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## Meeting Accounting Challenges to Keep and Grow Government Business

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Business opportunities with federal and state government agencies have significantly increased in recent years. However, along with increased opportunity has come increased competition. The market has seen both an increase in consolidation, with larger established organizations acquiring smaller firms to increase their market share, as well as record levels of start-ups hoping to get a foot hold in the market.

From the Government's point of view, the increase in procurements brings with it more responsibility for spending wisely and closely managing projects to help control budgets. The Government's heightened focus on cost control is demonstrated by several new changes to the accounting regulations, including the recent introduction of Earned Value Management (EVM) requirements at much lower contract value thresholds, and the new regulations governing Time and Material contracts. While each of these regulatory changes poses new challenges for the contractor, particularly in the area of accounting and project management, they are designed to protect the taxpayers' dollars.

The Government is looking for contractors to be able to comply with the accounting regulations before placing significant awards, particularly to smaller companies that may not have robust accounting infrastructure. Government contractors, including small businesses, should have a thorough understanding of the requirements and improve their accounting systems to further qualify their firms for contract awards.

A common mistake on the part of the contractor is to allow the development of fully capable accounting systems and policies and procedures to lag behind business growth. Companies then have to play "catch-up" when they discover problems and/or auditors take issue with the contractors' capabilities. This often happens because

The contractor does not understand the potential cost of non-compliance;

The contractor undervalues the impact that compliant accounting practices will have on their abilities to effectively manage operations and maintain competitive position; and

Perhaps most commonly, cost of best-in-class accounting tools can be significant.

Having an effective accounting system is a pre-requisite to doing business with the government, even if a company has demonstrably superior products and services to its competitors. The successful contractor will need an accounting infrastructure that facilitates a competitive cost structure centered on indirect cost pools that align with their operational structure and comply with government regulations regarding *allowable costs* and *allocatable costs*. Businesses must have a tool set that continually measures variances from budgeted indirect rates, monitors levels of labor utilization and continually focuses on project performance and profitability. Further, they need systems that will introduce accountability and efficiencies across their entire work-force such as electronic time collection and employee expense collection. These tools are designed to allow employees to complete administrative tasks more quickly and easily, enforce compliance with company policy and decreasing the accounting cycle of cost accumulation and billing.

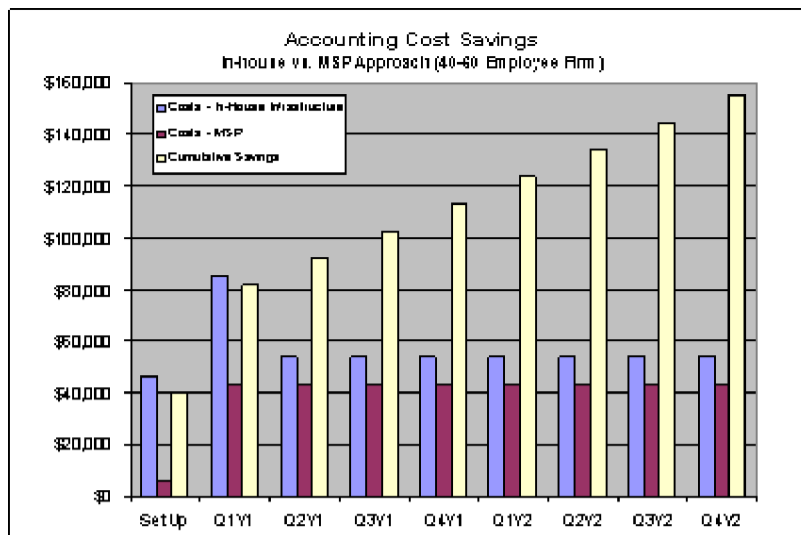
While the contractor may have a tendency to view compliance with regulatory accounting requirements as a cost of doing business, getting these tools in place early in the business cycle will allow them to more clearly focus on growing the business and generating maximum profits.

Getting these systems in place requires management's most important commodity – its time and focus – along with best-in-class software. Further complicating the picture is the fact that with a more sophisticated software toolset comes the added burden of hardware, data and network management, system up-time, data back-up and disaster recovery plans.

To help defray these significant management time and software costs, many small and mid-size contractors are turning to a Managed Service Provider (MSP) solution for their accounting infrastructure. This approach effectively out-sources the accounting function to a vendor that specializes in accounting and leverages their investment in best-in-class software tools and data center management across larger numbers of customers. This allows each of the MSP's customers a lower price point for an advanced toolset, centralized data center management and specialized accounting expertise. Most companies will realize a total cost savings of 30 to 35% when comparing the cost of provisioning an in-house accounting function comparable to that provided by the MSP.


The most effective accounting MSPs will integrate their accounting personnel with the contractors' operational staff at the contractors' site. This enables a smooth flow of information between the out-sourced accounting staff and the contractor's management. The contractor can take advantage of analytical expertise offered by the MSP to further strengthen their business management and growth strategies.

The graph below provides a typical cost comparison for a typical government contractor with 40 to 60 employees.




Such an approach also benefits the Government since the MSP will bring an added level of knowledge and experience with the accounting regulations which should result in fewer contractor compliance issues. Taking this approach early in the business life cycle will help the contractor qualify for more business and increase profits while avoiding problems that stem from poor accounting systems.

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The Government Contractors Council Report is a monthly newsletter distributed by the Northern Virginia Government Contractors Council, an initiative of the Fairfax County Chamber of Commerce for Washington, DC metropolitan area government contractors.

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