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Uncle Sam is knocking and he wants his money back.

If you are a federal contractor employing sub-contractors, the next knock at your door may be Uncle Sam wanting his money back.

In response to its budget crisis, the government is aggressively seeking to recover improper payments. These include payments to prime contractors who use debarred sub-contractors, firms that have been suspended from working with the government. Sub-contractors with key employees who have been debarred may also place their prime contractor at risk of non-compliance.

To improve its recovery rate the government is using a combination of legislation and bounty hunter-type incentives for auditors. In the Spring of 2010 President Obama instructed agencies to pay more auditors based on the violations they uncover – the more the auditor finds, the more they are paid. A pilot program of these types of audits conducted from 2005 to 2008 recovered over \$900M.

Further pressure comes from a law enacted last July which lowered the threshold of audit targets to include all but the smallest of contractors. Now, contractors making as little as \$1M annually from their federal contracts are on the government's audit radar.

Government agencies also employ new tools to target their audits and increase their chance of finding improper payments. One example is the recently created Recovery Operations Center. According to a recent article on governmentexecutive.com, the Center uses government databases and public information to identify contractors and key personnel who might warrant further investigation. The goal is to find debarred firms that have changed corporate names or debarred individuals who have changed firms and continue to contract or sub-contract with the government. Director Doug Hassebrock described the Center as "a lead factory [for auditors]" and adds, "Our job is to come up with what we see as high-risk recipients or projects."

Their efforts are producing results. Paymentaccuracy.gov reports that payment recapture audits in 2010 allowed the government to take back about \$611M of what it paid out to contractors and individuals. That's triple the amount of improper payments it recovered the previous year according to Danny Werfel, controller for the Office of Management and Budget.



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Given these developments, contractors need to closely examine their compliance strategies to avoid losing previously-booked revenue. As government efforts intensify, and they employ more sophisticated means of finding noncompliance, contracting firms should revisit their own compliance procedures, personnel, and tools.

Have your compliance practices remained unchanged? Are you employing compliance-monitoring technology to make your compliance department more effective? Are you monitoring your suppliers' key personnel? If you previously decided to take the risk of non-compliance, have you reassessed that decision in light of the current environment?

While revamping your efforts will likely require some adjustment in your compliance budget, given the increased risk and costs of non-compliance, those adjustments are likely to be good investments.

About the author of this article



Tony Marshall, President & CEO of Innovative Systems Group Inc. has over 25 years of experience integrating business strategies with technology and information infrastructures, and producing sophisticated applications focused on contributing to the bottom line. Innovative Systems Group (ISG) is a diversified organization known for improving the efficiency and effectiveness of various industries. For government contractors, using debarred suppliers can cost valuable contracts. ISG Vendor Compliance Assurance automates the process of checking your suppliers. Using your vendor data, ISG checks your suppliers against the government entities you select. For more information, contact ISG at 919-844-8075, www.isglink.com

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