$144,887.95
12/31/2014	\$187,440.02
<b>Totals Per 941 Forms</b>	<b>\$617,035.87</b>

# A LABOR POLICY YOU MUST HAVE

- **Accounting for Uncompensated Overtime**
  - $\$80,000/2,000 = \$40/\text{hour}$
  - Bill the government at \$40/hour
  - Actually works 2,500 hrs
  - Actual hourly rate is \$32/hour
- **3 common cures**
  - Pay for OT
  - Change the billing rate every month
  - Credit the overbilling to the indirect rate pool
- **The MIT Professor**

# NORTHWESTERN PAYS \$3MM FOR FRAUD

According to the Wall Street Journal, Northwestern University agreed to pay nearly \$3 million to settle claims that a former cancer researcher fraudulently used federal grant money for personal expenses, including food, hotels and airfare between 2003 and 2010.

The whistleblower, Melissa Theis, worked as a purchasing coordinator, processing invoices when she 'noticed some red flags,' according to her attorney.

The federal False Claims Act allows private citizens who allege government programs are being defrauded to file actions on behalf of the government and receive a portion, **usually 15% to 30%, of any recovered damages.**

**Ms. Theis will get \$498,100 in settlement proceeds, according to the agreement.**

## JON FROM SUNNYVALE – WHY USE A 10% RATE?

- Funding is extremely competitive
- MIT told me to use this rate if I wanted to win
- I left the cost proposal to the last minute
- I have no idea how to project the right rate
- I'm afraid of being audited

# THE INDIRECT RATE

Item	Amount
Total Award	<u>\$1,500,000</u>
7% Fee	\$100,000
<b>Total Costs</b>	\$1,400,000
Indirect Costs	\$200,000
<b>Total Unloaded Costs</b>	<u>\$1,200,000</u>
Prominent Consultant #1	\$50,000
Prominent Consultant #2	\$50,000
Subcontract Costs	\$400,000
Materials Costs	\$200,000
<b>Subtotal Labor Costs</b>	<u>\$500,000</u>
Fringe Benefits	\$75,000
Labor Costs	\$425,000

# THE MULTIPLIER

Direct labor	1.00
Overhead @ 100%	<u>1.00</u>
Subtotal	2.00
G&A @ 25%	<u>.50</u>
Subtotal	2.50
Fee @ 7%	<u>.18</u>
<b>Total</b>	<b><u>\$2.68</u></b>

*For every \$1.00 you pay labor, you charge the government **\$2.68***

# MULTIPLIER OVERVIEW

Our experience with established DoD **SBIR-type** government contractors:

Multiplier	Level
<2.4	Inexpensive
2.4-2.7	Normal
2.7-3.0	Expensive
>3.0	Prohibitive (White Plains)

# THE BUDGET REVISITED

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Labor Costs	\$425,000

(16.7%)

(17.6%)

Multiplier = 1.167 \* 1.176 = 1.37

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# HOW WILL KEY PEOPLE SPEND THEIR TIME?

Working **ON** the business (indirect labor):

Building strategic alliances

Diversifying the revenue stream

Advancing the technology

Working **IN** the business (direct labor):

Project – technical work

## Project

0%

0%

0%

100%

## Business

15%

20%

15%

50%

*Cut to Excel projection here*

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# DEPARTMENT OF DEFENSE – TYPES OF AUDITS

- Accounting System Reviews
  - Pre-Award
  - Post-Award
- Surprise Floor Checks
- Provisional Indirect Submissions
- Voucher (Government billing) Audits\*
- Incurred Cost Audits

*Download our whitepaper [Understanding the Different Types of DCAA Audits](http://www.jamesoncpa.com/resources) at [www.jamesoncpa.com/resources](http://www.jamesoncpa.com/resources)*

# DOD CONTRACT AUDITS

All audits performed by DCAA (~ 4,500 auditors in ~ 300 branch offices)

DCAA is paid by the “cognizant” government agency

- Surprise floor check audits always occur at your facility
- Annual incurred cost audits occur *where accounting record are located*
- Accounting system audits occur *where accounting records are located*
- \*Voucher (Government billings) audits

# DOD - ANNUAL INCURRED COST AUDITS

1. Several years ago an Independent Review Panel Report recommended more **risk-based planning**
2. Smaller contractors are typically cycled between in-person audits and remote audits (much easier “desk audits”) if you are considered LOW RISK.
3. In-person (live) audits are MUCH more thorough than years ago
4. **LOW RISK** status is determined:
  - based on no prior audit findings,
  - number and size of awards, and
  - indirect rate billed vs. actual experience

# DCAA'S NEW RANDOM PROGRESS BILLING AUDITS

- DCAA new random audit of one progress billing for all non-major contractors/year.
  - a. This is effectively a “mini” accounting system audit
  - b. Performed ON SITE by DCAA
  - c. Employees are interviewed
  - d. Employees are asked to show their “work product”
  - e. Auditor then traces time charges from:

*Government billing → job cost records → labor distribution → payroll journal → timesheet and  
'employee verification of work*

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## TWO QUESTIONS TO ASK

- **Job Cost Report – used to invoice the government**
- **How are the Indirect Rates actually running (*vs. what you are billing the government*)?**

# HOW JAMESON SUPPLEMENTS YOUR FINANCIAL TEAM

- Indirect cost rate development
- Financial negotiations with government officials
- Accounting system set up, training and periodic oversight
- Annual incurred cost report preparation
- Representation during government audits

# REDUCED PRICING FOR INTRODUCTORY PRODUCTS FOR ATTENDING TODAY

## Companies with Fixed Price Awards

### **A** *Phase 1 Survival Kit* — ~~\$2,250~~ **\$1,995**

If you don't yet have an accounting system in place, our Phase 1 Survival Kit will make certain you are prepared to account for your government award properly. The kit includes setting up your QuickBooks Pro data file utilizing the proprietary accounting system developed by Jameson, as well as one on one personal training to ensure your compliance with the Federal Acquisition Regulations.

## Companies Proposing on Cost Reimbursable Award(s)

### **B** *Indirect Rate Projection and Cost Proposal Support* — **\$895**

As your project(s) morphs into a business, it's critical to project the indirect rate you'll need to stay cash flow positive. We'll get to know your business and understand which rate structure best suits your financial needs. Then, we'll help you make sure your cost proposal is fiscally sound.

## Companies with Cost Reimbursable Award(s)

### **D** *Risk & Compliance Analysis* — ~~\$1,795~~ **\$495**

Federal Acquisition Regulations (FAR) clause 52.216-7 Allowable Cost requires you to maintain a rigorous accounting system and meticulous job cost records subject to special cost recovery rules, which will be audited! We will perform a Risk & Compliance analysis on your current accounting system to assess whether or not it is compliant with the FAR.

Visit [www.jamesoncpa.com/services](http://www.jamesoncpa.com/services) or reach out to [Katie@jamesoncpa.com](mailto:Katie@jamesoncpa.com) for details

# Q&A

Contact us:  
Katie Crowley, [Katie@jamesoncpa.com](mailto:Katie@jamesoncpa.com)

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