



BDO GOVERNMENT CONTRACTING PRACTICE

## IN CASE YOU MISSED IT: THIRD ANNUAL BDO EXECUTIVE SEMINAR FOR GOVERNMENT CONTRACTORS



On April 28, more than 200 professionals from all areas of the government contracting industry gathered at **BDO's 2016 Executive Seminar for Government Contractors** in McLean, Virginia to discuss top-of-mind matters affecting today's contracting landscape. The event was co-hosted with law firm Wiley Rein, Wells Fargo, Deltek and the McLean Group. Esteemed speakers included keynote speaker Rodney Grandon, Deputy General Counsel for the U.S. Air Force; Andy Smith from the McLean Group and Dan Demangos from Deltek, among others.

Speakers and panelists emphasized the industry's current climate of uncertainty tempered with cautious optimism, noting that the accumulation of contracts under review at the Defense Contract Management Agency (DCMA) has shrunk by \$10 billion. Throughout the day, several important themes were discussed, including:

### **Tactical Advice in the M&A Market**

After merger and acquisition (M&A) activity peaked in 2012, budget sequestration and pricing pressures brought on by an LPTA environment led to an uncertain market.

During that time, many contractors decided to strategically pull back on M&A, and some experienced C-suite shake-ups. Some companies focused on reviewing portfolios more closely or took a more specialized approach to M&A activity, rather than buying for market share, scale and size as they had in the past.

This trend continued into Q1 2016. Primes were active buyers, and the middle market also saw significant activity. Moving forward, strategic buyers could be pursuing high multiples and focusing on specialty service areas including intelligence, big data and analytics, cybersecurity, healthcare IT and C4ISR.

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As the industry looks ahead, Mr. Smith of the McLean Group emphasized a few trends that may characterize the M&A landscape in the near term, including:

- ▶ The steady clip of today's M&A marketplace is the new normal. The market is expected to see between 130 and 150 transactions per year.
- ▶ Primes will remain active in the market with very specific wish lists.
- ▶ Buyers are feeling the pressure to invest in services companies, but are expected to keep eyeing companies that are purely product-focused.
- ▶ Primes will see continued pressure to spin off their services businesses.
- ▶ Amid scrutiny on set-aside contracts, alternative strategies such as ESOP contracts are gaining momentum.

## Financial Industry Perspective – Imposter Fraud

Cyber attacks are a mounting risk for many industries, including—and perhaps especially—government contractors. According to a 2014 AFP Payments Fraud and Control Survey, 61 percent of organizations experienced attempted or actual payments fraud, and of those, 27 percent reported that the number of incidents increased. There are many types of fraud, including identity, check, ACH, wire and imposter fraud or spear phishing. In many cases, the goal of such schemes is to convince an employee to transfer funds to a fraudulent bank account.

Often, fraudsters get away with their scams because of lack of communication and/or training within an organization. One

way to combat this is by communicating with staff and letting them know it's okay—encouraged, even—to question payment requests, especially unexpected ones. Training staff to identify certain red flags, such as fake email addresses and inconsistent writing styles is also important. Sharing this information now could avoid significant costs and losses in the long run.

## Commercial Item Pricing – Risks and Liabilities

Commercial contracting and commercial sales practices (CSP) can be complex and carry a number of risks companies may not have encountered before. When considering commercial item pricing, it's critical for contractors to remain aware of the risks, which can include litigation or loss of a contract. For example, if you are working through a reseller, you are not insulated from liability with regard to commercial sales practices, including commercial item pricing disclosures, uncertified cost or pricing data, price reduction clauses (PRC), Services Contract Act (SCA) and Trade Agreement Act (TAA) compliance.

Speakers noted a few best practices for commercial contractors navigating an audit of their CSPs, including:

- ▶ Assemble the right team, which can include both an outside consultant and internal finance resources. Typically, GSA schedule administrators are not particularly suited to navigate audits concerning the commercial business.
- ▶ Conduct a data sweep of policies with regard to pricing. A 12-month data sample is recommended across the

company, and it's important to leave adequate time to pull the disclosures together.

- ▶ Look at least 12 to 18 months ahead for GSA schedule renewals and schedule a recurring reminder to review and update your CSP, keeping in mind that acquisitions and divestitures can impact it.
- ▶ Be careful in the interim period, when the GSA schedule contract could be modified to include other products not included in the initial CSP.
- ▶ Develop a robust narrative around discounting practices, distinguishing between different types of customers. The goal is to establish a basis of award customer and mitigate the risk of defective pricing or a False Claims Act suit.
- ▶ Identify your full set of transactions and reconcile them with your organization's financials.

## What's Next?

Throughout the day, speakers addressed numerous contractor concerns, including the challenges associated with increasing government scrutiny and best practices and examples of how policies and new regulations are shaping the contracting industry for the better. Ultimately, the event closed on a positive note, with contractors feeling confident that, although risks and hurdles remain for the industry, the future continues to look bright.

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