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Winning Contracts in a Changing Industry

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Agenda

- The Baseline
- Trends – Large, Small & Overall
- Direct and Indirect Strategies
- Other Strategies
- Conclusion

Unique time in Contracting

- LPTA
- Competition is Fierce
- Compliance is high
- Less Procurement/Buying or more small biz
- Stakes are higher than ever
- What's technology/economy look like in 10 years
- Who to team with and not to team with
- Salaries going up and rates going down...huh?

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The Baseline

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Baseline

- Best Value evaluations can be ambiguous - important to understand agency or contracting office tendencies.
- Some agencies publish internal guidelines regarding best value determination.
- It is not uncommon for the successful Offeror to have a price 5-10% higher in best value evaluations, but no more; and only if they are clearly the better proposal.
- **Trade Off Process:** The Government uses a “trade off” process when it is in their best interest to award to “other than the lowest priced offer”, or “other than the highest technically rated offer”.
- **LPTA:** Low Price Technically Acceptable (LPTA) is a conversation how we bid to meet only the compliance threshold for acceptance, at the lowest possible price.

Baseline

- “These instructions are to assist you in submitting cost or pricing and related data that is required to evaluate the **reasonableness** and **realism** of your proposed cost/price”.
- “Offers should be sufficiently detailed to demonstrate their **reasonableness**. The burden of proof for credibility of proposed costs/prices rests with the offeror.”
- **Reasonableness** (FAR 15.404-1(a)) - Should answer the question: Is the Government paying too much? So our justification for how we came up with the rates should be clearly outlined.
- **Realism** (FAR 15.404-1(d)(3)) - Shows the Government that you clearly understand the solicitation requirements and have mapped the labor categories appropriately to the hours.

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Trends-Large, Small & Overall

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Shift in RFP Set-Asides

- SBA gains muscle to make small business requirements even more important – from 15% ranges to mandatory 60%+ (DHS 45% TCV).
 - Move from total subcontracted dollars to TCV.
 - SB% requirement as evaluation factor.
- DCAA and DCMA involvement in procurement cost assessments continue to grow.
- Based on the FY2013 Scorecard Summary of Prime Contracting data published by FPDS-NG

A+	3
A	17
B	3
C	0
D	0
F	1* (DOE)
Total	24



Shift in RFP Set-Asides – FY 2014 Goals

AGENCY	Prime Contracting Small Business	Subcontracting Small Business
DEPT OF DEFENSE (9700)	21.35%	36.70%
ENERGY, DEPARTMENT OF (8900)	6.59%	50.00%
HHS (7500)	21.69%	33.00%
VETERANS AFFAIRS, DEPARTMENT OF (3600)	34.77%	17.00%
NASA (8000)	19.71%	36.00%
HOMELAND SECURITY, DEPARTMENT OF (7000)	31.75%	43.00%
GENERAL SERVICES ADMINISTRATION (4700)	40.52%	25.00%
AGRICULTURE, DEPARTMENT OF (1200)	52.16%	21.50%
JUSTICE, DEPARTMENT OF (1500)	29.23%	42.00%
INTERIOR, DEPARTMENT OF THE (1400)	57.53%	40.00%
STATE, DEPARTMENT OF (1900)	37.93%	46.00%
COMMERCE, DEPARTMENT OF (1300)	34.42%	30.00%
TREASURY, DEPARTMENT OF THE (2000)	35.07%	28.00%
LABOR, DEPARTMENT OF (1600)	35.40%	55.00%
TRANSPORTATION, DEPARTMENT OF (6900)	43.16%	50.00%

Large Contractors

- Competitors are focusing on keeping current contracts – this is key to maintain customer and market position. The assault on cost factors demands realignment (Consolidations, M&As).
- Large businesses are developing more cost allocation strategies to propose and win with lower wrap rates.
- Fighting the misnomer: Small Business Small Price, Large Business Large Price.
- Prime is responsible for Subcontractor price reasonableness analysis
- Increased rise in Purchasing system audits by DCMA
 - Documentation of purchasing Subcontractors
 - “Negotiated” does not mean fair and reasonable



Small Contractors

- Many small companies have never been audited and don't understand the role of DCAA & DCMA.
- Small businesses often have challenges calculating their cost structures resulting in them unknowingly overcharging or undercharging the government.
- The ability to conduct a valuable competitive analysis is not feasible.
- Delays to the RFP release are extremely costly for industry and greatly impact small businesses.
- SB companies don't actually follow the estimating and purchasing methodologies they write about in their Cost proposals.

Overall

- Industry trends are towards diversification. We are seeing more -
 - Contractors moving into the commercial market
 - Commercial companies buying and folding government contractors into their portfolios
 - Commercial companies entering into the federal market (earnings pressure)
- Risks of a commercial / GovCon mix
 - Government feels risks of rate development (shift in costs away from commercial and towards government)
 - Risk of compliance on the commercial side
 - Firewalling / veiling commercial segments

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Direct & Indirect Strategies

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Direct Strategies

- Hard Truth #1: It is imperative that Direct Labor always be **predictive** in nature.
- Hard Truth #2: Your **Bid** labor model is separate than your **Operational** labor model.
- Paid subscriptions to analyze labor data must be preferred over free user-generated compensation surveys.
 - Understand the survey that is favored by DCAA and the agency you performing in.
- Studying the Level of Effort, especially in Best Value procurements.
- Direct Labor should be sectioned into quadrants and used when most appropriate.
 - High Price, High Margin
 - High Price, Low Margin
 - Low Price, High Margin
 - Low Price, Low Margin

Direct Strategies

- Reasonableness (FAR 15.404-1(a)) - Should answer the question: Is the Government paying too much? Our justification for how we came up with the fully burdened and direct labor rates should be clearly outlined.
- Realism (FAR 15.404-1(d)(3)) - Shows the Government that you clearly understand the solicitation requirements and have mapped the labor categories appropriately to the hours.
 - Comparison of proposed prices received in response to the solicitation
 - Comparison of the proposed prices to historical prices paid
 - Use of parametric estimating methods/application of rough yardsticks
 - Comparison with competitive published price lists
 - Comparison of proposed prices with independent Government cost estimates
 - Comparison of proposed prices with prices obtained through market research
 - Analysis of data other than certified cost or pricing data



Fringe

- Fringe as a separate rate or as a service center
 - Larger number of rate combinations can be made with Fringe as a separate rate

	<u>SCA</u>	<u>Part Time</u>	<u>Full Time</u>
Fringe Rate	18%	25%	35%

	<u>Customer</u>		
	<u>Site</u>	<u>Rural Site</u>	<u>MSA Site</u>
OH Rate	20%	40%	80%

Rate Combinations

- 38%
- 45%
- 55%
- 58%
- 65%
- 75%
- 98%
- 105%
- 115%

G&A

- Value Added (VA) versus Total Cost Input (TCI)
- TCI most widely used
- Use of the VA base LOWERS the burden on subcontracts
 - When the discussion turns to “who will Prime,” the team member with the VA base has an advantage
 - When the competition turns to LPTA, VA vs. TCI can be the difference in winning and losing for a team



TCI Advantage in LPTA

- Advantage is when you have no or low materials or subs

Undecided Company Inc. (UCI)

	<u>Costs</u>	<u>G&A Base</u>	<u>G&A Rate</u>
Direct Labor	1,000		
Fringe/OH	600		
Subtotal	1,600	Value Added Cost Input	18.75%
Material	400		
Subcontracts	1,000		
Subtotal	3,000	Total Cost Input	10.00%
G&A Expense	300		
Total Cost	3,300		



TCI vs. VA Example

UCI Project 2 - BIG Mat'l/Subs

	w/ SE Base	w/VA Base	w/ TC Base
Direct Labor	500	500	500
Fringe/OH	300	300	300
Subtotal	800	800	800
Material	400	400	400
Subcontracts	1,000	1,000	1,000
Subtotal	2,200	2,200	2,200
G&A Expense	150	150	220
Total Cost	2,350	2,350	2,420

Regulatory G&A pressures

- When sub content is high, the prime is exposed to potential unallowable costs under FAR 31.203(i), “Excessive Pass-Through Costs” (G&A on subs)
- The implementing clause at FAR 52.215-23 can result in disallowed G&A on subs, but specifically recognizes the allowability of “*charges for the costs of managing subcontracts and any applicable indirect costs and associated profit/fee based on such costs*”
- High sub content is defined in the FAR provision and clause as 70% or more of total costs. Contracting Officers, based on DCAA’s recommendations, may decide that pass-through costs are excessive even when total sub content is less than 70%.



Trending Rate Pools

- Geography – OH Related
 - Client Site (also used for home office)
 - MSA (Metropolitan Statistical Areas)
 - Rural Site

- Workforce – Fringe Related
 - Full Time
 - Part Time / Retired

- Skillset - OH
 - General
 - Advanced Degrees / Specialized Equipment

Why do we do this? Rate combinations = increased competitiveness

- Be careful! You have to have enough base to withstand changes and still maintain the rate.



Service Centers

- Service centers can be utilized to group costs that support other indirect and direct functions
- Provides greater flexibility to balance pools
- Provides greater base flexibility – there are various ways to equitably allocate an indirect pool (non-CAS covered contractors)
- Not locked into the standard base definitions of final cost pools
- Typical Service Centers
 - IT
 - Facility
 - HR
 - Recruiting
 - PMO



Ceiling Rates

- Monitoring rates against ceiling rates and tripwires in contracts is increasingly important
- Do repetitive ceiling rates require rate redevelopment?
- Up front tactic (RFP stage) – ask the ACO to state rate ceilings as a total overall multiple rather than individual rate ceilings – this can help balance your over / under



Have a Plan!

- Contingency plans for ramping up and down (growth and decline)
 - Delays in RFP award
 - Keeping key personnel on the bench
 - Protests and costs of protests
 - Insourcing / loss of contract and personnel to winner
 - Facilities
 - Back office support
 - Government shutdown / effects of sequestration

Navigate the environment you are in! Having a plan allows you to act quickly and communicate to staff ahead of time.

- If this (trip point) then that (action)

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Other Strategies

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DFAR's Business System Strategies

- Many solicitations requiring an “approved” Accounting system
 - Getting Accounting System audits done and submitting them with your proposal for competitive advantage and not getting locked out of a competition
- CPSR's are on the rise
 - Everyone fails the first time but initiating a mock audit / readiness project significantly reduces the number of findings and time to award
- Update on proposed changes to DOD's Business Systems Rule

CAS Strategies

- Growth strategies may result in the potential for bidding on a CAS covered contract.
- Many CAS disclosure statements are due either a) with the RFP submission or b) upon award
 - CAS is not a quick turnaround, it might be best to document and have it on the shelf
 - This is especially important for commercial companies thinking about moving into government sales
- Once CAS covered, it is extremely important to have a system for tracking current CAS contracts to determine if full coverage is triggered or when coverage ends. Also helps with Cost Impact analysis...Contracts are CAS covered, Contractors are not.

CAS APPLICABILITY

Modified Coverage

- Modified Coverage
 - Awards from \$7.5M up to \$50M
 - May require Disclosure Statement
 - CAS 401, 402, 405 & 406 only
- Negotiated Contracts and Subcontracts
 - Exceeding \$700,000
 - Includes options
- CAS coverage at award remains for life of contract

Full Coverage

- Full Coverage
 - Awards estimated to exceed \$50M, including option amounts
 - File Disclosure Statement
 - Comply with all standards
- Negotiated Contracts and Subcontracts
 - Exceeding \$700,000
 - Includes options
- CAS coverage at award remains for life of contract



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