

REPORT FOR CONREP, INC.
DCAA COMPLIANT ACCOUNTING ASSESSMENT

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EXECUTIVE SUMMARY

CONREP Inc. (“the Company”) intends ensure DCAA compliance within their software. Therefore, the Company has requested a preliminary assessment of its accounting system for compliance with the criteria on Standard Form 1408, Pre-award Survey of Prospective Contractor Accounting System (SF 1408). Additionally, the Company would like to identify areas for improvement to gain efficiencies, automate processes, and effectively manage financial performance.

Based on our assessment, the Company’s accounting system does meet the criteria on the SF 1408 and does meet the criteria necessary to be recommended as an accounting system to potential customers.

SCOPE

An assessment of the accounting system for compliance with the criteria on SF 1408 only involves test to determine the design effectiveness of the system in relation to FAR and DCAA Compliance. Detailed testing of transactions and internal controls are not within the scope of this assessment.

METHODOLOGY

Our assessment was performed in three phases:

Data Collection

- a. Request and review documents such as policies and procedures, job cost records, timesheets and related labor distribution reports, chart of accounts structures, and indirect rate calculations, where applicable
- b. Conduct a walkthrough of the accounting system, including interviews with accounting staff, to evaluate the design and operating effectiveness of the system

Assessment

- a. Perform assessment of the information gathered in the data collection phase
- b. Analyze assessment results

Record and Report

- a. Prioritize, document, and communicate findings
- b. Develop and provide recommendations



Standard Form (SF) 1408 Accounting System Criteria

| MARK "X" IN THE APPROPRIATE COLUMN (Explain any deficiencies in SECTION I NARRATIVE) | YES | NO | N/A | NOTE # |
|---|-----|----|-----|-----------|
| EXCEPT AS STATED IN SECTION I NARRATIVE, IS THE ACCOUNTING SYSTEM IN ACCORD WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES APPLICABLE IN THE CIRCUMSTANCES? | X | | | 1 |
| 2. ACCOUNTING SYSTEM PROVIDES FOR: | | | | |
| a. Proper segregation of direct costs from indirect costs. | X | | | 2 |
| b. Identification and accumulation of direct costs by contract. | X | | | 3 |
| c. A logical and consistent method for the allocation of indirect costs to intermediate and final cost objectives. (A contract is final cost objective.) | X | | | 4 |
| d. Accumulation of costs under general ledger control. | X | | | 5 |
| e. A timekeeping system that identifies employees' labor by intermediate or final cost objectives. | X | | | 6 |
| f. A labor distribution system that charges direct and indirect labor to the appropriate cost objectives. | X | | | 7 |
| g. Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account. | X | | | 8 |
| h. Exclusion from costs charged to government contracts of amounts which are not allowable in terms of FAR 31, Contract Cost Principles and Procedures, or other contract provisions. | X | | | 9 |
| i. Identification of costs by contract line item and by units (as if each unit or line item were a separate contract) if required by the proposed contract. | X | | | 10 |
| j. Segregation of preproduction costs from production costs. | | | X | 11 |
| 3. ACCOUNTING SYSTEM PROVIDES FINANCIAL INFORMATION: | | | | |
| a. Required by contract clauses concerning limitation of cost (FAR 52.232-20 and 21) or limitation on payments (FAR 52.216-16). | X | | | 12 |
| b. Required to support requests for progress payments. | X | | | 13 |
| 4. IS THE ACCOUNTING SYSTEM DESIGNED, AND ARE THE RECORDS MAINTAINED IN SUCH A MANNER THAT ADEQUATE, RELIABLE DATA ARE DEVELOPED FOR USE IN PRICING FOLLOW-ON ACQUISITIONS? | X | | | 14 |
| 5. IS THE ACCOUNTING SYSTEM CURRENTLY IN FULL OPERATION? | X | | | 15 |
| (If not, describe in Section I Narrative which portions are) in operation, (2) set up, but not yet in operation, (3) anticipated, or (4) nonexistent) | | | | |

CONCLUSION: The CONREP system will allow any government contractor to ensure that their accounting, timekeeping and payroll systems are in compliance with the necessary guidelines and regulations set by FAR. The CONREP system is fully customizable to each potential user to ensure that, while financial reporting remains compliant, it also meets the needs of a user while maximizing efficiency levels. The CONREP system allows for complete interaction among the accounting, timekeeping & payroll modules to allow for smooth transitions of data between them. The CONREP system can also properly export any reports for third-party software (e.g., ADP, aycom, Unanet, etc.). **BOOST has reviewed CONREP's system's capabilities and compliance efforts and noted no findings within the DCAA and SF 1408 compliance standards.**



BOOST SF-1408 CHECKLIST NOTES

Note: The following have been assessed by BOOST LLC: the notes below relate to the SF 1408 Checklist.

| NOTE # | Response |
|--------|--|
| 1 | <p>The CONREP system encompasses accounting, timekeeping and payroll. The CONREP accounting system has all internal controls properly designed and enabled to properly match revenue and costs and recognize these transactions based on the period that they are incurred. The CONREP system gives the customer the ability to have proper cut-off of revenue and expenses and our internal controls ensure that any adjustments necessary to bring our books to an accrual basis are recorded prior to period closing. Contract revenue is properly recognized based on the period that services are provided, in accordance with contract agreements and the accrual basis of accounting. Direct costs are properly matched to revenue and accruals are recorded to ensure that costs are recorded in the correct period. Prior to closing accounting periods, CONREP's system allows for the performance a review of all direct and indirect expenses to ensure proper recognition.</p> |
| 2 | <p>The CONREP accounting system is designed specifically to provide proper segregation of indirect and direct costs. Direct costs are accumulated on a contract level and, if necessary, on a task or Contract Line Item Number (CLIN) level. The system gives the customer the ability to run reports and obtain immediate information showing total costs incurred by contract or by task. All indirect expenses are recorded in indirect cost pools (Fringe, Overhead (OH), and General & Administrative (G&A)). CONREP allows for a chart of accounts that is specifically designed so that these expenses and costs are properly segregated and easily identifiable. In addition, CONREP's strong internal controls are in place to ensure that expenses and costs are recorded to the right accounts and flow to the correct pools (indirect expenses). CONREP allows for cost pools to follow FAR guidelines. CONREP's fringe pool is inclusive of the following: leave costs to include vacation, holiday and sick, and payroll taxes and workers compensation to include the costs of FICA, FUTA, SUI, and other Health and Welfare and benefits costs. CONREP's overhead pools consist of salaries, fringe benefits and certain non-salary costs. CONREP's G&A pool consists of all charges for costs related to the overall corporate management of our Company, which may include support staff functions in Finance, Human Resources, Information Technology, Security and state and local tax obligations. These costs include items such as labor, utilities and postage.</p> |
| 3 | <p>CONREP is specifically designed so that it accumulates costs by contract and by task. Direct cost accounts are broken down by labor, subcontractor costs, travel, materials and other direct costs. All contracts in the system are listed as individual projects and a direct cost item must be coded to a specific project to be posted into the system. The system gives the customer the ability to run reports and obtain immediate information showing total costs incurred by contract or by tasks, broken down by cost type as illustrated above. Internal controls are in place ensure that costs incurred are recorded to the correct general ledger account. Subsequent to these costs being entered, additional controls ensure that entries are reviewed prior to invoicing to ensure that these costs are accumulated properly.</p> |



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| 4 | <p>CONREP is properly designed to ensure compliance with methodology used by the customer to set up an indirect rate structure. CONREP allows a customer to follow the standard in the government contracting industry, FAR regulations and their contract agreements. As noted above, CONREP allows for indirect expenses allocation and calculation. CONREP's unique ability to customize their system to the customer allows for the following pool definitions: Fringe – Costs in the fringe pool include expenses such as FICA, FUTA, SUI, and other Health and Welfare costs. The base for this pool consists of all labor costs. Overhead – Costs not directly allocable to a final cost objective can be allocated to Overhead accounts as an intermediary cost objective. Some examples of Overhead costs are salaries and training. G&A – G&A costs are made up of costs such as B&P labor and expenses, utilities and salaries. These are the costs associated with running our corporate operations. The base for this pool is considered “value added”. This includes all direct costs, Overhead costs and Fringe costs (not allocated to G&A or B&P Labor). Additional internal controls are in place to ensure that indirect rates are applied properly.</p> |
| 5 | <p>CONREP allows a customer to routinely reconcile sub-ledgers to the customer's general ledger. As mentioned above, CONREP's allows for a customer's chart of accounts to be properly designed and labeled, so that accounts follow a logical numbering system and are easily identifiable.</p> |
| 6 | <p>CONREP's timekeeping system is properly incorporated within the accounting system. Charge codes are mapped to the correct general ledger accounts and are clearly labeled so that employees know where to charge their time. The charge codes include specific codes to indirect G&A and Overhead Labor in addition to direct labor accounts specific to each contract and task. Charge codes are restricted, so that each employee only has access to the codes that apply to them individually. Customer's employees should be trained by management to ensure that they know how to use the CONREP timekeeping system. Employees must sign their timesheets electronically prior to submission. Supervisors review and approve all timesheets prior to labor being posted.</p> |
| 7 | <p>CONREP's timekeeping system ensures that charge codes are mapped to the correct GL accounts based on the type of task performed. For direct Labor, employees charge time to specific project codes that map to specific contracts and tasks. For indirect Labor, labor flows through to G&A or OH GL accounts based on the type of task performed.</p> |
| 8 | <p>CONREP's accounting system allows customers to efficiently perform period closings on a monthly basis, at which point a set of financials and reports can be generated and examined by management. Part of this process includes the review of costs charged to contracts prior to billing being processed, to ensure accuracy and timeliness. As part of this review, Management will ensure that employees are charging time to the correct account and to the correct labor category, if applicable.</p> |
| 9 | <p>CONREP's chart of accounts includes specific GL accounts that are used to record costs that are unallowable by the FAR. These accounts are clearly labeled and follow a specific numeric sequence so that they are easily identifiable. In addition, CONREP allows for easy reporting to ensure that customer management can review expenses to ensure that only those allowable by the FAR are included in our indirect rate calculations and those that are unallowable are properly segregated and recorded to the proper unallowable account. CONREP ensures that these accounts are properly excluded from indirect rate calculation.</p> |
| 10 | <p>CONREP's contract master file is designed so that when necessary, costs can be accumulated down to the task or CLIN level. All contracts in the system can be listed as individual projects and a direct cost item must be coded to a specific project to be posted into the system.</p> |
| 11 | <p>While typically N/A, CONREP has the unique ability across accounting systems to properly segregate preproduction costs from production costs.</p> |



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| 12 | CONREP is designed so that it tracks cost ceilings and other limitations imposed by contract agreements and compares costs incurred to those limits. In addition, CONREP's internal controls are in place to ensure that these thresholds are properly monitored by customer management. The system does not allow for any billings that exceed limitations as entered in the contract master file. Customer management should review all bills prior to them being processed to ensure accuracy and compliance with any applicable limitations. |
| 13 | The CONREP system properly tracks all the necessary data to support progress payments and it gives the user the ability to run reports at any time that would show costs accumulated and backup for billings. All additional data, such as vendor invoices or any other backup for costs incurred is properly stored electronically. |
| 14 | The CONREP system properly tracks and segregates all data and is designed so that information can be readily accessible. Its design ensures that data is tracked reliably and that reports provide the information that is necessary for pricing follow-on acquisitions. In addition, internal controls in place ensure that data entered is reviewed on a regular basis to ensure that it was processed accurately. |
| 15 | The CONREP system is currently in full operation, there are no issues to be noted in regards to FAR compliance. |

