



What's New in the World of GovCon

SCS Government Contracting Seminar
September 23rd , 2010

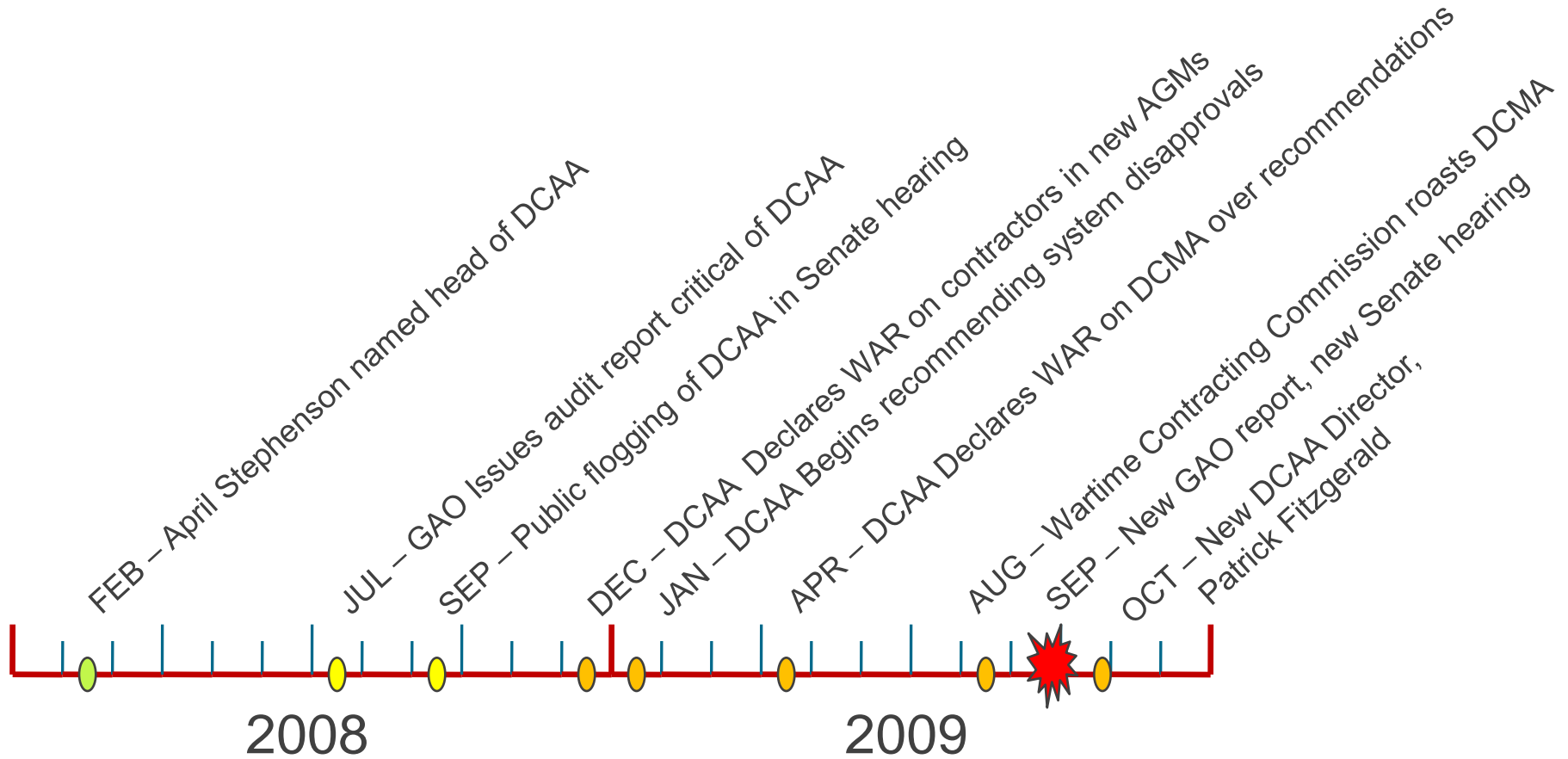
Agenda

- What new with DCAA – and what's NOT

It's a Changing Environment

- DCAA is changing how it works with and relates to contractors
 - Changes will reduce communication with auditors and increase the adversarial nature of the relationship
 - Data requests will significantly increase
 - Large firms are subject to the new “pass/fail” audit guidance
 - Even the smallest firms will be impacted by the new requirement to trace invoices to the accounting system during invoice reviews
- DCAA is changing how it works with and relates to DCMA
- DCAA may be changing how it works with and relates to other Government agencies in general and DOD in particular

DCAA's Turmoil Timeline



DCAA says it's "Back to Basics" for Auditors

- DCAA Director, April Stephenson, addressed a meeting of the Professional Services Council on February 25th, 2009
- In her presentation, she stressed that DCAA auditors will be returning to the basics of GAGAS and that they...
 - Need to understand what [they] are auditing
 - Should use face-to-face communication with the contractor employees
 - Should ask questions, maintain auditor skepticism
 - Should develop sound conclusions
- October 23rd, 2009, DOD reassigned April Stevenson to the Pentagon's Office of the Comptroller
- Patrick Fitzgerald, head of the Army Audit Agency, was named to replace her effective November 11th, 2009. Mr. Fitzgerald has not yet made any public appearances.

New Audit Guidance Changes the Relationship (with you)

- Memo 08-PAS-043(R) – December 19, 2008 – imposes new restrictions on audit findings and reports on Internal Control Reviews
- Memo 08-PAS-041(R) – December 19, 2008 – creates new requirement for “limited scope” audits of internal control deficiencies identified during the course of other audits
- Memo 08-PAS-042(R) – December 19, 2008 – imposes new rules and procedures for reporting and resolving “access to records” disputes
- Memo 08-PAS-044(R) – December 22, 2008 – requires additional reconciliation to contractors accounting records for all Public Voucher Reviews

New Audit Guidance Changes the Relationship (with DCMA)

- Memo 09-PAS-004(R) – April 9, 2009 – creates new requirement to report to DOD IG when DCAA advice to a Contracting Officer is ignored (aimed at ACOs)
 - “where a contracting officer ignores a DCAA audit report and takes an action that is grossly inconsistent with procurement law and regulation” ... “the FAO will provide a report covering the details of the conditions to the region” ... “the submission will be forwarded to the DoDIG for appropriate action”
 - The “shooting war” with DCMA has begun and Congress in on the battlefield

New Audit Reports Change the Relationship (with DOD)

- In the original GAO report hearings the Senate Homeland Security Committee, Government Oversight subcommittee, called for removal of DCAA from DOD.
 - Senators Lieberman, McCaskil, Collins, Carper
- In the DCMA hearings, the same four Senators once again called for establishment of DCAA as an independent, Government-wide audit agency
- In the September 23rd Senate Homeland Security Committee hearing the panel once again called for removal of DCAA from DOD

The “Short Answer” Take-Aways

- DCAA is getting out of the business of helping contractors be compliant
 - Their “hands off” posture will put more pressure on you
 - “Trial and error” is an expensive way to correct compliance issues
 - More frequent and more in-depth vouchers reviews/audits will stress systems and expose firms to risk of adverse audit findings
- DCMA’s hand will be forced on following DCAA recommendations
- DCAA could become independent

Update on Patrick Fitzgerald

- After almost a year as the new Director of the agency, Mr. Fitzgerald finally granted an interview to Government Executive Magazine (published July 8th, 2010)
- His most notable statement was...

“We want to get to that one team where management and the workforce are pulling together in the same direction, where auditors feel like they are making a difference, their work is adequately considered and has a positive impact on taxpayer dollars.”
- The rest of the interview was similarly “content free”

Update on the Agency

- Time to complete a contractor pricing review...
 - In 2008, 28 days (average)
 - In 2010, 72 days (average of reviews conducted YTD)
- Total Audits conducted in FY 2008 – 30,000
- Total ADV – \$500B
- New hires (auditors only) since July 2008 – 500
- Planned new auditors by 2015 – 1,000
- Nearly two years after the first GAO report, no supervisor or manager has been fired or suspended for having a role in the scandal, including those who issued a "gag memo" to a DCAA whistleblower.



What's New At Deltek

CLARITY

- One Year
- Five Research Reports
- One Advisory Report
- 1,000+ Participants

- Industry surveys, studies and reports
 - CLARITY 09 GovCon Industry Study (Nov '09)
 - CLARITY 2010 GovCon Industry Study (Nov '10 – in process)
- Focus surveys and reports
 - CLARITY Focus on IT (May '10)
 - CLARITY Focus on BD (Sep '10)
 - CLARITY Focus on EPM (Oct '10 – in process)
- CLARITY Advisor reports
 - CLARITY Advisor on the Gates Cost-Cutting Initiatives (Sep '10)



- Survey conducted Aug/Sep '09
- Highlights Report published Nov '09
- Detailed Report published Dec '09
- Almost 250 respondents
- Sixty questions around five major business activities
- Designed to produce factual data that could be viewed through a lens of real statistical analysis

By headcount...

<u>Firms less than 25 Employees</u>	12%
<u>Firms 26-100 Employees</u>	27%
<u>Firms 101-500 Employees</u>	44%
<u>Firms 501-1,000 Employees</u>	6%
<u>Firms greater than 1,000 Employees</u>	11%

CLARITY

09

Compliance

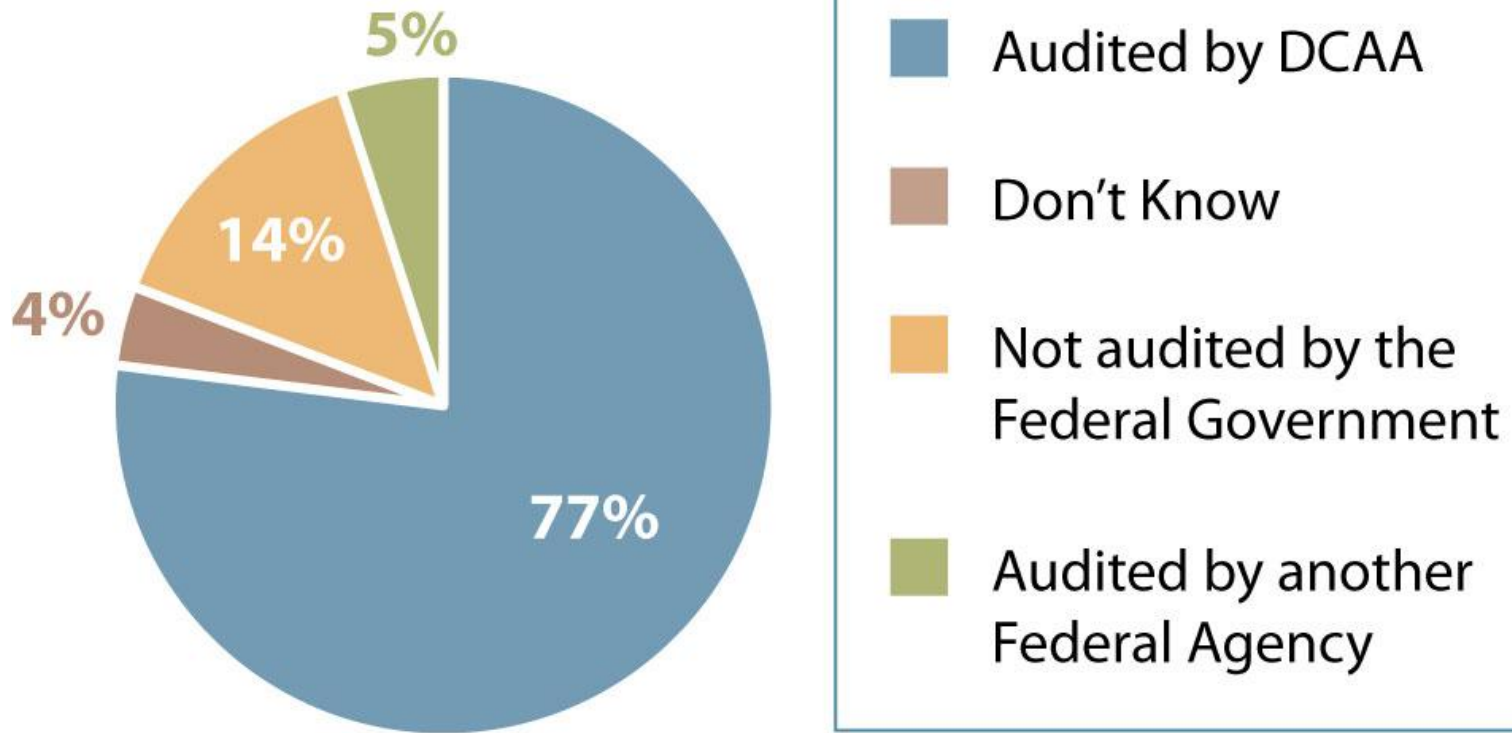
- The world's largest Government audit agency is in near total meltdown
- While DCAA threatens to become more invasive, they have also become decidedly insular
- All Federal Agencies' Inspectors General have been granted unprecedented audit and discovery access by the ARRA
- The Wage & Hour Division of DOL received more than \$20M for additional investigative staff in the ARRA alone

- Questions ranged from perception of changes in relationship with auditors to level of oversight
- Other questions probed incidence and frequency of specific types of audits
- Of particular interest were questions around ranking of audit issues

- We asked our survey respondents about their annual incurred cost submissions
- Our own perception was that most GovCon firms made an incurred cost submission
- The perception was also that virtually all were submitted to DCAA
- Virtually all respondents derived the majority of their revenues from the Federal Government, but nearly 1 in 5 either made no submission or were unaware of any submission

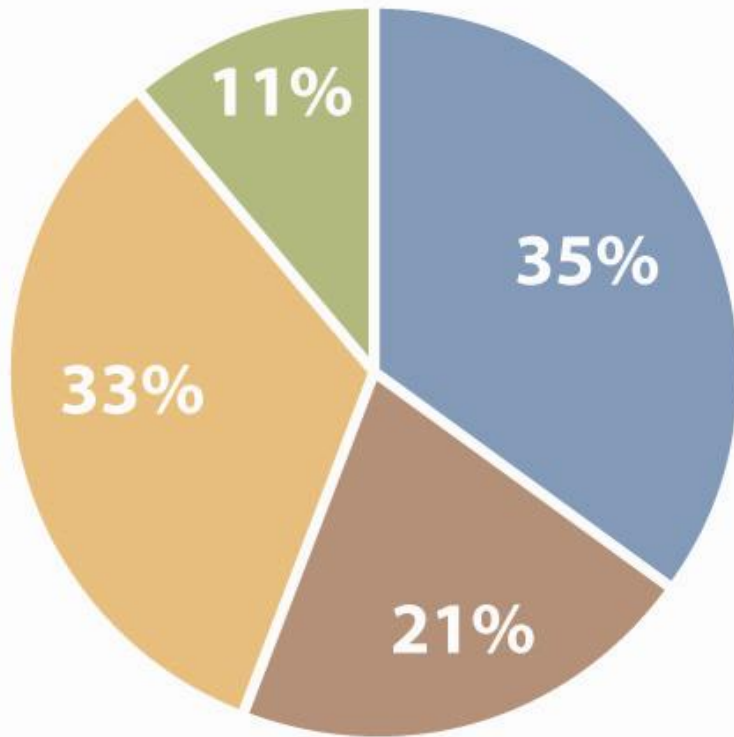
Firms Experiencing Incurred Cost Submission Audits – Figure 31

Percent of Respondents



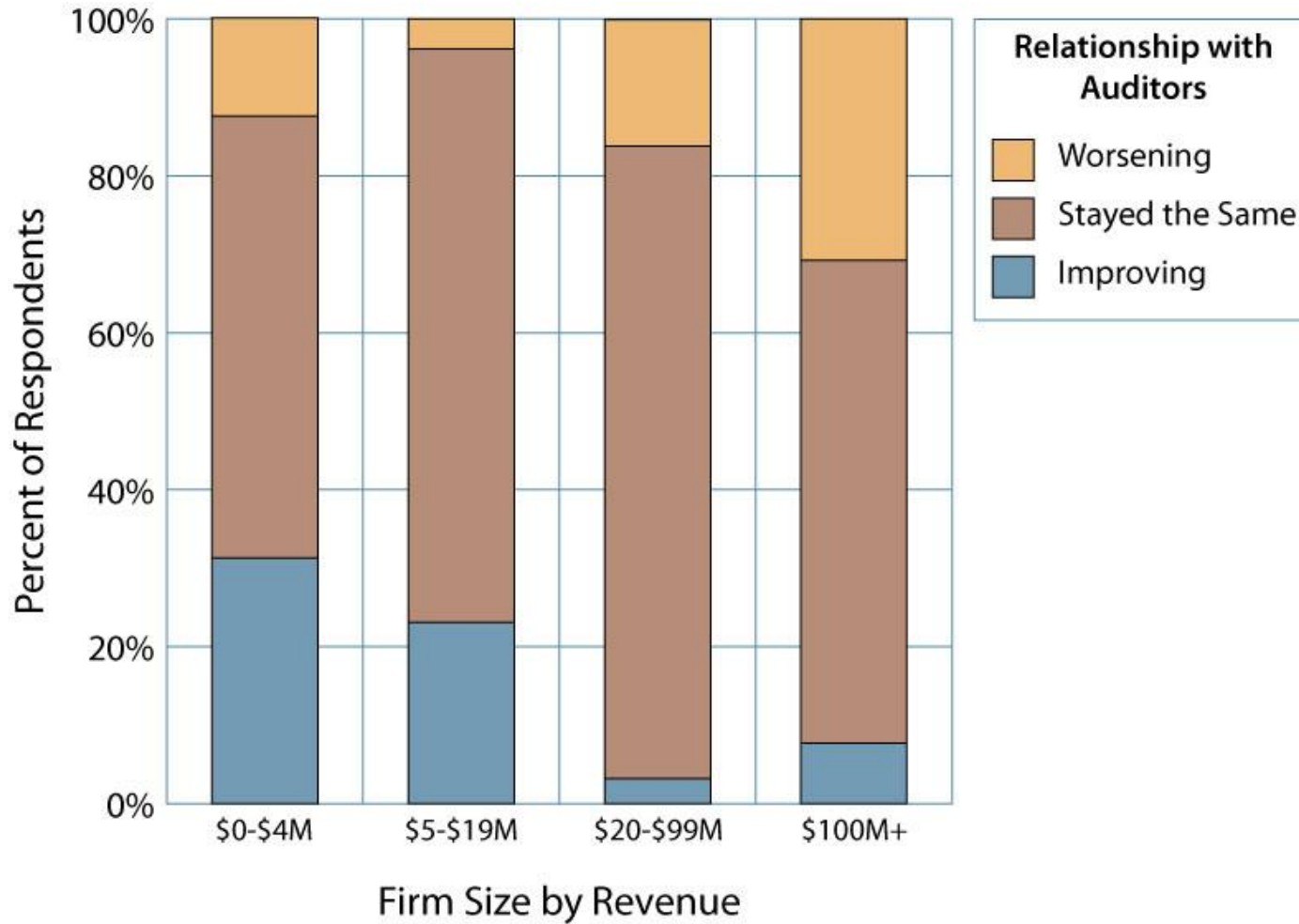
- We asked respondents If they had experienced a formal Internal Controls review by DCAA in the last 24 months
- Many more respondents than we expected (more than half) reported an Internal Controls review in the last 24 months
- Much smaller firms than expected reported being reviewed

Percent of Respondents



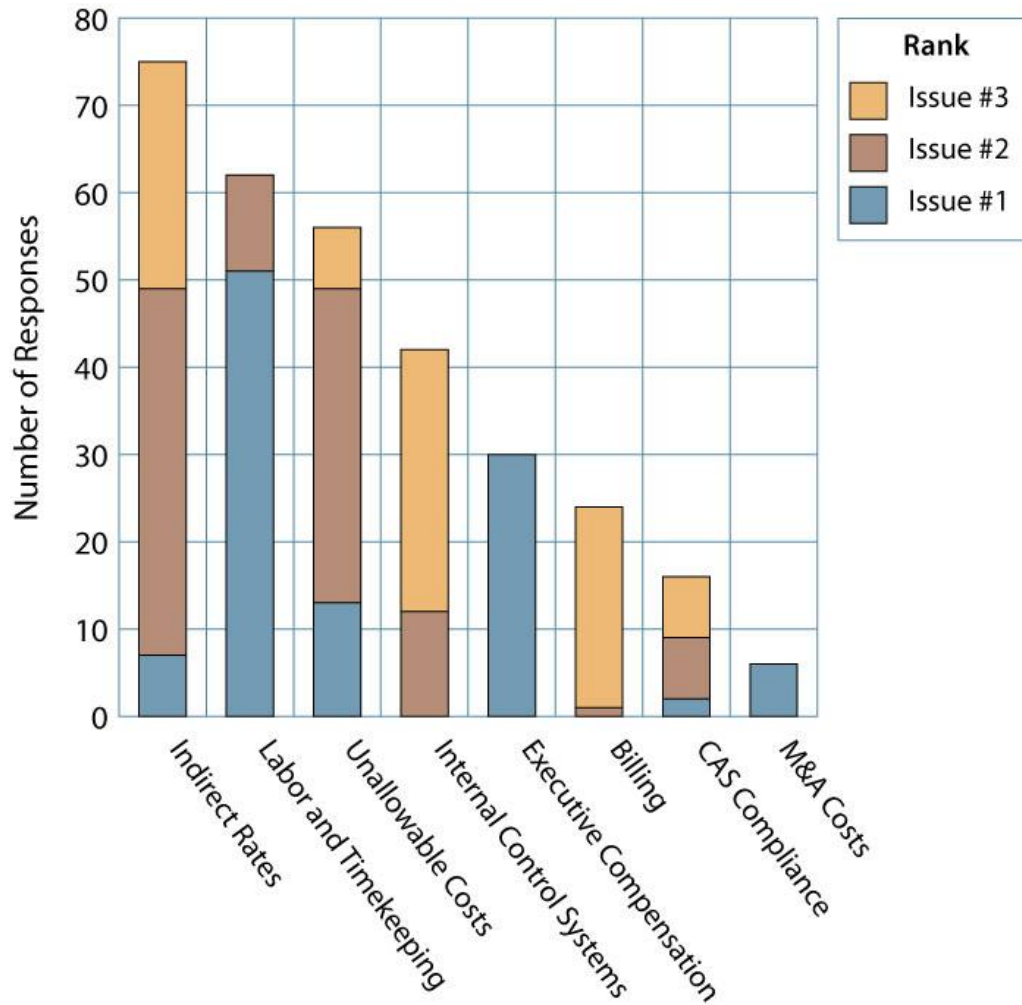
- We asked survey participants to tell us whether their perceived relationship with DCAA auditors had improved, stayed the same or worsened in the last twelve months
- The vast majority of small and mid-sized firms reported that the relationship had either stayed the same or actually improved
- Large forms were significantly more likely to report a worsening relationship

Relationship with Auditors – Figure 34



- We asked respondents to rank their top three audit issues
- Recent DCAA emphasis initiatives around billing and internal control systems lead us to believe they would rank near the top
- The top three audit issues reported in the survey were much more mundane:
 - Indirect Rates
 - Labor & Timekeeping
 - Unallowable Costs

Top Audit Issues – Figure 35

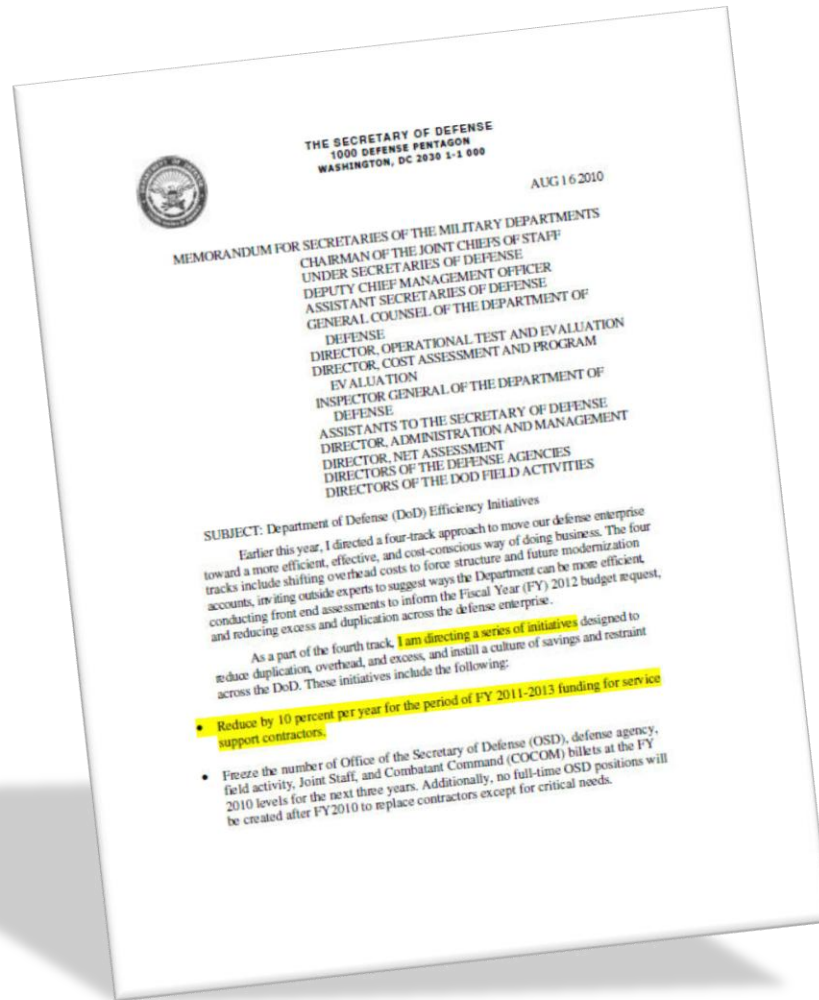


- Respondents clearly see oversight as increasing
- Larger firms were much more likely to report their relationship with auditors as worsening
- Despite a DCAA position that internal control reviews are conducted only on major contractors, more than 56% of respondents reported such a review in the last 24 months
- It is unclear how “risk-based auditing” will affect the trends
- Stay tuned for Clarity 2010 and year-over-year trends

CLARITY

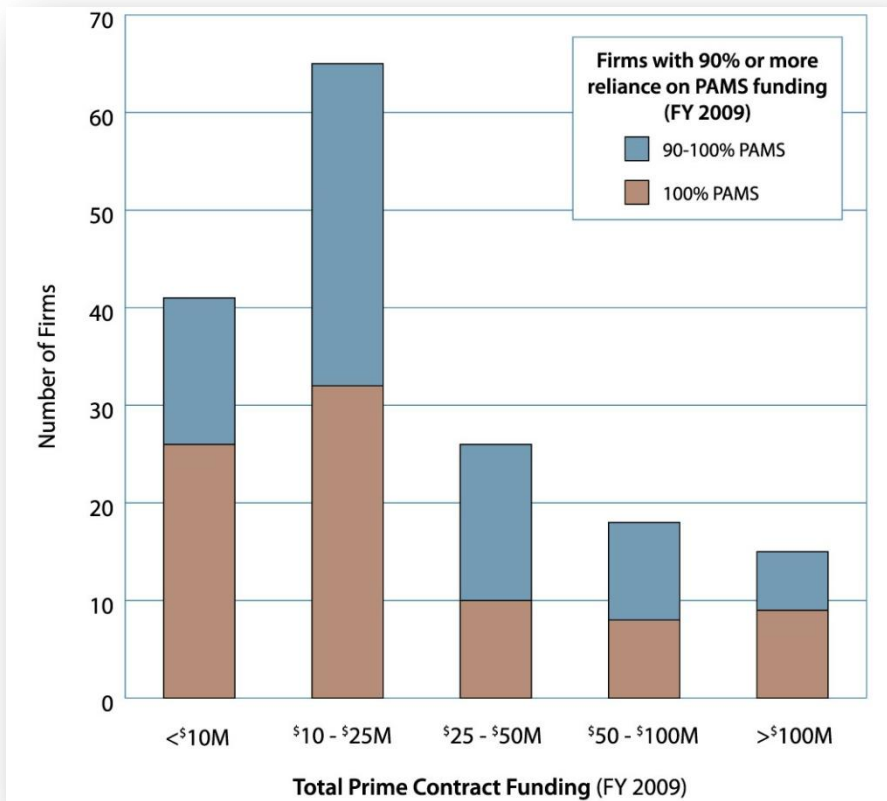
CLARITY Advisor *Special Report on DoD Funding Cuts*

Sec. Gates Announced Cuts August 9th



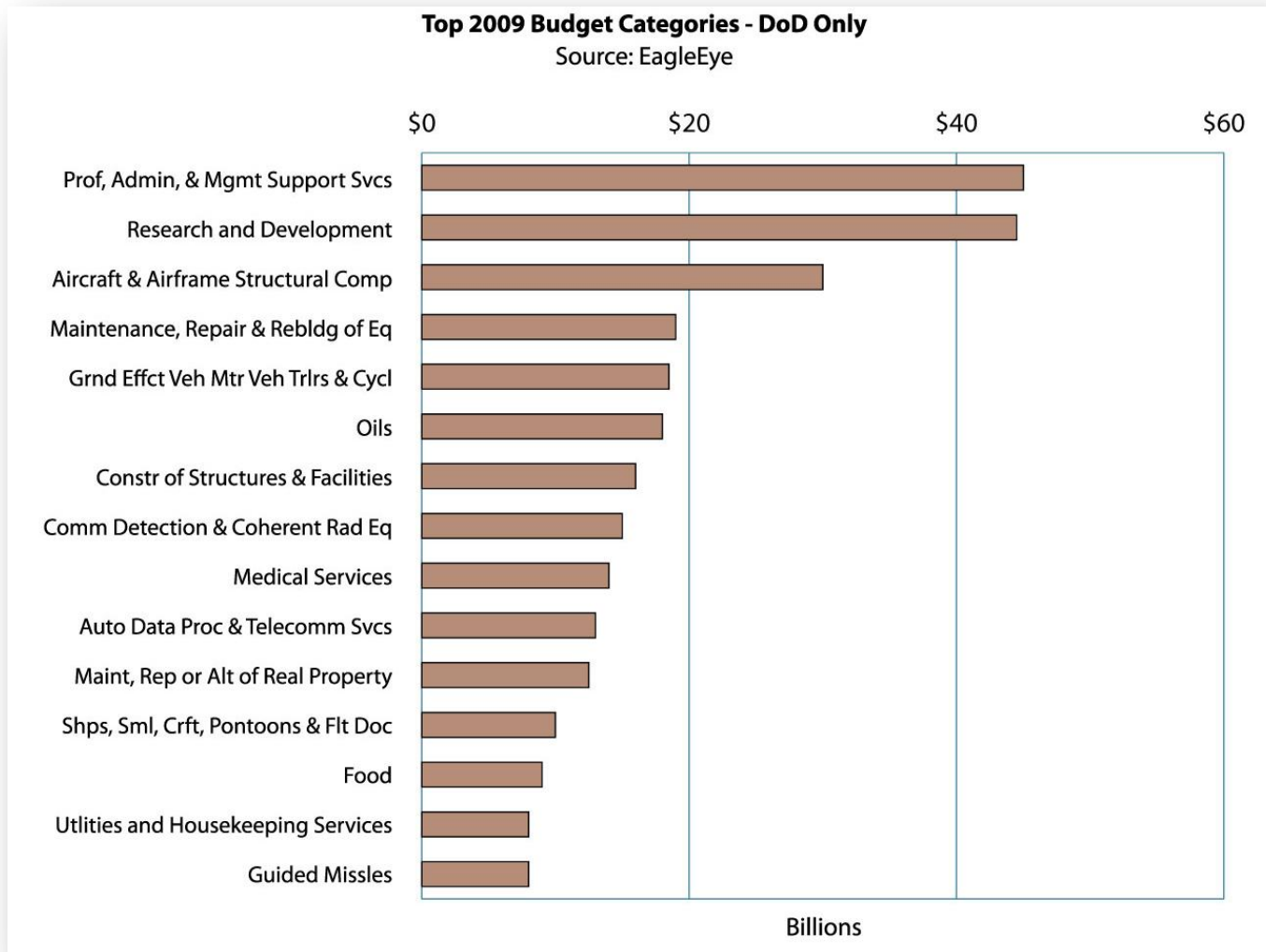
- Implementing Memorandum released August 16th, 2010
- Memo includes the phrase “I am directing a series of initiatives...”
- Twenty separate initiatives identified
- **FIRST BULLET** in the list is:
“Reduce by 10 percent per year for the period of FY 2011-2013 funding for service support contractors.”

Who Will be Affected?



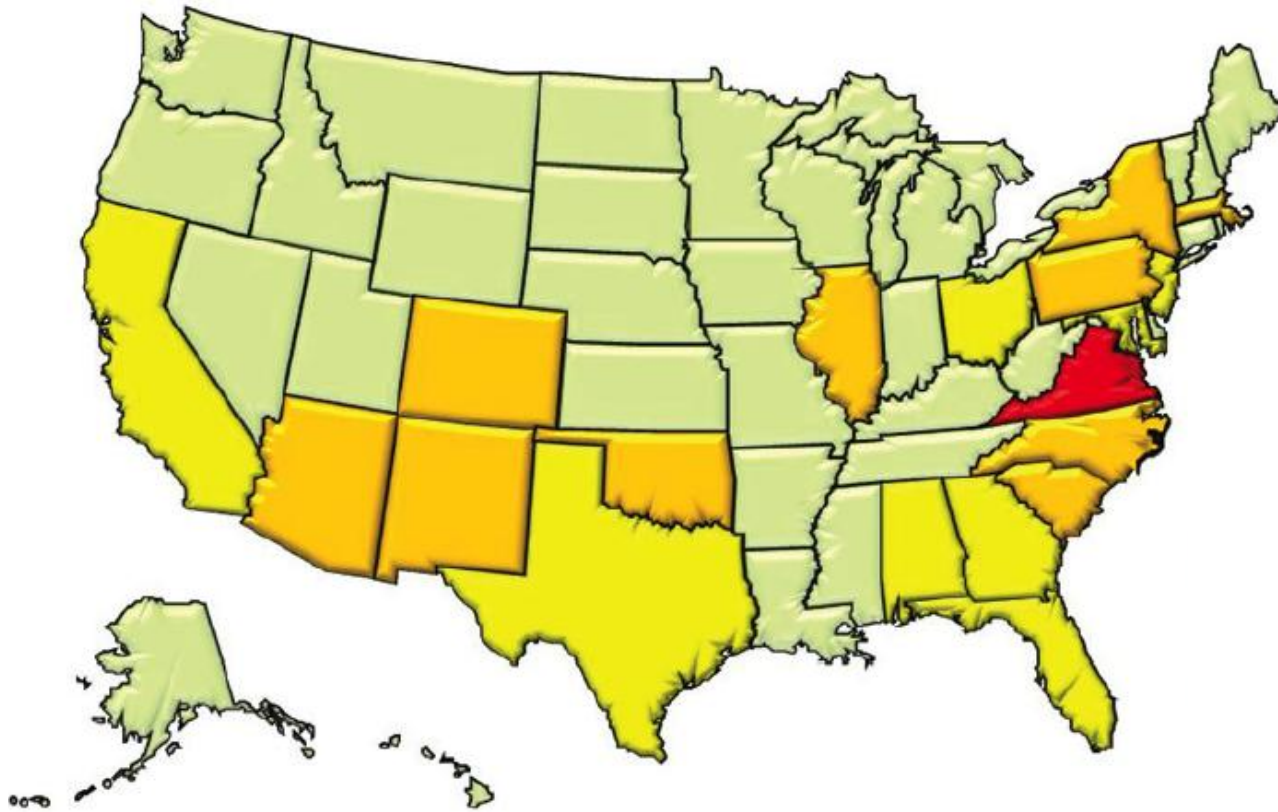
- Firms holding DoD contracts funded from Federal Supply Group “Professional, Administrative and Management Services” (PAMS)
- Subcontractors working for those firms
- Suppliers to both
- At least 200 firms receive 90% or more of their prime contract funding from this one category

How Much is at Stake?



- The Government spent \$73.3B in the PAMS category in FY2009
- Of that, DoD spent \$45.9B
- Of that, \$10.8B went to contracts performed in Virginia
- 10% cut would cost firms working in Virginia at least \$1.1B in FY2011
- \$1.1B in PAMS funding equates to \approx 11,000 jobs
- Most cuts likely to occur by December 31st of this year

Who Else Takes a Hit?



FY2009 PAMS Funding

VIRGINIA	\$10.8
CALIFORNIA	\$3.8
NEW JERSEY	\$3.1
MARYLAND	\$2.9
TEXAS	\$2.3
DIST. OF COLUMBIA	\$1.9
ALABAMA	\$1.6
FLORIDA	\$1.4
GEORGIA	\$0.9
OHIO	\$0.8
COLORADO	\$0.7
ARIZONA	\$0.7
MASSACHUSETTS	\$0.7
INDIANA	\$0.6
SOUTH CAROLINA	\$0.5
NEW YORK	\$0.4
KANSAS	\$0.4
NORTH CAROLINA	\$0.4
PENNSYLVANIA	\$0.4
NEW MEXICO	\$0.3

Analysis based on place of performance, *not* company HQ location



For More Information

Visit <http://www.deltek.com/Clarity> for...

- more information about CLARITY initiative,
- to download a soft copy any of the CLARITY Reports
- to benchmark your firm against the Clarity09 survey data from similar size organizations

Contact Info:

Rich Wilkinson, VP Government Contracting
richwilkinson@deltek.com