



## Is the Sarbanes-Oxley Train Steaming Toward Government Contractors?



Elizabeth  
Dunseith

As many publicly traded firms complete their 4<sup>th</sup> year of Sarbanes-Oxley compliance, two recent Federal Acquisition Regulation (FAR) rules impose similar, but perhaps “lighter” regulations on certain

government contractors.

On December 24, 2007, the FAR was amended by the adoption of two rules related to government contractor ethics and internal controls. After this date, the new FAR codes can be included in all awarded contracts that meet the specific requirements. Existing contracts may also be affected by these changes if there are modifications to the contract such as pricing adjustments, extended period of performance, and so forth.

FAR 52.203-13, *Contractor Code of Business Ethics and Conduct*, addresses the existence, communication, and enforcement of a contractor’s code of ethics. The new rule requires *all Contractors* to establish a written code of conduct and to provide a copy to each employee within 30 days of the contract award. This requirement also extends to subcontracts in excess of \$5,000,000 with a period of performance over 120 days except subcontracts for the acquisition of a commercial item, or when the subcontract is performed entirely outside the United States.

The new code also requires formal adoption of an ethics awareness program and internal control systems within

90 days of the contract award to facilitate the timely discovery and correction of improper conduct for all Contractors *not qualifying* as a small business. Suggested internal control systems include A) Periodic reviews of company business practices, procedures, policies, and internal controls for compliance with the Contractor’s code of business ethics and conduct and the special requirements of Government contracting, B) An internal reporting mechanism, such as a hotline, by which employees may report suspected instances of improper conduct, and instructions that encourage employees to make such reports, C) Internal and/or external audits, as appropriate, and D) Disciplinary action for improper conduct.

As its name suggests, FAR 52.203-14,  
(See *SARBANES-OXLEY*, p. 4)

### LIVE WEBINAR

#### Internal Control and the FAR

Please join us to review the new FAR rules and Internal Control Systems

**Date:**

Friday, March 7 or Wednesday, March 12  
(both sessions will be the same)

**Time:**

1:30 pm to 2:15 pm

**RSVP:**

To participate, please email  
[RiskServices@WatkinsMeegan.com](mailto:RiskServices@WatkinsMeegan.com)  
by March 5



## RISK SERVICES *Update*

*The Watkins, Meegan, Drury & Company, L.L.C. Risk Services Update* welcomes feedback and suggestions for articles to assist business leaders and other professionals in meeting their organization's objectives. If you wish to submit an idea, request use of any information in this issue, or be added to or removed from our mailing list, please contact Michael Hutchins at (301) 664-8111. Or e-mail us at [Michael.Hutchins@WatkinsMeegan.com](mailto:Michael.Hutchins@WatkinsMeegan.com)

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Certified Public Accountants  
Business and Financial Advisors

# Sales Tax Nexus: Does Your Company Have It and How Do You Control It?



*Michael Dillon*

**N**exus is simply defined as a minimum presence that must exist before a state can impose any tax liability and reporting requirements

upon a company. Typically, owning/leasing property, or having employees, contractors, or representatives in a state will establish nexus. However, there is no bright-line standard or single measure for nexus; the standard is determined by each individual jurisdiction for each type of tax imposed. There are over 30,000 state and local tax jurisdictions in the U.S.; more than 7,500 impose a sales tax, and over 5,000 changed their laws in the past decade!

Most companies do not have the in-house resources to adequately identify and meet their sales and use tax obligations. Often, sales and use tax is not a major area of concern until a company receives an audit notice or an assessment. By then, companies are in a reactive, "damage-control" mode. Facing budgetary deficits, states are more aggressively pursuing every opportunity to identify unregistered and delinquent taxpayers.

Furthermore, measures such as Sarbanes-Oxley and FIN 48 have increased and will continue to increase corporate requirements to

maintain stringent controls over their multi-state tax compliance. If a state discovers your company is not meeting tax requirements, the normal statute of limitations within which a state may issue an assessment does not apply. The results can be staggering.

Many mid-sized companies are in a unique position to proactively address their multi-state tax obligations by identifying them before they come "on the radar screen" of state auditors. Taking the necessary steps to identify multi-state nexus, register in those states, and eliminate unrecorded liabilities

will enable your organization to demonstrate that it has taken reasonable and proactive

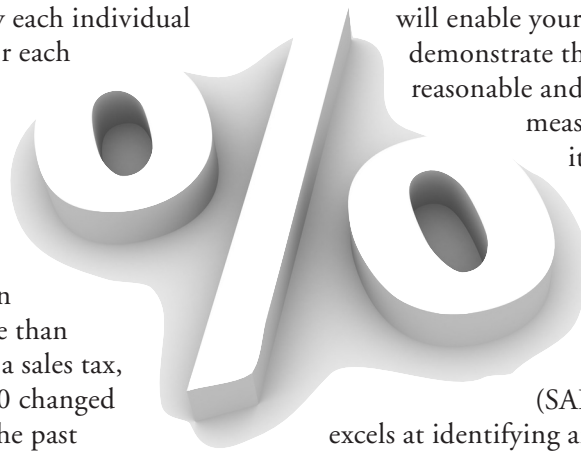
measures to enhance its controls and meet its tax obligations.

Watkins Meegan's State and Local Tax (SALT) Group

excels at identifying and minimizing tax obligations, eliminating historical exposure, and maximizing refunds of tax. Watkins Meegan's Risk Services Group has extensive experience in conducting internal control reviews, risk assessments, and IT systems & applications assessments. Working together with management, we will identify key risks and areas of tax exposure for an organization, proactively mitigate these exposure items, and develop controls to reduce tax compliance risks.

— *Michael T. Dillon, Esq.*  
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# Importance of Strong Information Technology Controls



*Biniam Debebe*

In today's business environment, most business processes are complex and often automated and integrated with Information Technology (IT) systems. The enactment of the Sarbanes-Oxley Act of 2002, other recent US regulatory requirements, and accounting standards also increased emphasis on information technology controls.

IT controls are a subset of an organization's internal controls and are categorized into two major categories: General IT controls (general computer controls) and Application controls. General IT controls encompass managing data and computer operations, ensuring systems security (access to data and programs), acquiring and developing program and technology infrastructure, changing controls and configuration management (including installation and testing of software and infrastructure), managing third party services when applicable, managing problems and incidents, defining and managing service levels, and developing and maintaining policies and procedures.

Application controls are automated or IT dependent manual controls designed within an IT application and may include edit checks, balancing and validation controls, check digits, predefined data listings, data reasonableness tests, logic tests, interfaces, auto authorization, and automated calculations. Application controls are usually designed as embedded or configurable controls. For example, most ERP softwares have the capability to perform a three-way match (purchase order, invoice, and goods received note) in the AP and inventories modules or it

could restrict a user from both entering and posting journal entries and thereby segregate conflicting duties.

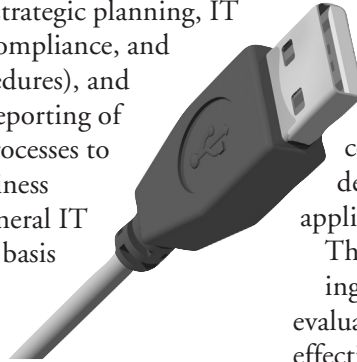
The IT control environment consists of the IT governance process (for example, IT strategic planning, IT risk assessment, compliance, and policies and procedures), and monitoring and reporting of IT services and processes to align IT with business requirements. General IT controls form the basis for relying on application controls and applications controls in turn form the basis for relying on reports generated from financial systems for financial reporting purposes.

Weak general IT and applications

controls put an organization at risk and diminish the reliability of its financial reporting process and other sensitive information stored in financial systems. Confidentiality, integrity, and availability of critical financial and sensitive information could be compromised if these IT controls are not effectively designed, implemented, and applied on a regular basis.

The role of IT is critical in achieving the objective of establishing, evaluating, and monitoring the effectiveness of internal controls over financial reporting (ICFR). Information technology controls that specifically address financial reporting risks are important to all organizations

*(See CONTROLS, p. 4)*



## William Brown Joins the Team



*William Brown*

along with him a range of IT Audit experience that will help with the ongoing expansion of the Information Assurance services within the Risk Services practice.

Prior to joining Watkins Meegan, William worked with a regional accounting firm and two "Big 4" accounting firms as an engagement Manager and a Senior Consultant, where he led and managed a portfolio of engagements in the realm of Information

Watkins Meegan is pleased to welcome William Brown, Supervisor, to the Risk Services Group. William brings

Assurance including OMB A-123 audits, operational audits, data analysis, IT audits supporting financial statement audits, and implementation and integration of SAP R/3 4.5. He has worked with large federal agencies as well as commercial clients.

William has a Bachelor of Arts degree from Howard University and a Master of Business Administration in Finance-MIS from Rensselaer Polytechnic Institute. He is a Certified Information Systems Auditor (CISA) and is pursuing his CPA.

William will be working out of Watkins Meegan's Vienna, Virginia office. He can be reached at (703) 761-4848 or William.Brown@WatkinsMeegan.com

*(SARBANES-OXLEY, from p. 1)*

*Display of Hotline Posters*, requires display of agency hotline posters in common areas. If the Contractor uses a company website as a form of communication, the Contractor may display the posters here as well. For Contractors that have other methods of reporting in place, such as those implemented through their awareness program, no posters other than the fraud Department of Homeland Security hotline poster is required. The same restrictions around subcontractors apply as mentioned above.

Perhaps of equal importance is the November 14, 2007 proposed additional rule which could substantially strengthen the December 24, 2007 rules discussed above. The Civilian Agency Acquisition and Defense Acquisition Regulation proposed additional rules related to enforcing the code of ethics as well as further defining the requirements of internal control systems and their

review. More specifically, the FAR 52.203-13 suggested internal control systems A-D listed above will be *required* rather than suggested. Furthermore, the proposal defines responsibility and required actions under ethics violations, compliance programs, and internal control systems. The public comment period allowing readers to provide feedback ended on January 14, 2008 and is scheduled to be finalized in the upcoming months.

If you would like to know more about how these new regulations may affect your company and specific compliance requirements, please contact us at [RiskServices@WatkinsMeegan.com](mailto:RiskServices@WatkinsMeegan.com)

***Useful links for additional research:***

*FAR Homepage -*

<http://www.acq.net.gov/far/index.html>

*DHS Hotline information -*

[http://www.dhs.gov/xoig/about/gc\\_1163703329805.shtm](http://www.dhs.gov/xoig/about/gc_1163703329805.shtm)

*(CONTROLS, from p. 3)*

relying on IT to meet their IT and business objectives more effectively and efficiently.

If you would like to assess or strengthen your company's IT controls, are experiencing challenges within your IT environment, or otherwise would benefit from expertise in specific areas of IT Audit and Security Consulting services, Watkins Meegan can offer a creative and reliable solution.

Contact Bhavesh Vadhani at (703) 847-4418 or email [Bhavesh.Vadhani@WatkinsMeegan.com](mailto:Bhavesh.Vadhani@WatkinsMeegan.com) to learn more about how we can help you with your IT Information Assurance needs.

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