

Brought to you by

Deltek Know more.
Do more.™

Deltek Special Edition

Government Contracting

FOR
DUMMIES®

Learn to:

- Succeed in the world of government contracting
- Submit a winning proposal and deliver profitable projects
- Comply with government regulations

Bill Bodziak
Kim Koster
Kevin Plexico



About Deltek

Deltek (Nasdaq: PROJ) is the leading global provider of enterprise software and information solutions for professional services firms and government contractors. For decades Deltek has delivered actionable insight that empowers customers to unlock their business potential. Over 14,500 organizations in approximately 80 countries around the world use Deltek to research and identify opportunities, win new business, optimize resources, streamline operations, and deliver profitable projects.

Deltek – Know more. Do more.® www.deltek.com

Deltek for Government Contractors:

For more than 28 years, Deltek has offered unique solutions for the government contracting marketplace. Deltek customers include 98 of the top 100 federal contractors who use their solutions to:

- Access over a trillion dollars of federal business opportunities
- Leverage actionable intelligence on market trends
- Improve contract win and retention rates
- Complete projects on time and under budget
- Ensure project, IT, and corporate governance
- Streamline the financial management of their organizations

Learn how Deltek can help your firm at www.deltek.com

***Government
Contracting***
FOR
DUMMIES®
DELTEK SPECIAL EDITION

**by Bill Bodziak,
Kim Koster, and Kevin Plexico**



WILEY

John Wiley & Sons, Inc.

These materials are the copyright of John Wiley & Sons, Inc. and any dissemination, distribution, or unauthorized use is strictly prohibited.

Government Contracting For Dummies®, Deltek Special Edition

Published by
John Wiley & Sons, Inc.
111 River St.
Hoboken, NJ 07030-5774

www.wiley.com

Copyright © 2012 by John Wiley & Sons, Inc., Hoboken, New Jersey

Published by John Wiley & Sons, Inc., Hoboken, New Jersey

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, the Wiley logo, For Dummies, the Dummies Man logo, A Reference for the Rest of Us!, The Dummies Way, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries, and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: THE PUBLISHER AND THE AUTHOR MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS WORK AND SPECIFICALLY DISCLAIM ALL WARRANTIES, INCLUDING WITHOUT LIMITATION WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES OR PROMOTIONAL MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR EVERY SITUATION. THIS WORK IS SOLD WITH THE UNDERSTANDING THAT THE PUBLISHER IS NOT ENGAGED IN RENDERING LEGAL, ACCOUNTING, OR OTHER PROFESSIONAL SERVICES. IF PROFESSIONAL ASSISTANCE IS REQUIRED, THE SERVICES OF A COMPETENT PROFESSIONAL PERSON SHOULD BE SOUGHT. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM. THE FACT THAT AN ORGANIZATION OR WEBSITE IS REFERRED TO IN THIS WORK AS A CITATION AND/OR A POTENTIAL SOURCE OF FURTHER INFORMATION DOES NOT MEAN THAT THE AUTHOR OR THE PUBLISHER ENDORSES THE INFORMATION THE ORGANIZATION OR WEBSITE MAY PROVIDE OR RECOMMENDATIONS IT MAY MAKE. FURTHER, READERS SHOULD BE AWARE THAT INTERNET WEBSITES LISTED IN THIS WORK MAY HAVE CHANGED OR DISAPPEARED BETWEEN WHEN THIS WORK WAS WRITTEN AND WHEN IT IS READ.

For general information on our other products and services, please contact our Business Development Department in the U.S. at 317-572-3205. For details on how to create a custom For Dummies book for your business or organization, contact info@dummies.biz. For information about licensing the For Dummies brand for products or services, contact BrandedRights&Licenses@Wiley.com.

ISBN 978-1-118-10000-4 (pbk); ISBN 978-1-118-10076-9 (ebk)

Manufactured in the United States of America

10 9 8 7 6 5 4 3 2 1



Publisher's Acknowledgments

Some of the people who helped bring this book to market include the following:

Acquisitions, Editorial, and Media Development

Development Editor: Steve Kaelble

Project Editor: Jennifer Bingham

Editorial Manager: Rev Mingle

Business Development Representative:
Sue Blessing

Custom Publishing Project Specialist:
Michael Sullivan

Composition Services

Senior Project Coordinator: Kristie Rees

Layout and Graphics: Samantha K.
Cherolis, Timothy C. Detrick

Proofreader: Dwight Ramsey

These materials are the copyright of John Wiley & Sons, Inc. and any dissemination, distribution, or unauthorized use is strictly prohibited.

Contents at a Glance



Introduction	1
Chapter 1: An Introduction to Government Contracting	3
Chapter 2: Finding and Winning Government Business	11
Chapter 3: You've Won! Now Comes the Accounting Challenge.....	19
Chapter 4: Compliance: The Joy of Being Audited!.....	29
Chapter 5: Understanding Project Management	37
Chapter 6: Reporting for the Government Contractor	43
Chapter 7: Analytics for the Government Contractor	51
Chapter 8: Eight Helpful Programs for Small Contractors	59
Appendix A: Glossary	63
Appendix B: Resources.....	67

About the Authors

Bill Bodziak is currently Director of GovCon Systems Engineers at Deltek. For the last 12 years he has worked with a variety of business intelligence and analytics applications, moving from corporate finance to consulting and sales. He enjoys helping organizations increase their efficiency and decision-making capabilities by introducing them to new technology. Bill holds a BS in Accounting from Virginia Tech and is a Certified Public Accountant in the State of Maryland.

Kim Koster is currently Director of Product Marketing for EPM (Enterprise Program Management) at Deltek. She has 21 years of industry experience and has previously worked at Raytheon and ATK. Kim held management positions such as Product Line Business Manager, Controller, and EVMS Focal Point. She has been a trainer in her organizations and has provided guidance to many project and executive teams. Kim holds a BBA from the University of North Texas.

Kevin Plexico is Vice President of Federal Information Solutions at Deltek, where he manages the delivery of Deltek's industry-leading market federal research and information products, providing essential information and insights to over 2,800 clients. Kevin is responsible for leading the largest team of analysts focused on the government contracting industry and provides thought leadership and expert opinion to industry executives.

Kevin is a recognized expert on the public sector market and came to Deltek from its acquisition of INPUT in 2010. At INPUT, he played an instrumental role in helping to grow the company from 15 employees to 160 employees.

Kevin earned an MBA in Information Systems from the University of Maryland, College Park, Maryland and a B.B.A. in Economics from James Madison University, Harrisonburg, Virginia.

Authors' Acknowledgments

The authors would like to acknowledge Deltek colleagues Kevin Iaquinto, Laura Riviere, Rachel Lore, and Patrick Smith for their encouragement and assistance in the preparation of this work.

Bill Bodziak Dedication: To Colleen Struss, my first boss, who taught me how to write and wisely recommended that I choose my battles in life. Thank you for all your support.

Kim Koster Dedication: To Art, you taught me everything I know and I will always be grateful to have had the opportunity to work with you.

Introduction

Government bodies, just like businesses, have rules for contracting that are based on practical applications. Once you know how things work, you'll find the government markets are easily navigable. Still, what works for one gargantuan federal agency's procurement may be completely ineffectual if you try it with a teeny independent commission. There's a lot to know about the world of government contracting.

About This Book

Government Contracting For Dummies, Deltek Special Edition is all about this perplexing market. Doing business with the government is vastly different from dealing in the commercial sector, and this book highlights those differences. Just finding the work is a challenge in itself, as is preparing your company for the scrutiny that goes hand-in-hand with entering government contracting. And once you land a deal, you'll need to cross an assortment of hurdles related to accounting and reporting, not to mention potentially being audited. To succeed, you'll need to hone your project management skills and ramp up some effective analytics. This book covers all these topics, and even outlines a number of government programs aimed at helping small businesses get their feet in the door.

This book was written by government contracting professionals currently employed by Deltek, and some information about Deltek-specific products and services is included in this book. The Deltek writers worked with *For Dummies* editors to turn it into a *For Dummies* book.

Icons Used in This Book

To guide you through the book, we employ some icons. Here's what they mean:



Lots of pages in this book, and they've all got pertinent information. But if you're in a hurry, at least be sure to pay attention to these tidbits.



You know from doing taxes that government dealings can be complicated. We're steering clear of a lot of complexities, but if you like that kind of thing, read this.



We want to be helpful as you build your government business, so here's a constructive hint.



The government can be an excellent customer, but don't mess with Uncle Sam. Read this pointer to stay out of trouble.

Chapter 1

An Introduction to Government Contracting

.....

In This Chapter

- ▶ Defining the market
 - ▶ Understanding how the market is broken up
 - ▶ Learning what makes government business unique
 - ▶ Preparing for competition
-

You need to learn your way around in government contracting. Get to know the rules and acquire the right tools, and you'll find the government markets are easily navigable. In this chapter, we explore what government contracting is and dip our toes in the water just a bit, outlining some of the key concepts that make it a unique market.

Show Me the Money

Thirteen digits. That's what it takes to quantify the spending outlined in the federal budget. In 2010, outlays were \$3,456,000,000,000. A lot of those dollars typically go for government compensation, grants to state and local governments, interest, and additional expenses, but what's left is more than \$550 billion flowing out of government agencies for the purposes of buying goods and services from companies. Piles of cash are cut up and parceled out to individual agencies, and that's when the government procurement process really begins.

How the funds are divvied up is one of the most frequent questions posed by vendors new to the contracting landscape. The answer is relatively simple and predictable: a handful of top agencies routinely receive the largest percentages of the monetary pie each year.

The Pieces of the Government

To succeed as a government contractor, you need to know where the big federal bucks go. But it's also critical to understand why and how the money gets there.

The three branches

Think back to school and that lesson about the three branches of government:

- ✔ **The executive branch:** Every year, the competition for contracting begins when the President issues a Federal Budget Request, prepared by the executive branch's Office of Management and Budget (OMB).
- ✔ **The legislative branch:** This is the division of government that makes and modifies laws. What's important in the contracting world is that the legislative branch authorizes the existence of programs and appropriates the funds itemized in the President's budget request.
- ✔ **The judicial branch:** The court system's right to explain and apply laws has an influence over how the legislative and executive branches create regulations.

Other players in the game

Though the three branches of government provide a framework for the structure of government spending, there's more to the story. Here are some of the others in the cast of contracting characters:

- ✓ **Office of Management and Budget (OMB):** As we noted earlier, this is the group that's primarily responsible for outlining the President's Budget each year. As the President's "right-hand man" (or woman) when it comes to budget and management, the OMB also sets and enforces procurement regulations.
- ✓ **General Services Administration (GSA):** The GSA is a self-funded government agency that helps the government obtain goods and services. Clearly, anyone who wants to sell to the government had better know all about the GSA, which is responsible for managing what's known as the *GSA Schedules*, itemized listings of vendors providing commercial goods and services.

The agencies themselves

That brings us to government agencies that receive the money from the treasury. Although the White House and Congress establish the general need or goal that the money should be going to, the agencies are the ones that decide how that need will be fulfilled — or in other words, what goods or services should be contracted to outside vendors. In this way, agencies are the ultimate customers, and the ones contractors need to impress when bidding for a contract.

The most significant federal agencies can be broken down into two categories: civilian and defense. Civilian agencies include the Department of Homeland Security, the Department of Justice, and the Department of Energy. Defense agencies include the Armed Services, the Defense Intelligence Agency, and the National Geospatial-Intelligence Agency and other components of the Office of the Secretary of Defense.

The difference seems simple enough to explain: Defense military departments exist to organize, train, and equip military forces and protect the country, and civilian agencies have other purposes. Though civilian agencies sometimes perform national security functions, they also provide services in revenue collection, social services delivery, law enforcement, diplomacy, health, scientific research, disaster response, and other national needs.

What Makes Government Contracting Different

So government is big, with a complex structure. Well, so are multinationals and other multimillion-dollar companies. What makes doing business with the government as a contractor so different from doing business with independent companies?



Independent companies exist to make money, while government is there to protect and serve people. Instead of being intended for personal gain, goods and services are contracted for such things as building roadways, populating research organizations, and enhancing our country's defense systems — all things that are intended to benefit the general public. For that reason, government business must be handled very carefully, with laws to make sure the process is fair, efficient, and in the best interest of taxpayers.

Unique policies

It takes lots of policies to keep the big ship of government sailing. Because voters keep an eye on government officials, it's imperative to meet a high standard of transparency and business ethics while contracting for goods and services.

- ✓ **Federal Acquisition Regulation (FAR):** This is the principal set of rules, the “code” of federal procurement. The main principles of FAR include meeting the buyer's needs in terms of cost, quality, and timeliness; minimizing administrative operating costs; ensuring integrity, fairness, and openness; and fulfilling other public policy objectives.
- ✓ **Transparency:** No flying under the radar when selling to the government. Contractors must follow a strict set of do's and don'ts in the bidding process, and must conduct their business with a large degree of openness and transparency.

The budget process



At the macro level, the budget process is a sometimes time-consuming tug-of-war between the executive and legislative branches. If Congress doesn't approve the President's budget request, it'll make its own changes. If Congress fails to pass a budget, the result could be no money to spend, and a government shutdown until the impasse is resolved.

Federal buying fundamentals

Unless you operate a small business that has only dealt with other small business contracts so far, the concept of having two separate offices to complete the procurement process should not be new to you. In the government contracting landscape, the two offices serve to both successfully supply and execute the agreement. These two organizations are:

- ✔ **The Program Office (PO):** This is the “customer” to which government contractors are selling. It's the organization that gets the money to spend on contracted goods and services, deciding important contract specifications such as who the stakeholders are (who will be using what's being purchased), what the functional capabilities and needs are (how it works and what is needed for improvement), and what the overall cost encompasses. When the PO has spelled out the requirements and determined the funding, the contract moves on to the Contracting Office.
- ✔ **The Contracting Office (CO):** This office makes the government system unique from private sector contracts. Although the PO is the department that contractors must sell to, the Contracting Office assists in the execution of contracts (and therefore is also responsible for ensuring your payment). Acting as a personal shopper for the PO, the Contracting Office is considered the “buyer” of the acquisition process, making sure that all the laws are followed and that the PO is getting the best value from the contracts it purchases.

Teaming requirements

With government contracts (and subsequently, the requirements for these contracts) getting bigger and bigger, it's sometimes better to tackle a proposal with another contractor organization as your teaming partner. For small businesses especially, teaming means partnering up and combining your company's assets and services with someone else's — meaning that agencies get to see the best of both worlds in a proposal.

Although you only need the consent of the two parties to make a deal in private business, this isn't the case in the government contracting world. In the private sector, the buyer probably wouldn't care about the size of each company or its background, and the deal wouldn't require any third-party oversight of the arrangement, but in government contracting there are requirements regarding which companies your organization is allowed to team with, and in some cases, which companies you're *not* allowed to team with.



Although it can be tricky mucking through who you can and can't team with for each independent contract, there are research and consulting organizations that can assist you with finding teaming partners. Services such as Deltek's live GovWin forum, INPUT Teaming profiles, and FedSources Consulting allow you to network and build relationships with potential teaming partners based on contract requirements.

Disadvantaged businesses

The government sets aside a percentage of its purchases for small and/or underrepresented businesses (sometimes denoted by socioeconomic status), to guarantee that disadvantaged business owners are given fair opportunity to compete for government business. Some of the classifications of businesses that qualify include:

- ✔ Minority Owned Small Business
- ✔ Historically Underutilized Business Zone (HUBzone)
- ✔ Service Disabled Veteran Owned Small Businesses (SDVOSB)
- ✔ Woman Owned Small Business (WOSB)

The Strings Attached

If you think you know all about the nuances of the government market, there are still more strings attached when you're competing for federal contract opportunities. For one thing, there are lots of hoops to jump through in order to get on a GSA Schedule. The thing is, the GSA Schedules are more than directories, because they include lists of all the prices that the federal government has negotiated to pay for a contractor's goods or services. It's like a menu of prenegotiated contracts.

If that doesn't sound like a particularly appealing way of doing business, well, think of a GSA Schedule instead as the *Yellow Pages*. Get on the schedule and you have increased visibility, not just for the prepriced goods and services, but for other things you do that go beyond what's listed there — things that may have larger profit margins.



The application process to be approved for placement in a GSA contract is arduous, to say the least. The government, represented by the Contracting Office, needs to make sure it's getting the best price for your services, which means extensive audits and history checks.

Chapter 2

Finding and Winning Government Business

In This Chapter

- ▶ Planning your market strategy
 - ▶ Marketing your company
 - ▶ Preparing your proposal and winning the business
 - ▶ Making the decision
 - ▶ Learning the lessons
-

Selling to the government is sort of like a performance, with a lot of back-and-forth between the two parties. Like a ballet, it can be beautiful when it's orchestrated well; like an opera, it may seem like it's being conducted in a foreign language. To help you learn the language of contracting success, you need an integrated approach. In this chapter, we start to get down to nuts and bolts of government contracting, outlining the steps vendors should take to successfully capture business.



Because the selling process is so multilayered and complex, contractors can't just rely on providing proposals of *what government agencies want* with no foundation to back them up. To make sure your company is finding, winning, and executing projects optimally, look into solutions or research providers that can support you through the entire business lifecycle.

Your MO with the PO and the CO

The government-buying/vendor-selling process can be extremely complicated. Don't worry, though; there's a simpler way to express what goes on from start to finish.

Pleasing the customer

The process begins with a government vision. When the Program Office decides the federal government or an individual agency needs a service or product to accomplish some type of goal, it issues a statement or request to fulfill that need. As the "customer" that your company must win over (see Chapter 1 for more on that), the PO evaluates all the necessary information to determine what's required in terms of external products or services in order to satisfy the need.

On the contractor's side of the dance, you should at the same time be evaluating what you think the affected government agency wants and how your company can satisfy the need. Keep an eye over your shoulder for the competition, which wants to cut in on this dance.



There's an art to being the best dancer in this ballet — but you can also get some help from a dancing coach. You'll find a range of consulting firms, software applications, market intelligence services, and other products available to help you stay a step ahead by streamlining your processes and outlining in detail various federal opportunities. With this help, you can more successfully identify and bid on the right opportunities.

Dealing with the CO

In government contracting, CO stands for the Contracting Office, which sets the rules of engagement for the procurement. If you have a military background (or even if you ever saw the movie *Patton*), you know that CO also stands for Commanding Officer. In the military, the CO sets the criteria and goals for success, while maintaining the autocratic authority to direct the troops and discipline them if they get out of line.



The CO is the “buyer” (as mentioned in Chapter 1), so it oversees a phase of market research before solicitations to contractors can go out. This market research determines which products and services are available, what providers are available, and how much it will cost. It also spells out the competitiveness of the contracting arena. Here are some of the CO’s research tools:

- ✔ Request for Information (RFI)
- ✔ Sources Sought Notice
- ✔ Market survey
- ✔ Direct contact with vendors, which may be identified in a government solution database from a private firm

The CO may also make use of a variety of buying methods, which are known as contracting vehicles. One of the biggest such vehicles is the GSA Multiple Award Schedule, which lists more than 8,600 suppliers. But there are numerous other methods, the most common including:

- ✔ **Credit card purchases:** Clearly, it doesn’t make sense to require tons of government contract paperwork for relatively minor purchases. Fortunately, government buyers have seen the light, and are allowed to make inexpensive, everyday purchases with a government purchasing card that behaves just like a credit card.
- ✔ **Sole Source:** This occurs if an agency wants to do business with just one company for a particular need. However, these cases are very rare, and the requesting agency *must* have a solid justification or else risk destroying the integrity of government contracting.
- ✔ **Indefinite Delivery/Indefinite Quantity (IDIQ):** ID/IQs are contracts that state limits to supplies and services during a fixed period of time, without setting a specific quantity as an end result.

For example, say a baker hires an apprentice to bake some pie crusts for the day. The baker gives his new apprentice a certain amount of ingredients and gives the apprentice until the end of the day to make the crusts. The baker doesn’t know how many pie crusts the apprentice will be able to make, but he does have a minimum

that he expects should be finished with the supplies and time he has allotted for the apprentice.

Other types of contracts can sometimes also be ID/IQs. Some that may fall under this category are:

- **Multi-Agency Contract (MAC):** Some agencies operate contracts with a set of vendors and make those contracts available to other agencies. Sometimes a CO may decide that there's another agency that has a contract they'd like to use to get the PO's need fulfilled.
- **Multiple Award Indefinite Delivery/Indefinite Quantity (MA ID/IQ):** Sometimes a CO will expect a lot of demand for a certain set of products and services and they can get a better deal if they leverage their buying power. They may establish a contract with a selected group of vendors. Although there may be multiple awardees on these contracts, they are a closed community, and competition for task or delivery orders on these vehicles may only occur among members of that community.
- **Government Wide Acquisition Contract (GWAC):** As a type of MA ID/IQ, what makes GWACs unique is that they may be used by all agencies. Most GWACs are operated by a GSA to help COs across the government fulfill complex needs.

Your Best Foot Forward

Government procurement is a very competitive field, even at the city and county levels. Seasoned veterans in the business have taken lots of steps to promote their goods and services, but don't be discouraged if you're new at this. Truth is, this kind of marketing isn't all that different from advertising to the private sector: It mostly requires *knowing your prospective buyers*.



The idea of presenting your business in the most positive light possible can mean different things to different agencies. And, unfortunately, among government buyers there's often a slightly negative perception of contractors that you must overcome. Here are some of the things a potential government customer might think about you and other vendors, before you even meet:

- ✔ **Vendors haven't done their homework:** No agency wants to have to act like a kindergarten teacher. Research everything your company needs to know *before* meeting with the customer or responding to a request for proposal, so you won't submit a statement that fails to meet the agency's needs.
- ✔ **Vendors are self-serving and will sell what they have, not what the agency needs:** Again, you can discourage this perception by doing the proper research and only submitting proposals for agencies that you feel your services would actually benefit.
- ✔ **Vendor contracts can be risky business:** It shouldn't be surprising that government agencies, like any level-headed business enterprise, don't like taking unnecessary risks when it comes to contracting. As a vendor, you must show why your offering is a solid investment that will meet the needs of the contract and demonstrate you've done it successfully before.



Successfully marketing your company to the government is as simple as focusing on what you're good at, knowing your customer, and building strong relationships within complementary agencies. Build a good reputation among agencies and you should enjoy a positive snowballing effect.



Always ask yourself this question before submitting a proposal: "Why should they award this to me?"

Ready to Propose?

If the CO decides to go the route of an open procurement, the next step is for the CO to announce the requirement and ultimately release a solicitation or Request for Proposal (RFP).



Responding to an RFP can be daunting. Your first proposal to the government will likely be your most expensive. But it is a critical step to securing business. To identify opportunities to compete for government contract opportunities, keep a close eye on the places a procurement notice can appear:

- ✔ **FedBizOpps:** A website that is solely dedicated to reflecting and archiving federal procurement opportunities. Agencies are required to post their opportunities here. The problem

is that when notices appear here, the requirements are already baked and you may be at a disadvantage.

- ✔ **Agency procurement sites:** Some agencies post procurement information on their own websites.
- ✔ **Information solution providers:** Private companies and consultation groups such as Deltek offer comprehensive opportunities databases designed to help you find opportunities before they're publicly announced — to give you the opportunity to position your company with the PO before the CO is involved. These services are usually available by subscription, enabling companies to competitively bid with a wealth of agency research already under their belts.

So, now you know that a contract opportunity is on the way. You've prepared, and now you *finally* have the official request for a good or service. Once again, these requests can be issued in multiple formats:

- ✔ **Request for Proposal (RFP):** Government officials expect you to respond with a proposal (which is a sales and marketing document that sells your product or service in a personal way).
- ✔ **Request for Quote (RFQ)/Invitation for Bid (IFB):** These tend to be shorter than RFPs; what the government really wants to know is the price you're offering. Thus, your response should be a price quote or bid.
- ✔ **Combined Synopsis/Solicitations:** These are stand-ins for RFPs when the requirements are straightforward or the benefits don't outweigh the costs for a full-blown acquisition. But as with RFPs, you should submit a full proposal in response.



The issue of money is always important, so pay close attention to the kind of pricing strategy the agency has outlined in the contract. Here are the most common:

- ✔ **Firm-Fixed Price:** This is where you propose a price for services or commodities, and you're committed to deliver at the price regardless of actual cost. Essentially the risk is on you to deliver.
- ✔ **Cost Plus:** With this method, the government reimburses you for incurred costs and usually there is some additional fee such as an Incentive Fee or Fixed Fee.

- ✔ **Time and Materials:** With this method, the government reimburses you for incurred costs at agreed pricing.

Secrets to Winning

You've submitted a proposal for this contract that you want to vigorously pursue, but what will really make it a successful sale? To beat the competition, you need to thoroughly demonstrate these things:

- ✔ **A proper communication strategy:** Know what your key messages are and know how they will be communicated. Make sure your key messages align with the agency's mission.
- ✔ **A strong management approach:** How are you going to ensure efficient and effective operations, best practices, and success?
- ✔ **Past performance:** Are you able to demonstrate zero performance risk? Display your previous experience in accommodating needs similar to the agency's.
- ✔ **Transition planning:** Prove your success rate in executing a seamless transition, from proposing to actually providing. Supply a detailed schedule and staffing plan, plus a statement showing your understanding and mitigation of risks.
- ✔ **Price:** Finally, and most importantly, make sure you have developed a priced-to-win financial quote. Government agencies want to see that you have demonstrated price realism, which means doing the research and not over- or under-selling yourself. To do this, complete a pricing analysis on your own, including incumbent history, the competitive landscape, customer budget, risk tolerance, and so on.



Keep in mind that winning isn't about being compliant or simply offering the lowest price — it's about proving that you're better than the competition.

Decision Time

If the competition is fierce, how do the PO and the CO choose which proposal wins the contract?

The PO and CO pull together a Source Evaluation Board (SEB). During this time, the PO evaluates the proposals based on their applicability to the requirement while the CO makes sure the proposals comply with the instructions and validates the proposed pricing. If the solicitation was an RFP that stated it was going to be a negotiated procurement, the CO may also announce *competitive negotiations*. This will normally happen when there is a large competition, and is announced in advance to essentially “weed out” those who don’t make the first cut.



If this happens, the proposals that advance to the next level must go through a source selection period, wherein you may have to make *highly scrutinized* written or oral presentations. If your company is asked to provide a Best and Final Offer (BAFO) document or give an oral presentation, be aware that the CO will be particularly on the lookout for perceived deficiencies or weaknesses in your proposals.



Though this can sound a little scary, the best advice is to just be prepared, and make sure there is nothing in your presentation that might hint at an inability to provide the service. Agencies may bring additional questions and clarifications to follow up on aspects of your original proposal that were unclear to them. Just be prepared to answer their inquiries clearly and concisely to show your expertise.

Get the Explanation

If you won the contract award, congratulations! The next step for you is to fulfill the service or provide the product. If you weren’t so lucky, the CO is required to notify your company either orally or through a written statement within a reasonable amount of time. The CO also must debrief all bidders, outlining the number of proposals received, the names of the firms that proposed, and further explanation of how the contract decision was made.



You should always take the debriefing, whether or not you won the contract. It offers a chance to get a leg up on the competition the next time around, and if you didn’t get the contract, it can strengthen your future proposals by identifying where you went astray.

Chapter 3

You've Won! Now Comes the Accounting Challenge

In This Chapter

- ▶ Getting to know accounting if your job is something else
- ▶ Understanding government contracting accounting
- ▶ Charging indirect costs to the right contracts
- ▶ Defining the major contract types
- ▶ Recognizing your revenue

The good news is that you've landed a government contract. The bad news is that you've only just begun jumping through hoops to satisfy your new customer. In this chapter we take a look at some of the accounting principles, practices, and requirements that will become part of your new life in the world of government contracting.

Accounting for Non-Accountants

Whether or not you're in government contracting, accounting boils down to some basic functions:

- ✔ Classifying and recording business transactions
- ✔ Invoicing customers and processing payments received
- ✔ Paying employees and suppliers
- ✔ Reporting the financial results and condition of the firm

And just in case you didn't take an accounting class, we review a few other key accounting terms. An *asset* is something of

value your company owns, such as computers, inventory, and intellectual property. A *liability* is basically the opposite: something that the firm owes to someone else, such as employees (payroll), creditors (loan payments), and suppliers (payments for products or services provided to the firm). *Equity* is the value of claims of the owners of the firm.

Just a few more key terms. *Revenue* is the value of goods and/or services sold to customers, while *expenses* are the costs your firm incurs.

The financial reporting function is one of the most important jobs in accounting. Primary financial reports include:

- ✓ **Balance sheet:** This shows the financial condition of the firm at a particular point in time, listing the assets, liabilities, and equity.
- ✓ **Income statement:** This shows the results of operations for a specific time period by listing revenue (sales), expenses, and the difference between the two (that's the profit or loss).

Government Contracting Accounting Specifics

In government contracting, the primary accounting concern is *cost*. There's a big difference between accounting conducted by a commercial firm and a government contractor in terms of how costs are classified, segregated, and reported.

Okay, so what does this all mean? FAR answers that a direct cost is "any cost that is identified specifically with a particular final cost objective." *Final cost objective* refers to a contract or an element of a contract, such as a specific task or delivery order. In layman's terms, a direct cost is any cost that can be identified as benefiting one, but only one, contract or element of a contract. More specifically, direct costs can include direct labor, materials, and travel expenses.

FAR further explains that an indirect cost is "any cost not directly identified with a single, final cost objective, but identified with two or more final cost objectives." It may make more

sense to think of an indirect cost as any cost not classified as a direct cost related to a specific contract. Indirect costs include overhead, general and administrative (G&A) costs, and materials and subcontracting burdens.

With that determination made, next comes classifying a cost as either allowable or unallowable. An allowable cost in government contracting speak means *billable* — it's allowable if the rules permit it to be included in an invoice to the government. An unallowable cost is just the opposite; it's the kind of cost you can't bill the government for.



Under FAR 31.201-2, a cost is allowable only when it meets all of these requirements:

- ✓ **Terms of the contract:** The contract might specify that a certain cost is unallowable, even though under normal circumstances it would be allowable. By the way, you'll never see a contract that says the opposite; that a normally unallowable expense is allowable this time.
- ✓ **Limitations set forth in FAR 31.201:** FAR spells out a lot of things that are allowable, and things that are not. Find this with a search engine and print it out, because you'll really want to know what's allowable.
- ✓ **Reasonable and allocable:** Everyone's read the horror stories of the government paying thousands of dollars for a toilet seat. For the record, FAR doesn't allow that. A cost is considered reasonable if its cost and nature are what a prudent person dealing with a competitive business would pay. As contractor, the burden of proof is on you in this case.



It all sounds pretty complicated, but when all else fails, just apply the *newspaper test*: If you would not be embarrassed by having the *Washington Post* or *New York Times* report that you billed the government for a particular cost, it's probably allowable.

So, if you've been taking careful notes, you have now put two and two together to find that there's a simple cost matrix for government contractors. Any cost will be classified as direct allowable, direct unallowable, indirect allowable, or indirect unallowable.

How to Handle Indirect Costs

It's easy enough to figure out how to assign a direct allowable cost. If it's a direct cost, it ties into one specific contract, so you charge it to that contract. But what about indirect costs? Here's the basic plan:

- ✔ Indirect costs are collected in various pools, the totals of which are allocated or spread, ultimately, to contracts.
- ✔ Indirect cost pools may be allocated to other indirect cost pools, or directly to contracts.
- ✔ The number and composition of pools isn't dictated by regulation but is left to the contractor.

A major component of managing indirect costs is the indirect cost allocation rate, or the rate at which indirect costs are allocated (charged) to contracts. There are three key concepts:

- ✔ **Final cost objective:** A government contract.
- ✔ **Indirect pool:** A logical grouping of indirect costs with a similar relationship to the cost objective (the numerator).
- ✔ **Base:** Some measure of direct effort that can be used to allocate pool costs based on benefits received by the several cost objectives/contracts (the denominator).

Fringe benefits

A good example of a cost pool is a fringe benefit. Items to include in the numerator of the cost pool are statutory expenses (FICA, FUTA, SUTA, and worker's compensation); paid absence (vacations, sick days, military or jury duty); and other benefits such as 401(k) contributions, bonuses, and health insurance. Notice how similar in nature these items are.

Base options are typically total labor dollars or hours. As total labor dollars or hours increase, the expenses in the cost pool will likely increase as well. Note that fringe doesn't *have* to be a separate pool; instead you might opt to include it in an overhead pool or a *General and Administrative* (G&A) pool.

On the other hand, you may need more than one fringe pool. Separate fringe benefit pools may be necessary if various groups of employees — such as full-time versus part-time workers — receive materially different benefits packages.



Make sure you have an accounting system that enables you to identify and segregate labor by employee type. Otherwise, you'll be spending a lot of time doing workarounds on paper.

Overhead cost pools

Overhead costs are those incurred in support of specific operations. Overhead cost pools are necessary when the indirect costs incurred benefit more than one contract *and* can be distributed to them in a reasonable proportion to benefits received. Options for the overhead bases include:

- ✓ **Direct labor dollars:** This is the norm when labor rates are relatively uniform and when labor costs are significant in relation to total costs.
- ✓ **Direct labor hours:** This is accepted when the employees are interchangeable, as in manufacturing operations.
- ✓ **Machine hours:** This is appropriate when machinery is heavily used.
- ✓ **Material cost:** Material handling costs may be allocated on the physical quantity of direct materials as opposed to the dollar value of the material.
- ✓ **Units of production:** One of the simplest methods. It may not be your best option if products vary in size or require different amounts of material or time to produce.

Overhead pools can be “onsite” or “offsite.” Separate overhead pools are ideal to segregate where the work is performed. This reflects the fact that it may be less costly from an overhead standpoint to support workers at a government facility than at a company workspace.



Your accounting system should be capable of identifying and segregating offsite from onsite labor.

General and Administrative cost pools

General and Administrative (G&A) cost pools collect those costs that are necessary to the overall operation of the business, even though a direct relationship to any particular cost objective can't be shown. It's the cost of operating a business — rent, phone

services, and so on — but nothing that can be directly allocated to the performance of a particular government contract. Options for your G&A base include:

- ✔ Total cost input
- ✔ Value-added cost input, which is total cost input minus direct materials and subcontractors
- ✔ Single element of cost (for example, direct labor)

It is very important to note that sales, cost of goods sold, or cost of sales *can't* be used by government contractors as an allocation base for any pool.

G&A pools are the only pools necessary; deciding the remaining number and composition of pools is left to the convenience of the contractor. If you maintain fewer cost pools, you'll find it easier to monitor rates, administrative costs will be lower, and there will be less impact by a volatile business base. On the other hand, consider more cost pools when you need a higher degree of accuracy, want more visibility into costs, and need more rates to choose when bidding on future government contracts.

Service centers

Service centers are a lot like cost pools, with a big exception. The service center allocation base relates to some measurable element *other than cost*, based on the use of the service. Examples include square feet, head count, number of copies, and time. A big advantage of service centers is that they provide management with data on the cost of providing a particular service. Their costs may be allocated directly to contracts, to indirect cost pools, or to other service centers.



If you operate a mix of government and commercial business, you should be aware of the potential for audits of your cost allow-ability. Many companies segregate their government contracting operations to mitigate such risks. Look for expert guidance on how to ideally structure your organization and indirect pools.

Three Different Contract Types

There are three major contract types, with many variations. This variety provides the flexibility necessary to accommodate

the diversity of goods and services required by the federal government, from copier paper to aircraft carriers.

Firm-fixed price (FFP) contracts

When you purchase a couch it's a firm-fixed price contract. One party pays the other a fixed amount for the agreed-upon goods or services. FFP contracts provide incentive for the contractor to control costs and perform effectively, with little administrative burden. An FFP is most suitable for acquiring commercial products, supplies, or services, so long as there are reasonably definite specifications, and the contracting officer can establish a fair and reasonable price at the outset.



As its name implies, an FFP contract means the price can't be adjusted because of the costs incurred by the contractor. If it ends up costing you more to produce the good or service than you sell it for, those dollars come out of your profits.

Cost-type contracts

There are three main types of cost-reimbursable contracts wherein little risk is carried by the contractor:

- **Cost-Plus-Fixed-Fee (CPFF):** This reimburses actual costs to the extent prescribed and a fixed-fee that doesn't change unless changes in scope are negotiated. This contract type offers no overall incentive to keep costs down, so it is often discouraged.
- **Cost-Plus-Award-Fee (CPAF):** This provides for reimbursement of actual cost, plus a base fee amount fixed at the inception of the contract, plus an award fee amount that the contract may earn in whole or part during contract performance. The fee is sufficient to provide motivation for excellent performance.
- **Cost-Plus-Incentive-Fee (CPIF):** This contract has a fee that is adjusted by formula in accordance with the relationship between the total allowable costs. There is a negotiated target cost, a target fee, a minimum and maximum fee, and the fee adjustment formula. The final fee is determined in accordance with the formula at the end of the contract, and will exceed the target fee only when total allowable costs are less than the target costs.

Time and material contracts

Time and material (T&M) contracts provide for payment for direct labor hours worked at specified and negotiated fixed-hour rates (fully loaded rates that include direct labor, indirect costs, and profit) plus any materials at cost and, if authorized at negotiation, indirect costs applicable to the material costs. Labor hour contracts are essentially the same as T&M, except any materials involved aren't supplied by the contractor.

Revenue Recognition Practices

Revenue is earned as work is performed on a government contract, but billing schedules can vary depending on contract terms. The most common approaches for revenue recognition in government contracting are percentage of completion and cost incurred multiplied by a profit percentage.

Percentage of completion

This is used primarily on fixed-price contracts. The project manager will develop an estimate of costs required to complete the project. This estimate is added to the total actual cost incurred to date, giving estimated total cost at completion (EAC). The total actual cost incurred is divided by the EAC, giving you the percentage of completion. Here's the formula:

Revenue = % of completion x total contract price

Cost incurred times a profit percentage

The profit percentage is a ratio of the total contract fee to estimated total contract costs. This approach, most commonly used with cost-type contracts, requires you to calculate *target rates* and *actual rates*. Also known as *provisional*, *budget*, or *billing*, target rates are established by agreement with the government (forward pricing) before the start of the fiscal year. Actual rates are your year-to-date calculations.

There is often a variance between the costs calculated using target rates and those using actual rates. The variance may impact both your income statement and balance sheet.

How the Contract Is Funded

Because the government prefers to fund contracts in increments, your award will contain both a *contract value* and a *funded value*. The contract value is the total potential worth of the contract. The funded value is the portion of the contract appropriated to date by your customer through various vehicles and modifications. It's the limit available to the contractor until additional money is released.

Modifications issued to a government contract are classified as either *bilateral* (signed by the contractor and contracting officer) or *unilateral* (signed only by the contracting officer). Modifications are used for various purposes, including:

- ✓ Adjusting the value of the contract or the funding
- ✓ Shifting the scope or terms of the contract
- ✓ Altering the contract for administrative reasons
- ✓ Terminating or suspending the contract

Billing the Government

Billing the government can be a complex, multi-step process. Before you can stuff an invoice in an envelope, you need to be sure that you've properly calculated the billable amount and structured the invoice in accordance with your contract.

Carefully read the terms of your contract award for the specific format of the invoice you'll need to prepare. Failure to comply could result in a delay of your payments, and few contractors can afford to jeopardize their cash flows. Many contracts will note specific government forms — you'll see them referred to as *Standard Forms* (abbreviated SF). Some examples are the *DD Form 250*, *SF 1034/1035*, and *SF 1443*.



The *DD Form 250* is the *Material Inspection and Receiving Report*. It applies when your Department of Defense contract includes the *DFARS 252.246-7000, Material Inspection and Receiving Report* clause. It is used by the DOD to acknowledge contract compliance and may also be used by the contractor to submit an invoice.

SF 1034, Public Voucher for Purchases and Services Other Than Personal, is utilized by contractors to invoice under cost-reimbursement or T&M contracts. *SF 1035, Public Voucher for Purchases and Services Other Than Personal - Continuation Sheet*, provides the requisite supporting detail. Often, the *SF 1035* is also used to communicate any other information required by the terms of the contract.

Certain fixed price contracts will allow for progress payments based on costs incurred by the contractor. Progress payment requests may be made on the *SF 1443, Contractor's Request for Progress Payments*. Generally, you will be instructed *not* to use the *SF 1443* for your final payment request.

Note that cost-type contracts are billed to the government at target, or provisional, rates throughout the life of the contract. Provisional rates must be retroactively adjusted to represent the costs actually incurred during the period. If the final rate is greater than the provisional, the contractor may be able to recover additional government funds. A lower final rate, though, means that the contractor owes the variance back to the government.



It is critical that your accounting system be able to store these multiple rates and compute the billable amount for each contract in a timely manner. It must be able to evaluate the allowability of costs, whether they exceed any ceilings associated with the contract, what labor category is connected with each employee, and a variety of other factors. Without such automation, you risk getting bills out the door late and, even worse, with a high probability of error.

Chapter 4

Compliance: The Joy of Being Audited!

In This Chapter

- ▶ Understanding the need for compliance policies
 - ▶ Reintroducing FAR and introducing CAS
 - ▶ Submitting a disclosure statement
 - ▶ Creating solid timekeeping policies
 - ▶ Making sure compensation and benefits are allowable
 - ▶ Understanding contract procurement policies
 - ▶ Getting to know your government audit agencies
 - ▶ Steering clear of non-compliance penalties
-

Even if you're new to government contracting, you've probably known for years that governments are all about rules. And you should also know by now that your life is a lot easier when you comply with the rules.

Just like when you do your taxes, the federal government is allowed to come in and audit your organization at any time. This chapter outlines why auditing isn't such a bad thing, and how to ensure that you're in compliance.

What's the Use of Compliance?

Sure, rules and regulations can be a hassle. Few of us really look forward to April 15. But it's best not to gripe; better to embrace compliance and write compliance policies, for several key reasons.



Compliance policies show your corporate commitment to following the federal government's rules. They demonstrate consistency in how you and your staff behave. They also lower your risk of exposure. And if you have solid policies that your organization really follows, it'll reduce non-compliance in your government procurement program, which is the whole point. You'll need policies on timekeeping, travel, delegation of authority, accounting, estimating, billing, and labor. You should even have a "policy on policy," which is an outline of what a policy should look like.

FAR and CAS: Your Best Friends

Two federal sets of government rules apply specifically to government contractors: FAR and CAS. FAR is short for *Federal Acquisition Regulation*, which is essentially the bible of government procurement. It's the primary set of rules agencies use when purchasing goods and services. The guide to FAR can be found at most public libraries, federal agency resource centers, and online at www.acquisition.gov/far.

CAS stands for *Cost Accounting Standards*. Established in 1968, CAS was created to drive consistency within and between contractors' cost accounting practices. There are three major areas these standards cover (look it up for yourself in 48 CFR 9903.302-1, if you want):

- ✔ **Measurement of cost:** This involves the methods and techniques used in defining the components of cost, determining the basis of cost measurement, and establishing criteria for the use of alternative cost-measurement techniques. Here are some examples of cost measurement:
 - The use of historical cost, market value, or present value
 - The use of standard or actual cost
 - The designation of items of cost which must be included or excluded from tangible assets or pension cost
- ✔ **Assignment of cost to the cost accounting period:** This has to do with determining the amount of cost that will be assigned to individual cost accounting periods. Examples are the requirements for use of accrual-basis or cash-basis accounting.

✓ **Allocation of cost to the cost objectives:** This refers to the method of determining direct and indirect allocation of cost. Here are some examples of allocation issues:

- The accumulation of costs
- The determination of whether to charge costs as direct or indirect
- The determination of the composition of cost pools and their allocation bases

So, FAR and CAS are basically the rulebooks used by the federal government's auditors or the Defense Contract Audit Agency. The latter group, known as the DCAA, is responsible for auditing Department of Defense contracts, but other agencies also ask it for auditing assistance. Audits assure the government that your organization is following the rules. For more information on EVMS audits by DCMA, please reference *Earned Value Management For Dummies*, Deltek Special Edition.



Want to know what they're looking for when they audit? It's all spelled out in FAR. Check out the following list for common items and where to find the details:

- ✓ **Allowable costs:** FAR 31.201-2
- ✓ **Unallowable costs:** FAR 31.201-6, CAS 405
- ✓ **Direct costs:** FAR 313.202
- ✓ **Indirect costs:** FAR 31.203
- ✓ **Cost pools, pooling of indirect costs:** FAR Part 31

CAS Disclosure Statements

A *disclosure statement* describes a contractor's accounting practices and procedures. Fully CAS-covered contractors usually must complete one prior to landing a CAS-covered contract of \$50 million or more. Also, corporate offices or other intermediate home offices that allocate costs to one or more disclosing segments must complete Part VIII of the disclosure statement. File it with your contract auditor and your administrative contracting officer, whom you may fondly refer to as your ACO. The ACO administers day-to-day activities after you're awarded a contract.

Once a disclosure is submitted, the ACO will ask auditors to make sure it discloses everything it's supposed to under the CAS Board's rules, regulations, and standards. Simply put, the process is intended to collect a full description of a government contractor's accounting system, uncover any deficiencies, and give contractors such as you a chance to address those deficiencies, clarify wording, or expand on a description or accounting practice.

There are eight sections to a CAS disclosure statement:

- ✔ General information
- ✔ Direct costs
- ✔ Direct versus indirect costs
- ✔ Indirect costs
- ✔ Depreciation and use allowances
- ✔ Other costs and credits
- ✔ Deferred compensation and insurance
- ✔ Home office expenses

Keep an Eye on the Clock

It's critical for every government contractor to track labor every day; because auditors want to be sure the government is paying for its project and nothing else. You can keep track manually or electronically, but if you're doing it manually, do it in blue or black ink. Track by project number or a contract name/number, and be sure that both employees and their supervisors sign off. If there's an error, draw a line through it and initial the change.



To help prevent audit headaches, it's best for your accounting system to be fully integrated with your timekeeping system.

If you have an electronic timekeeping system, there are numerous considerations to keep in mind:

- ✔ Employees should be able to enter their own time into the system, and supervisors should use the same system to review and approve staff time.
- ✔ Payroll and timekeeping need to be segregated.

- ✓ Procedures must be evident and clear-cut.
- ✓ Controls must be verified and violations must be documented and remedied.
- ✓ Policies and procedures must be periodically reviewed with employees and managers.
- ✓ The system should allow direct entry of charging information, such as project or contract number.
- ✓ Time should be entered on a daily basis.

It's important to enter *all* hours, whether they're paid or not. And it should be done by the employees themselves; supervisors may only complete an employee timesheet if the employee is absent for an extended period of time.



Every employee needs to know that accurate and up-to-date time entry is a critical part of his or her job, and that entering the wrong hours or improperly preparing timekeeping reports will be penalized. The government may do a *floor-check audit* at any time — that's when auditors ensure that employees are spending their time where their timesheets say they are supposed to be. So be proactive and perform your own floor-check audits from time to time to show to DCAA auditors that you're serious about the rules!

What about Pay?

When dealing with employee compensation, some costs are allowable and others aren't. Allowable cost for salaries include:

- ✓ Compensation reported on W-2 forms
- ✓ Payments in accordance with a written plan, offer letter, or employee contract
- ✓ All reasonable remuneration paid or proffered for services rendered
- ✓ Commitments made before services rendered



Auditors tend to pay special attention to executive compensation (don't we all?). For executive compensation to be considered allowable, it must be reasonable compared to other firms and it must be related to services performed, rather than a

distribution of profits. Is a “golden parachute” considered allowable? Only if it’s not above normal severance pay limits.

A lot of people benefit from variable compensation — better known as bonuses. This is considered allowable as long as there’s a written plan in effect before services are rendered, that the plan is followed consistently, and that it’s incentive-based, not based on profits.

Procurement and Subcontracts

What if you need to acquire property or equipment in the course of doing government work? There are a number of principles to keep in mind.

First of all, any lease or buy authority rests with the government. If these kinds of purchases are made with government money, the title resides with the government, not your organization. And lease or rental costs are allowable as long as they’re reasonable, but interest costs aren’t.

In other cases, you’ll be working with government-furnished property or equipment. As a government official famously noted a while back, you break it, you buy it — you’re responsible for any loss or damage to that equipment. You’re also responsible for tracking the equipment and conforming to FAR Part 45 requirements.



As for dealing with subcontractors, there are lots of rules here, and you’ll find them listed in FAR 19.502-2, if you’re looking for a good read tonight. Read up on these rulings for what subcontract price limits you will and won’t need ACO approval for.

Meet Your Auditor

The DCAA is just one of the potential auditors you might face. You could hear from an inspector general (or IG), whose job is examining the actions of a government agency as a general auditor. The IG ensures that the agency is operating in compliance with generally established government policies, audits the effectiveness of security procedures, and is on the

lookout for misconduct, waste, fraud, theft, or certain types of criminal activity. There also are audit agencies within the U.S. Department of Housing and Urban Development (HUD), the U.S. Environmental Protection Agency (EPA), and the National Aeronautics and Space Administration (NASA).

The auditor is checking the propriety or legality of transactions (including those involving your firm). The auditor wants to be sure transactions are recorded accurately, and that everyone is complying with established policies.



Want to be as audit-safe as possible? Everyone in your organization has a role. Employees are responsible for timesheet accuracy and consistently following established policies. Management must ensure that policies are consistently applied and that auditors get the help they need.



When the auditors arrive, demonstrate a spirit of cooperation and show that you have a genuine desire to assist in the audit process. If possible, assign an *audit liaison* who will be the primary face of your organization with the audit staff.

Don't Be Non-Compliant

Civil and criminal penalties await your organization if you're found to be out of compliance. *Civil penalties* are determined per violation per invoice. The government can recoup \$5,500 to \$11,000 and the contractor may pay the government up to three times the damage. Ouch!



If that's not bad enough, *criminal penalties* are much more serious. We're talking up to five years imprisonment for whoever signed the Certificate of Cost and Pricing data.

It almost goes without saying that you also run the risk of having your payments suspended or the contract terminated. The latter can happen if termination is deemed to be in the best interests of the public (that's called *convenience*), or if your company is found to be in *default* on the contract, meaning you've failed to deliver.

A rundown of types of audits

- ✓ **Incurred cost:** A review of accounting practices and systems, ensuring that costs charged are allowable, allocable, and reasonable
- ✓ **Pre-award audit:** A review of procedures for generating a price
- ✓ **Defective pricing:** Ensures that cost and pricing data are current, accurate, and complete
- ✓ **Forward pricing plan audit:** A check of contract pricing rates to determine a fair and reasonable basis for negotiating a cost proposal
- ✓ **Compensation and benefits:** An audit of the contractor's compensation system and related internal controls
- ✓ **Contract purchase systems review (CPSR):** A review to understand the contractor's purchasing system and related internal controls
- ✓ **Labor charging/floor checks:** A check for mischarges, fraud, and cost shifting, and a general check for accounting policy compliance

Then there's *debarment*, which essentially means you're banned from the government contracting world. Debarment can be either *statutory* (for willful violations of certain statutes) or *administrative* (for violations of criteria provided in agency regulations).



It's a best practice to use accounting systems that help keep you complaint by providing you with accurate data, process flows, and canned reports that help you respond to audits quickly and effectively.

Chapter 5

Understanding Project Management

.....

In This Chapter

- ▶ Defining the scope
 - ▶ Creating a schedule
 - ▶ Planning the cost
 - ▶ Exploring Integrated Program Management
-

A project is a task or group of tasks with a specific beginning and end, and with a defined product delivered or objective demonstrated at its conclusion. Software development programs or videogames are good examples of projects. Also, a project has a specific scope, an assigned budget, and a schedule. Failure to achieve the scope, spending more than the allocated budget, or completing the project late each represent some degree of failure in project execution. If you hope to deliver a successful project, your organization must manage each component carefully.

So who does this management? The project manager, of course. This professional is responsible for three factors: the *scope* (which is the product or service to be delivered), the *cost* (generally the materials and the labor), and the *start-to-finish schedule* (you know what that means). In this chapter, we delve further into these three areas, and find out a bit about integrated project management. Learn more about project management from the Project Management Institute website at www.pmi.org.

The Scope of the Project

The *scope* of a project simply defines what is to be developed or delivered. The scope associated with designing a new vehicle, for example, would include specifying size, weight, fuel efficiency, speed, load capacity, durability, emissions, and noise. The scope is defined in a statement of work (SOW) document and becomes the basis for the cost and the schedule. Make sure the entire team (including your customer) agrees to the scope right from the start.



Project managers should avoid performing work not specified in the contract. This condition is commonly known as *scope creep*. Scope creep occurs when requirements aren't clearly defined. You'll want to steer clear of scope creep not because it's creepy, but because it's work that you won't get paid for, and that will cause pain in the bottom line.

Carefully defined scope and clear success criteria are among the most important aspects of project management, and thus are a key focus of all good project managers. Do this right and you'll not only keep the scope in line, but you'll also manage the customer's expectations and ensure that the project is seen as successful.

A *work breakdown structure* (WBS) is a product-oriented hierarchy that breaks your project into manageable chunks of work. Because the WBS is the foundational reporting structure for your project, it should include elements that cover the entire scope of the project. The WBS is generally depicted in a tree structure to visually break the project into manageable pieces.



Depending on the industry in which you work, there may be standards for how a WBS should be constructed. For example, the Department of Defense's MIL-HDBK-881 defines a product-based framework for consistent WBS elements. For contractors working on space programs, a common WBS standard is found within NPR7120.5D Appendix G. Simply search for these terms in your favorite search engine to find the latest releases.

Creating a Schedule

The *project schedule* must contain all the time-phased activities needed to deliver the entire project scope. Although the schedule is tied to the lowest level of the WBS, it is so much more than just a list of project activities.

The schedule should include logical relationships among the activities. Once all the activities, durations, and relationships are tied together, you have what is called an Integrated Master Schedule (IMS). The IMS maps directly to the WBS, allowing the project team a single point of reference for all activities.

A good way to start creating a schedule is to break down each element from the scope into discrete activities. Then you can compile all these activities into your scheduling software to create a project schedule. You'll need to establish a snapshot or baseline so that progress can be measured against it. It will be the basis for understanding how the project is performing, and the schedule baseline will be the basis of the cost baseline.



A good scheduling tool can help you manage the project plan and track multiple types of logical relationships and resources.

Projects require resources (people, materials, equipment, and sometimes subcontractors) to complete the work. How well you manage these resources is a critical factor in success or failure of the project.

Project management best practices connect resources directly with the schedule. This process is called *resource loading the schedule*. The schedule provides the time element of when resources are needed, and the type of resource will ultimately define the cost. To effectively manage a project, the project manager must balance when the resource is added to the project and when the resource is pulled off the job.



Not having key resources, material, people, or equipment in the right place at the right time can stop a project cold. Poor resource management is one of the largest contributors to schedule delays and cost overruns.

After a project begins, you will need to collect status information on a regular basis — typically weekly or monthly — from people involved in the project. Status information has two key components:

- ✓ Percentage of schedule activities complete
- ✓ Work and cost remaining to complete each activity, called the *estimate to complete* (ETC)



Every project has changes, and most every project will fall behind schedule at times. How you manage the changes and issues will determine whether you complete on time.

Planning the Cost

Keeping costs in line is a top priority, whether it's an internal initiative or a project for a customer. The project team will need to develop a budget that is used to help manage and execute the project. A budget is simply the time-phased amount of money allocated to complete a project, deliverable, or activity.



Use the resource-loaded schedule to create your total project budget in your cost management system. The resourced schedule can be imported into the cost management system to establish a cost baseline in hours and currency. Your cost and schedule baseline will be in lock-step.

Actual costs are just what the name implies: the costs relating to people, subcontractors, equipment, or material charged to the project. Actual costs in comparison to the baseline will provide spend variances that will help you manage your project.

The ETC is a key piece of status information. This is simply the work remaining to complete an activity, expressed typically in hours or currency. Add actual costs to an ETC and you'll end up with an *estimate at completion* (EAC). The EAC is the total cost of the project at completion. If you compare the EAC to the total budget, you can see what you thought the project was going to cost versus the reality you are experiencing at this point in the project.

ETCs or work remaining can be updated in the schedule or in the cost management system. The frequency of update depends on the project status cadence.

Exploring Integrated Program Management (IPM)

Integrated Program Management, or IPM, is a set of processes, people, and tools that drive structure and discipline into the project or program. The purpose of IPM is to plan, analyze, and monitor projects or programs through an integrated system. IPM will help your company be more profitable, provide predictability, and help you reduce surprises.

The Project Management Institute's *A Guide to the Project Management Body of Knowledge (PMBOK Guide)* is a wonderful tool to begin to look at your company's project management skills. In addition, the maturity ladder in Figure 5-1 will help you understand where your company is in advancing project management disciplines.

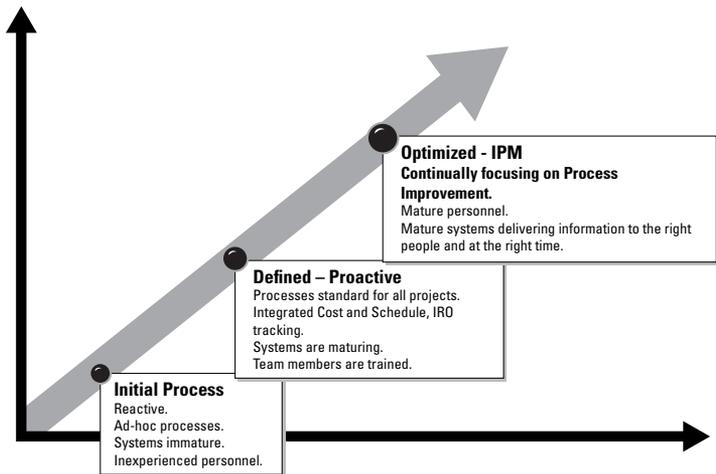


Figure 5-1: The maturity ladder.



You may wonder “Who needs IPM?” Really, any company that depends on project execution for profit or shareholder wealth should be working toward IPM maturity. Don’t wait until you have a problem or a project failure to become interested in IPM.

Picking the right project management tools for your business can help you move up the maturity ladder so that your company is making the most out of every project they bid and win.

You may have heard of Earned Value Management (EVM). We suggest you read *Earned Value Management For Dummies*, Deltek Special Edition to get more information. IPM and EVM are not one and the same. EVM is a component of IPM.

Chapter 6

Reporting for the Government Contractor

In This Chapter

- ▶ Learning the basics
 - ▶ Keeping it simple and timely
 - ▶ Knowing the needs of your users
 - ▶ Generating must-have reports
 - ▶ Designing and distributing winning reports
 - ▶ Setting power users free
-

Your company may run short on cash, labor, or work to do. Odds are, though, that you're up to your ears in data. Nearly every modern organization, small or large, suffers from an overload of data. Results, plans, debits, and credits may be scattered across multiple servers, desktops, and laptops, often in various physical locations. In this chapter, we discuss what that data is, where it may be, what you need to do with it, and how to keep it from controlling your work life.

The Basics of Reporting

If you're a government contractor, there are a number of places where your avalanche of data can be lurking:

- ✔ Commercial off-the-shelf applications, such as your accounting software
- ✔ Homegrown tools and systems your IT staff developed
- ✔ Databases like SQL Server, Oracle, or Microsoft Access

- ✔ Spreadsheets (darn near everyone uses them for planning)
- ✔ Daily timesheets, common among contractors

It's great having mounds of data, but how do you turn it into actionable information? How do you get that information into the hands of decision-makers in a timely manner and in a form that is meaningful?

This is why a formal reporting, or *business intelligence (BI)*, application is so vital. Simply stated, business intelligence is about using technology to make sense of all your data. A good application is a one-stop shop for assessing results by project, department, account, customer, vendor, and the like.

All BI systems have some components in common:

- ✔ **Data:** Each of your functional areas probably has its own applications, databases, and spreadsheets. Government contractors maintain systems for accounting, time and expense, human resources, customer relationship management, budgeting, and (possibly) manufacturing.
- ✔ **Metadata:** Think of metadata as the way that your BI system makes sense of the data. As with a library card catalog, your data will be categorized by all the attributes that are important to your business. Metadata is the unsung hero of a good BI application, but it takes time (often months) and expertise to build it yourself.
- ✔ **Report-authoring interface:** You'll need access to a straightforward graphical user interface for your report writers. Your authors will choose elements from the metadata (for example, revenue by project) and structure the report in a manner that's easily understood.
- ✔ **Consumer interface:** This is the "face" of the application for most of your organization, and it can make or break you. It's critical that your users are able to easily get the information they need and that reports run quickly.
- ✔ **Administrator interface:** The administrator needs a way to secure data, control the environment, and monitor use.



When selecting a BI system to help your business, how do you decide which application is right for you? You need to evaluate each potential solution's power and ease of use. For example, how much effort will it take to build, deploy, and maintain the application? A homegrown reporting tool may give you exactly what you need, but someone has to spend time building and maintaining it, maybe a lot of time. On the other hand, an off-the-shelf tool may have many bells and whistles, but what is involved in building your metadata and customizing the system for your business?



Because many government contractors don't have IT staff with the time or expertise for a homegrown project, a packaged offering is probably the best bet to get you up-and-running quickly and affordably. Think about what government contracting reports are included with the solutions you're evaluating and whether they'd offer value. And explore how easy it'll be to create new reports to meet your unique needs.

Keep It Simple

When writing and deploying reports, consider what your consumers *really* care about: their expertise is in executing projects, managing a division, or administering your human resources unit. They have no interest in making sense of complicated reports, and you'll often find that a report stripped down to its basics is far more useful.



What elements can your users control? Giving a project manager a detailed listing of labor charges by employee could be extremely valuable (see Figure 6-1). He could use such a report to monitor costs and make better staffing decisions. On the other hand, the project manager would have a lot less use for a detailed breakout of indirect cost calculations for that same project, because indirect costs are largely out of his control.

Likewise, does a high-level executive really want to see a breakout of every transaction charged to every project? Maybe, but she's probably much more interested in summary-level reports that show trending and warn of potential danger.

Labor Detail							For Fiscal Year 2011 Period 4
Company: 10 Applied Technologies Inc							
Account	Account Name	Employee ID	Employee Name	Labor Code	Labor Description	PD Actual Hours	
10100.10.03 - SCHEMATIC - FRAMING							
50-100-10	DIR: Corp Site Dir Lbr	1054	Simmons, Nancy	JRENGR	Junior Engineer	84.00	
50-100-10	DIR: Corp Site Dir Lbr	1065	Parker, Donald K	ENVPM	Environmental Project Mgr	50.40	
50-100-10	DIR: Corp Site Dir Lbr	1084	Merritt, Edward	HEFM	Heavy Equipment Field Mechanic	50.40	
50-100-10	DIR: Corp Site Dir Lbr	1089	Carr, Robert	HEFM	Heavy Equipment Field Mechanic	58.80	
50-100-20	DIR: Client Site Dir Lbr	1046	Applegate, Richard S	PROJMG	Project Manager	8.40	
50-100-20	DIR: Client Site Dir Lbr	1060	Fox, Georgia	ENVPM	Environmental Project Mgr	67.20	
50-100-20	DIR: Client Site Dir Lbr	1069	Scott, Anthony	CONINS	Construction Inspector	58.80	
Total for 10100.10.03 - SCHEMATIC - FRAMING						378.00	
Total for Report						378.00	

Figure 6-1: Labor detail.

Keep It Timely

In the world of government contracting, you can't postpone decisions for weeks, waiting for books to be closed and reports to be deployed. Let users execute reports directly against the source data to give them access to the most current information. Cut out the lag time that results when you pre-run reports and distribute them as PDFs or spreadsheets.

Also, use data that is as fresh as possible. Because labor is the biggest cost driver for most government contractors, it's best to source reports from live timesheets so users can have a daily update of the way labor is impacting their projects.



The danger in using near-real-time data is that it hasn't been subjected to the rigors of your accounting system and could ultimately change. A timesheet or voucher may be recoded, and an income statement run mid-month could be misleading. So be sure your users understand what they're viewing.

Communicate with Your Users

Here are some steps that have proven beneficial to other government contractors while designing, creating, and deploying reports throughout the organization:

- ✔ **Really understand the user's requirements:** There's a difference between simply asking a user to send over specs for a new report versus understanding *why* the report is important and what elements will be most valuable.
- ✔ **Share draft copies of your report:** No one wants to go through the entire process of creating a report only to learn that it's not what the user really needs. Bounce it off users throughout your development efforts.
- ✔ **Monitor report usage:** Many applications have audit functions to identify the reports used most frequently (or not at all). Maybe some reports can be removed, and a minor redesign to others could really boost their impact.

Reports That Government Contractors Can't Live Without

Several reports are nearly universal across government contractors and it's likely you'll deploy them in some manner.

Operational reports

The *project status report (PSR)* is the report government contractors will reference above all others (see Figure 6-2). Also known as a *job status report*, a PSR is a project-level income statement and may be run at various levels of the work breakdown structure. Up in the header you'll find general information about the project, such as project name and number, customer, contract and funded value, project type, project manager, and organization. The PSR's body details the revenue recognized by the project, labor and nonlabor costs directly charged to the project, indirect costs allocated to the project, and profitability.

Project Status Report					
Company: 10 Applied Technologies Inc By Project			For Fiscal Year 2011 Period 4 Subperiod 1		
Project: 10100.10 ENGINEERING DESIGN					
Project ID	10100.10	Active (Y/N)	Active	Project Value Fee	177,741.65
Project Name	ENGINEERING DESIGN	Project Classification	DIRECT PROJECT	Project Value Cost	8,342,313.35
Organization ID	10.10.2.1 - Gov- Engineering	Project Type Desc	ENGINEERING	Project Value Total Amount	8,520,055.00
Customer ID	100011 - Clean Environment, Inc.	Period of Performance:	01/01/06 - 12/31/12	Fee Funded	322,590.61
Prime Contract ID	W56HZV-05-C-0729	Project Manager Name	Applegate, Richard S	Cost Funded	7,197,464.39
Subcontractor ID		Rate Type:	Target	Total Funded	7,520,055.00
P/O Number		Project Budget Rvsn ID	INITIAL	Amount Billed	6,594,189.05
				Balance Due Amount	138,638.30
				Retainage Amount	0.00
Account Name	Current Period Actual	Current Period Budget	Current Period Variance	Contract To Date Actual	Contract To Date Budget
Revenue	141,580.37	113,296.86	(28,283.51)	6,714,927.51	3,760,098.49
Award Fee	0.00	0.00	0.00	0.00	0.00
Total Revenue	141,580.37	113,296.86	(28,283.51)	6,714,927.51	3,760,098.49
Direct Labor	52,392.37	40,760.00	(11,632.37)	1,624,007.36	1,512,390.00
Subs and Consultants	0.00	0.00	0.00	0.00	90,900.00
Unallowable Direct Cost	0.00	0.00	0.00	0.00	0.00
Total Labor Cost	52,392.37	40,760.00	(11,632.37)	1,624,007.36	1,603,290.00

Figure 6-2: A project status report.

Most government contractors also use a *backlog* report (see Figure 6-3). This details the remaining contracts or funding in hand, outlined in two primary ways. *Funded* backlog is a measure of the value of contracts that have funding obligated by customers, less the revenue the contractor has recognized. *Contract* backlog is the total potential value of contracts (regardless of whether funding has been approved), less any revenue the contractor has recognized.

Project Revenue Summary with Backlog							
Company: 10 Applied Technologies Inc By Project			For Fiscal Year 2011 Period 4 Subperiod 1				
Project Number	Project Name	CTD Cost	CTD Revenue	CTD Profit	Total Contract Funding	% Complete Funding	CTD Funding Backlog
Projects							
10100.10	ENGINEERING DESIGN	5,778,103.75	6,714,927.51	936,823.76	7,520,055.00	89.29%	805,127.49
10100.20	CONSTRUCTION	2,666,602.44	2,889,573.44	222,971.00	3,875,000.00	74.57%	985,426.56
10100.30	INSPECTION	978,055.10	1,143,998.90	165,943.80	1,375,000.00	83.20%	231,001.10
10110.01	FACILITY MAINTENANCE	9,568,552.74	9,350,487.83	(218,064.91)	11,000,000.00	85.00%	1,649,512.17
10110.02	IT SERVICES	2,145,478.78	2,737,871.92	592,393.14	3,400,000.00	80.53%	662,128.08
10110.09	SECURITY TRAINING	1,448,361.89	1,847,818.91	399,455.02	2,050,000.00	90.14%	202,183.09
10120.01	DULLES AIRPORT EXPANSION	13,728,359.62	15,289,611.97	1,571,252.35	16,150,000.00	94.73%	850,388.03
10120.02	LA CONVENTION CTR REMODEL	2,940,193.45	9,278,581.14	6,338,387.69	9,850,000.00	94.20%	571,418.66
10120.03	AK PIPELINE REPAIR	5,723,296.78	6,270,521.60	2,547,225.82	10,000,000.00	82.71%	1,728,478.40

Figure 6-3: Backlog report.

For many government contractors, *labor utilization* is the metric that best indicates the operating efficiency of the company. A labor utilization report lists your employees, often broken out by organization, and indicates the percentage of their time that has been charged to direct projects. It can be broken down in one of two ways:

$$\text{Labor Utilization \%} = \frac{\text{(Hours Charged to Direct Projects)}}{\text{(Total Hours Charged)}}$$
$$\text{Labor Utilization \%} = \frac{\text{(Dollars Charged to Direct Projects)}}{\text{(Total Dollars Charged)}}$$

Direct Projects may include components such as bid and proposal work, or it may be limited only to billable projects. The denominator may be inclusive of all hours/dollars, or may be stripped of hours devoted to PTO, holidays, and so forth. This is often referred to as *available utilization*, because hours for vacation and holidays aren't available for billable work.

Billing the government

Few "reports" are more important than the invoices you submit to the government. Carefully read your contract terms for the specific format of the invoice you'll need to prepare.



Good accounting and BI systems can help reduce or eliminate the manual effort involved in completing invoices. By creating a report that mimics the invoice format and which is connected to your financial and project data, you can more easily generate bills, minimize data errors, and hopefully get paid faster.

The Incurred Cost Submission

Contractors awarded cost-reimbursable contracts (and certain T&M contracts) are subject to FAR 52.216-7, the Allowable Cost and Payment Clause. It requires the submission of a final incurred cost proposal within six months after the end of their fiscal year. The Incurred Cost Submission (or ICS) contains your actual costs for the year as follows:

- ✓ Direct costs, such as labor, subcontractors, travel, material, and other direct costs (ODCs)
- ✓ Indirect costs (fringe, G&A, and so on) by pool and the base to which the pool was allocated

The ICS is incredibly detailed and requires you to identify your direct and indirect costs by contract and contract type. The official proposal includes 18 mandatory forms, several

optional forms, and numerous other documents that are necessary for the completion of a successful ICS audit. Check the DCAA website, www.dcaa.mil, for a model submission.



An ICS is an unbelievably laborious effort, so be sure to leverage, to the extent possible, the power of your accounting and BI systems to streamline ICS processing.

Great Reports, Happy Users

You're going to have two kinds of users: early adopters who'll jump at the chance to try your sleek new online BI application because it is so helpful to the critical project reporting process, and those who would rather have a binder of printed reports dropped on their desk once a month, same as always. How can you keep both groups happy?

Give advanced users the ability to run reports live, interact with prompts, and drill down into transactional detail. Build them a series of *portal* pages allowing access to multiple reports or other content relevant to their roles. For example, a project manager will want to see details on his or her projects, including access to project status reports, labor utilization figures, and billing detail.

For those less enthused members of your audience, set your system to run the reports on a periodic basis and deliver them via e-mail. An element of scheduling known as *bursting* will allow you to run the report once and distribute the results in a secure manner so that, for instance, each divisional manager only gets data for his or her division.

Also serve the less interactive crowd with *alerts* or *notifications*. An alert is based on a condition — for example, “Tell me when I have contracts that have reached 70 percent of funded value.” Meet that condition and a project manager gets an e-mail alert. This is a great way to reach those who want to be bothered only when things need their immediate attention.



Try to use the same reports for everyone as much as possible. In a perfect world, it's the delivery method that changes, not the report or the underlying data.

Chapter 7

Analytics for the Government Contractor

In This Chapter

- ▶ Understanding analytics
 - ▶ Comparing budgets and forecasts
 - ▶ Telling a story with trends
 - ▶ Charting the metrics
 - ▶ Designing your dashboards
 - ▶ Making it pretty with visuals
-

There's knowledge, and then there's wisdom. Two different things, but the former can lead to the latter. Think of your company's data as knowledge. You've got lots of it, but do you have the wisdom that comes from understanding that data? That's what analytics is all about. In this chapter, we discuss the wisdom you and your organization can gain through analytics.

What Is Analytics?

Analytics is best defined as the use of data and analysis to identify trends and make business decisions. Although analytics may be easily confused with reporting, there are notable differences, which you can see in Table 7-1.

Table 7-1 **The Differences between Analytics and Reporting**

<i>Analytics</i>	<i>Reporting</i>
Summary level	Detail- or transaction-based
Provides a platform for decisions	Provides data
Presented as key performance indicators/metrics	Data is raw from source data system(s)
Compares actual results to targets	No inherent comparisons or variances
Based on trends	Often just includes data for a single period
Includes both historical and forward-looking information	Typically historically focused
Incorporates charts, graphs, and visualizations	Frequently just tables of numbers

An analytics platform is deployed as a series of *dashboards*, each one typically tied to a specific key performance indicator (KPI) or metric. Because different members of the organization may be interested in different KPIs, your executives may follow a different set of dashboards than your project managers.



Key performance indicators are the measures that drive your business. Although each business is different, there are several KPIs that apply nearly universally to government contractors:

- ✓ Revenue
- ✓ Profit
- ✓ Backlog
- ✓ Labor utilization
- ✓ Indirect rates
- ✓ Proposal win rate
- ✓ Days sales outstanding

Budgets, Forecasts, and Trends

If you were told that a division's labor utilization for the first six months of a year was 75 percent, what kind of assumptions would you make and what actions would you recommend? Well, it's difficult to make sense of that statistic without any perspective or comparisons. Now imagine you were also told that utilization for the prior year for that division was 78 percent, and that the budget for this year is 82 percent. That would give you a better sense of where the division stands, and you'd probably be concerned. Stir in a little more analysis, and you could start to suggest corrective courses of action.

Evaluating performance against the baseline budget is often the best way to gauge whether the organization is meeting expectations. In Figure 7-1, it's easy to see that the organization's revenue for March and April 2011 fell below budget, while results for the preceding several months were very positive.

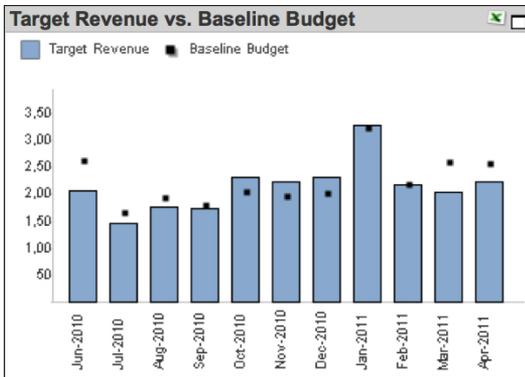


Figure 7-1: Target revenue versus baseline budget.

Forecasts typically represent the “best guess” today of how the organization will perform in the future. Combined with actual results, forecasts can provide valuable trend visualizations. In Figure 7-2, the columns on the left represent the funded backlog for the prior eight months. Things have been relatively flat, and that information alone is fairly benign. Add in the forecasted results to the right, however, and there's reason to worry. Based on this chart, backlog is expected to fall dramatically over the

next eight months; time to investigate what can be done to change course.

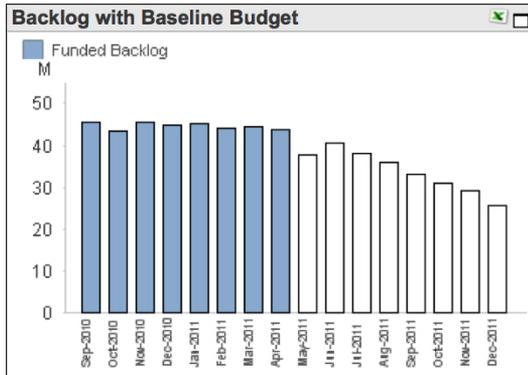


Figure 7-2: Backlog report.



These examples highlight how analytics can provide insights that drive decisions, and show just how different analytics and reporting are. Although reporting nearly always focuses on looking in the rearview mirror, it's important to begin impacting your future by charting out trends that incorporate history and future projections.

Metrics That Matter for Government Contractors

Every organization measures itself in a slightly different manner, but certain key metrics are relevant for a high percentage of government contractors. For additional information on project-based analytics, please see *Earned Value Management For Dummies*, Deltek Special Edition.

Revenue

The revenue recognized by government contractors may be influenced by the contract type(s) in effect for each project, as well as by governing guidelines such as GAAP. Contractors often calculate revenue differently for time and materials, cost

plus, and firm-fixed price contracts, and there are countless variations for each primary type. Government contractors will want to evaluate their revenue analytic by organization, project manager, customer, and specific project.

Profit

Profit is arguably the most important metric for any company and is the ultimate measure of your success. As with revenue, profit is impacted largely by contract type. Companies should be able to assess profitability trends across contract type to ensure that they're pursuing the right type of business.

Backlog

Your backlog analytic helps track how much work remains for your organization and allows you to measure whether you're operating above or below your budget. Chapter 6 discusses the difference between *funded* and *contract* backlog. It's important that this analytic include not just existing contracts but also those you're proposing and hope to win.

Labor utilization

Labor utilization evaluates how efficiently your employees are being applied to direct, or billable, projects. The labor utilization analytic can offer insight into which employees are over- or underperforming and let you know whether your staffing levels are appropriate. It's imperative that management can review both direct and indirect components of the metric.

Indirect rates

Government contractors track, at a minimum, two different versions of rates for indirect pools such as fringe, overhead, and G&A. The *target* rate is a contractor's estimated rate based on its budget, while the *actual* rate is calculated based on incurred costs. Comparing both as the fiscal year progresses is a critical function for contractors and a valuable component of an analytics system.

Proposal win rate

Analytics don't have to be limited to financial data. The ability to win new business, for instance, is paramount to the success of any government contractor. Setting targets for proposal win rates across different parts of your company will allow you to evaluate the performance of your business development function.

Days sales outstanding

The process of quickly and efficiently recording costs, billing the government, and receiving payment has a dramatic impact on the success of contractors. Errors in coding vouchers or timesheets, or delays in generating invoices can be devastating to cash flow. Days Sales Outstanding, or DSO, is a measure of the time it takes to collect on an invoice, converting a receivable into cash.

Projects at risk



Perhaps the greatest potential of an analytics application is to draw attention to areas that need corrective action. Government contractors will immediately want to know whether they're operating projects that have the potential to generate losses or put the company out of compliance with contract terms. Examples of risk categories are:

- ✓ Billing in excess of funded contract value
- ✓ Costs incurred after project end date
- ✓ Revenue recognized in excess of contract value
- ✓ Revenue recognized below budgeted amount

Designing Your Dashboards

Now that you've decided which analytics to track, it's time to decide which format should be used for the individual dashboards including, for instance, what charts, tables, and visualizations.



Start in the same manner as you did with reporting. Ask your managers what type of interface and information would be most beneficial to them in their decision-making process. Base your conversations and your dashboard design around the following considerations:

- ✓ **Preferences for information consumption:** Executives tend to opt for more graphical displays of information than other users, but that's not always the case. You'll want to know what level of detail is the "right" level.
- ✓ **Quantity of information:** With analytics, you can definitely have too much of a good thing. Managers may ask for 20 different revenue charts, and they may be able to justify each. The end result, though, will be an exceedingly crowded screen that's both confusing and overwhelming.
- ✓ **Consistency in dashboard design:** Executives aren't hired based on their ability to interpret a dashboard. Build some consistency into each dashboard in your analytic application to minimize the learning curve of your users.
- ✓ **Timeliness of information:** Make sure that the dashboards are refreshed as often as reasonably possible. Analytics, by their nature, tend to be summary-level measures that don't change dramatically every minute. Updating your dashboards with new data every night is generally acceptable. Just make sure that your executives are aware of when the last refresh occurred.
- ✓ **Control of dashboard "look and feel":** For years, dashboards were designed and controlled centrally, with very little flexibility for users to modify the appearance of the interface. Recently, users have been handed the reins more frequently and can interact more powerfully with the dashboards and even add their own objects.

A Thousand Words

Spend any time flipping through a magazine or newspaper, browsing online, or glancing at a mobile device and you will be amazed at the variety of visualizations available today.



Charts that once required days from a graphic designer can now be rendered in minutes, telling stories more effectively. They're often visually stunning, but are they the right fit for the analytical needs of a government contractor? Here are some thoughts:

- ✓ **Keep the dashboard simple:** Restrict your display to the information that is relevant to the decision-maker. Similarly, avoid using chart types that are cluttered and require extensive explanation.
- ✓ **Match the chart type with what is being measured:** Different chart types are inherently better at displaying different types of information. Line graphs work best when measuring progress over time. Pie charts compare percentages of various components to the whole.
- ✓ **Avoid the bells and whistles:** Technology makes it exceedingly tempting to overload dashboards with objects that flash, spin, and jump off the screen. They look great in demos, but if they distract from the message of the dashboard, leave them out.
- ✓ **Remember the function of the visualization:** Each object on the dashboard should have a purpose. One component may exist to explain how revenue trends over the course of a year. Think about what type of object would best serve that purpose (a line chart, perhaps) and what options should be available to the user (analyzing the data by organization, contract type, or project manager, for example).

Chapter 8

Eight Helpful Programs for Small Contractors

In This Chapter

- ▶ Helping small businesses
 - ▶ Applying to the 8(a) program
-

This chapter discusses some helpful programs that small contractors should be aware of that can help accelerate your efforts to win government business.

Boost for Small Businesses

To qualify for the Small Business program, you must be located in the U.S., organized for profit, and not be dominant in the field in which you're bidding on government contracts. You must meet Small Business Administration size standards.

For Women Only

To take part in the Woman-Owned Small Business program, at least 51 percent of the organization must be owned by one woman or more. Additionally, management and daily business operations must be controlled by at least one woman.

Advantage for the Disadvantaged

For the Small Disadvantaged Business program, the company must be a small business unconditionally owned and controlled by at least one socially or economically disadvantaged U.S. citizen, and must be SBA-certified.

More for the Disadvantaged

The Small Disadvantaged Business 8(a) Certified program is for small businesses that are SBA-certified as a Small Disadvantaged Business, and have been enrolled in the SBA's 8(a) Business Development Program.

Help in the HUBs

The Historically Underutilized Business Zone program is available to small businesses owned at least 51 percent by U.S. citizens, and SBA-certified as a HUBZone concern. This means the main office is located in a designated HUBZone and at least 35 percent of the employees live in the zone.

Honoring Our Veterans

The Veteran-Owned Small Businesses (VOSB) program is open to small businesses that are at least 51 percent owned by one or more veterans. One veteran or more must manage and run day-to-day operations of the firm.

Boost for Disabled Veterans

The Service-Disabled Veteran Owned Small Business program assists small, veteran-owned businesses in which at least 51 percent of the ownership involves at least one or more service-disabled veterans. Also, management and day-to-day operations must be controlled by one or more service-disabled veterans, or in the case of a veteran with permanent and severe disability, the spouse or permanent caregiver of the veteran.

Getting In the 8(a) Program

Applying to the SBA's 8(a) program can be done through local SBA district offices. When applying, you'll be asked to provide lots of materials, including personal and business financial statements as well as organizational charts, licenses, and insurance. Companies accepted into the 8(a) program are not eligible for 8(a) contracts until they submit and receive approval for their business plan from the SBA.

Appendix A

Glossary



ACRN (Accounting Classification Reference Number): Prefix used for tracking expenditures against contract line items.

backlog: The remaining amount of a contract's current funding or total potential value.

BAFO (best and final offer): Upon completion of discussions during a negotiated procurement, contractors may submit a revised proposal addressing issues raised.

billing rate: An indirect cost rate established temporarily for interim reimbursement of incurred indirect costs and adjusted as necessary pending settlement of a final indirect cost rate. Also known as target rate. (FAR 42.701)

B&P (bid and proposal): The costs incurred in preparing bids and proposals on potential government contracts.

BOM (bill of materials): A list of the quantities of materials required to produce a product. A normal format used to summarize the material costs a contractor has included in its estimate of contract price.

CAGE Code (Contractor and Government Entity Code): Required five-character number assigned to a company in order to work with the government.

CAS (Cost Accounting Standards): Regulations applicable to select contractors to address the measurement, assignment, and allocation of costs to government contracts.

CCR (Central Contractor Registration): A registry of commercial contractors and governmental jurisdictions that plan to enter into contracts or receive grants from the federal government (www.ccr.gov).

CLIN (contract line item number): A specific unit of work to be performed by the contractor.

CPAF (Cost-Plus-Award-Fee): Reimburses the contractor for allowable costs and adds a fee consisting of a base fee (which may be zero) and an award fee, determined at periodic milestones set forth in the contract.

CPFF (Cost-Plus-Fixed-Fee): Reimburses the contractor for costs and adds a negotiated fee.

CPIF (Cost-Plus-Incentive-Fee): Reimburses the contractor for costs and adds a negotiated fee, which is adjusted by a formula based on target costs, providing an incentive to keep costs low.

DCAA (Defense Contract Audit Agency): Responsible for auditing Department of Defense contracts and can be brought in by other agencies to assist with audits.

DCMA (Defense Contract Management Agency): Responsible for ensuring that contractors deliver goods and services to the Department of Defense on time, at cost, and in a sufficient manner.

DFARS (Defense Federal Acquisition Regulation Supplement): A FAR supplement issued by the Department of Defense.

EAC (Estimate at Completion): The total estimated cost of a project at completion.

ETC (Estimate to Complete): The work remaining to complete an activity, in hours or dollars.

EVM (Earned Value Management): A project management methodology to support project planning, execution, and assessment of how the project is performing against the plan.

FAR (Federal Acquisition Regulations): The primary set of rules used by agencies when purchasing goods and services (www.acquisition.gov/far).

FFP (Firm-Fixed Price): A contract where the price is set and fixed by unit of product or measure. FFP contracts impose the maximum risk on the contractor and minimum administrative burden on the customer.

FPI (Fixed-Price Incentive): A fixed-price contract that provides for adjusting profit and establishing the final contract price by application of a formula based on the total target cost.

FPRA (Forward Pricing Rate Agreement): FAR 15.407-3.

G&A (General and Administrative): An indirect cost pool that collects costs related to the overall operation of the business.

GSA (General Services Administration): The major supply arm of government, which does most of the government's buying.

GWAC (Government Wide Acquisition Contract): A multiple-award, indefinite quantity contract that helps agencies meet their technology requirements through a customizable solution.

ICE (Incurred Cost Electronically model): Electronic version of the incurred cost submission, designed to aid contractors in preparing an adequate incurred cost proposal (www.dcaa.mil/ice.htm).

IDIQ (Indefinite Delivery Indefinite Quantity): An IDIQ is a type of procurement vehicle. The government allots a certain amount of money for purchases it will make with specified vendors, but leaves open the dates the purchases will be made and the exact quantity of each item that will be bought.

OFPP (Office of Federal Procurement Policy): Part of the Office of Management and Budget, it tracks the various procurement regulations for every federal government agency.

OMB (Office of Management and Budget): Part of the Executive Office of the President; oversees preparation of the federal budget.

PO (Program Office): The office within the awarding agency with primary interest in, and responsibility for, the contract.

prime contract: A contract awarded directly by the government.

RFP (Request for Proposal): RFPs are generally issued when the government wants a detailed technical proposal. With RFPs, contracts are negotiated (as opposed to low bid wins).

RFQ (Request for Quote): RFQs are sometimes used for fact finding when the government is merely checking into the possibility of acquiring a product or service. They are not binding on either party.

SBA (Small Business Administration): As the government's small business advocate, the SBA oversees various federal procurement initiatives and serves as an information resource for small businesses looking to learn more about contracting.

SDB (Small Disadvantaged Business): The catch-all term used in federal procurement for minority-owned businesses.

SF (Standard Form): Used in front of government contract template and followed by a number; for example: SF 1034.

SOW (Statement of Work): Captures the activities and deliverables to be performed by the contractor.

subcontract: An agreement between a prime contractor and another organization to provide goods or services, either directly for a federal contract or for another subcontract.

teaming: An agreement by a potential prime contractor with one or more other companies in an attempt to win a contract.

T&M (Time and Material): Time and Materials payments are based on hourly rates and costs of materials used.

TINA (Truth in Negotiations Act): A public law enacted for the purpose of providing for full and fair disclosure by contractors in the conduct of negotiations with the government.

WAWF (Wide Area Workflow): An electronic invoicing and receipt system that routes documents to appropriate officials.

WBS (Work Breakdown Structure): Provides a hierarchy of program elements that supports the measurement of a contract's cost and schedule performance.

Appendix B

Resources

.....

Government Contracting Resources

- ✔ **Deltek ([www.deltek.com/solutions/government contracting](http://www.deltek.com/solutions/government_contracting)):** Deltek understands the complexities and challenges government contractors face every day and has enterprise software and information solutions to help. Designed from the ground up, Deltek solutions help you stay on top of the entire project lifecycle, including expanding your pipeline and identifying best-fit teaming partners, achieving higher win rates, expediting recruiting, optimizing resource allocation, making informed business management decisions, maximizing profitability, satisfying compliance with ANSI 748, EVM, and internal controls, streamlining audits and reporting, and planning for future growth.
- ✔ **GovWin Network (www.govwin.com):** Want to win more government business and gain the competitive edge? Deltek has combined INPUT and FedSources to create thousands of opportunities worth over a trillion dollars. Get all the market intelligence you need to jump-start your sales efforts; identify the right opportunities; assemble the right teams; and capture the right contracts.
- ✔ **Washington Management Group (www.washmg.com):** The Washington Management Group (WMG) is the leading GSA and VA Schedule contract consulting firm in the nation. WMG helps companies increase revenue, maximize resources, and enhance contract conformance.
- ✔ **Central Contractor Registration (CCR) (www.ccr.gov):** The official online registrant database for the U.S. Federal Government, CCR collects, validates, stores, and disseminates data in support of agency acquisition and award missions.

- ✓ **Defense Contract Audit Agency (www.dcaa.mil):** The DCAA performs all necessary contract audits for the Department of Defense and provides accounting and financial advisory services regarding contracts and sub-contracts to all DoD Components responsible for procurement and contract administration.
- ✓ **Defense Contract Management Agency (www.dcma.mil):** The Defense Contract Management Agency (DCMA) is the Department of Defense (DoD) component that works directly with Defense suppliers to help ensure that DoD, Federal, and allied government supplies and services are delivered on time, at projected cost, and meet all performance requirements.

Continuing Education for the Government Contractor

- ✓ **Deltek University — Government Contractor Master Classes:** Deltek offers a variety of training solutions to help you win more federal contracts. From the Contracting with the Federal Government Certificate Program — offered in conjunction with George Mason University — to half- and full-day programs delivered by INPUT and FedSources, your business development team can benefit from Deltek University.
- ✓ **Deltek University — Government Contracting Educational Courses:** Offered in partnership with George Mason University, the Contracting with the Federal Government education series helps government contracting professionals ensure that their business operations remain compliant with current federal standards. Content focuses on recent government contracting trends, including the current regulatory environment, as well as proposed changes to the Federal Acquisition Regulation (FAR) and the government's Cost Accounting Standards (CAS).



Find out more about Deltek University at www.deltek.com/services/deltekuniversity. For more information on workshops, seminars, and other events pertaining to the government contracting industry, please visit www.input.com/corp/events/calendar.cfm.

Loaded with best practices for doing business with the government!

Doing business with the government is vastly different from working in the commercial sector, and this book spells out those differences in detail. Just finding the work is a challenge in itself, as is preparing your company for the scrutiny that goes hand-in-hand with becoming a government contractor. And once you land a deal, you'll need to cross an assortment of hurdles related to accounting and reporting, not to mention passing audits. See how you can win more government business, sharpen your project management skills, and run your business more efficiently and profitably.

- **Government contracting basics** — *get to know the rules and acquire the right tools*
- **Find government work** — *discover the steps you should take to successfully capture business*
- **Accounting with the government** — *understand the accounting principles, practices, and requirements you need to know to be part of the world of government contracting*
- **Successful project management and reporting** — *learn how to manage and report on projects for the government*

Learn more at www.delttek.com/dummies



Open the book and find:

- A checklist of do's and don'ts for small and large government contractors
- Resource lists on where to find information on government business
- Information on types of government contracts and buying methods
- A rundown on types of audits

Making Everything Easier!™

Go to Dummies.com
for videos, step-by-step examples,
how-to articles, or to shop!

For Dummies®
A Branded Imprint of



ISBN: 978-1-118-10000-4
Not for resale