



EXCERPTS OF RECENT MEDIA COVERAGE

GOVERNMENT CONTRACTING PRACTICE

A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR SECOND HALF OF 2014

► GOVERNMENT EXECUTIVE

INFOGRAPHIC: FIVE STEPS TO MANAGE GOVERNMENT REGULATIONS FOR CONTRACTORS

By Ross Gianfortune



Contracting with the federal government can be complicated. From finding business opportunities to landing the work, the entire experience is full of rules and regulations. While a lot of – mostly larger, mostly experienced – firms are set up for these tasks, **BDO**, a professional services and consulting company, put together a cheat sheet of sorts to help businesses work through the regulatory issues that confound many. BDO itself has contracted with the government and advised other contractors on regulations, cost discipline and other issues.

The cheat sheet runs down five helpful steps a contractor needs to consider when

working through regulatory compliance. Some of BDO's tips include how to deal with an audit and asking important questions about government contracts. The sheet even suggests a possible "mock audit" to prepare for a government audit.

► FEDERAL TIMES

LAWMAKERS, CONTRACTORS DIVIDED OVER EXECUTIVE ORDERS

By Andy Medici

President Obama's executive order cracking down on federal contractors who have violated labor laws has divided lawmakers, federal employee groups and contractors over how effective it will be in deterring abuses.

President Obama signed an executive order July 31 requiring federal contractors to disclose any labor law violations and for agencies to take that into account when awarding contracts...



Joseph McCaffrey, a director of government contractor advisory services at contracting consultant **BDO**, said there is potential for confusion as agencies

work to draft regulations and rules regarding the executive order.



BDO is a valued business advisor to government contractors. The Government Contracting practice works with a wide variety of clients, ranging from well-established contractors to small business owners, providing a myriad of accounting, tax, consulting and other financial services.

Additionally, BDO's Center of Excellence for Government Contracting is committed to providing timely guidance and thought leadership on technical, regulatory and business matters important to government contractors nationwide.

For example, agencies are told to put contractor labor law violation information online, but it does not say whether the data is public or private or what kind of details the data will contain, McCaffrey said.

The executive order also does not make clear how much authority contracting officers have to determine whether a contractor has committed a violation and should be reported to be suspended or debarred.

"The devil is always in the details," he said.

► **NATIONAL DEFENSE MAGAZINE**

DEFENSE 2015 PREVIEW: DOWNTURN ENDS BUT INDUSTRY TROUBLES NOT OVER

By Sandra Erwin

Pentagon contractors are entering the new year with a mix of caution and optimism. Military spending is about to hit bottom

and is projected to inch up over the next several years. With Ashton Carter as defense secretary, the Pentagon gains a leader who has been an ardent critic of budget cuts and will again be on the front lines of that fight.

But industry CEOs still face a rough road ahead as the Pentagon slows down arms purchases and military spending remains caught in the crossfire of partisan battles on Capitol Hill...

Compared to a year ago, the defense sector faces less uncertainty, but it is still "not out of the woods," according to a new report by Bloomberg Government. "While pressure is increasing for greater defense spending, major increases in budget are unlikely. ... Because the budget caps are unlikely to change soon, prospects for defense revenue growth are limited."

The outlook is far more positive for the Pentagon's top defense contractors. Despite a 15 percent decline in defense contracting from fiscal 2010 through 2013, the largest publicly traded defense contractors have fared well and outperformed the market, Bloomberg analysts said. "Top companies have pursued a variety of strategies

to adapt. ... They have cut employees and reduced research and development expenses." The defense industry still faces challenges, and incumbents will be fighting for shares of a shrinking market...

Concerns About U.S. Defense Technology

Pentagon officials have expressed increased frustration by the relatively low level of internal R&D investment by the U.S. defense industry. According to Bloomberg Government, Boeing, Raytheon, Northrop Grumman and BAE Systems cut R&D by more than 10 percent...

The problem for the Pentagon is that private investors do not see it as an



attractive customer, said **Eric Sobota, managing director of BDO's Government Contracting Advisory Services.** "There is little profit margin on government contracts."

Considering the large investment that is required to develop advanced technology, the returns will not please investors unless it involves technology the government will help the company develop and allow the firm to sell commercially.

What's Next for Acquisition Reform

The incoming congressional leadership — particularly the chairmen of the defense policy committees: Rep. Mac Thornberry, R-Texas, and Sen. John McCain, R-Ariz. — has made acquisition reform a high priority for the coming legislative season. But what specific actions Congress might take is anyone's guess, said Sobota of BDO.

"Acquisition reform really is a wild card at this point," he told National Defense. With Carter as Pentagon chief, contractors should anticipate some regulatory changes. "He's more likely than past secretaries to get into the weeds of these things."

Increased oversight and auditing should be expected, said Sobota. Future reforms could bring more regulations, he said. The



Pentagon introduced new rules in July to tighten oversight of contractors' accounting systems. The measure requires triennial audits of prime contractors by outside firms. Although this measure will only affect large, cash-rich companies, it will create a substantial expense for them, said Sobota. New regulations are being proposed in response to criticism of lax supervision of contractors' expenses that are billed to the government.

Contractors also should prepare for tougher competition as the government comes

under greater pressure to lower costs. A trend in recent years, to select bids based strictly on price, will intensify, Sobota said. Choosing the lowest-cost bid, though, comes at a price, he added. "Frankly, I don't think there's anything wrong with it. But it's inconsistent with what the government is trying to do from an efficiency perspective." In this environment, contractors are motivated to merge or buy competitors, which over time could make the entire market less competitive and make it harder for the government to get lower prices.

CONTACT:

JOE BURKE
Partner, Transaction Advisory Services
703-770-6323 / jburke@bdo.com

CHRISTOPHER CARSON
Audit Office Managing Partner
703-770-6324 / ccarson@bdo.com

STEPHEN RITCHEY
Audit Partner
703-770-6346 / sritchey@bdo.com

JEFF SCHRAGG
Tax Partner
703-770-6313
jschragg@bdo.com

ERIC SOBOTA
Managing Director, Government
Contracting Advisory Services
703-770-6395 / esobota@bdo.com

Material discussed in this article is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.

ABOUT BDO

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through 58 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of 1,328 offices in 152 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information please visit: www.bdo.com.

© 2015 BDO USA, LLP. All rights reserved.