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For government contractors, Obama means more oversight

Washington Business Journal - by [Darlene Darcy](#) Staff Reporter

Cuts in federal spending are not the only thing government contractors should be worrying about. The incoming Barack Obama administration is expected to push for fundamental changes in the way government does business with vendors, potentially making it harder for federal contractors to win taxpayer dollars.

"There is still going to be a great need to fund [defense] and homeland security," said Robert Burton, a partner in D.C.-based law firm [Venable](#) LLP's government practice, but he added, "I'm sure there is going to have to be some re-prioritizing."

Even before the election, contractors were expecting heightened oversight.

The fiscal 2009 Defense Authorization Act, signed into law Oct. 14, mandates several changes in the way the government buys goods and services.

The provisions include restricted use of cost-plus awards that have in some cases encouraged waste and abuse, increased competition as agencies are required to do more to justify noncompetitive contract awards, smaller awards and fewer contractors, and increased public disclosure of spending and oversight information.

"At a minimum, the next administration will focus on implementing these priorities," said Burton, who spent 30 years as a federal procurement officer and former deputy administrator of the Office of Federal Procurement Policy.

In addition, he noted, Obama intends to audit 25 percent of large contracts each year.

Putting agencies and federal vendors under a microscope would increase the government's need for more and better-trained contracting officials. At the same time, Burton said, a shortage of qualified government labor could impede that effort.

Although Obama wants a 10 percent reduction in government outsourcing, "there really is no option but to look to the private sector" to fill many government jobs, Burton said.

Besides calling for the elimination of enough contractors to save \$40 billion a year, Obama has said he favors fixed-cost or incentive-based contracts rather than cost-plus contracts, which are used when all expenses are not known upfront and added later, increasing the final price tag.

As agencies are required to be more cost-conscious, contractors will have to manage their own financial practices and procedures to comply with the contracting terms and compete successfully on bids.

"Obama's election may indeed serve as a wake-up to contractors to make sure they have highly effective financial management practices and procedures," said Michael Tinsley, president of Vienna-based financial management services company [NeoSystems Corp.](#)

The changes in the procurement process and spending priorities are likely to affect small companies more than larger ones because they might not have as many contract vehicles in place to win a broad range of government work, said Michael Smigocki, managing director for Rockville-based consulting company [Federal Strategies Group](#) LLC.

Some small contractors depend on a single contract, and "if they're not aligned with spending priorities some of these businesses can be in real trouble," he said.

Adapting to the changes can be costly for small businesses that have less experience and more limited resources.

Moreover, when any contractor fails to comply with government requirements, especially in times of heightened scrutiny, it is often faced with hefty fees, suspensions from competing for new business or loss of current work.

Under the new administration's vow to increase vendor accountability, for example, any contractor with delinquent tax payments would be restricted from receiving new federal contracts.

Federal contracting consultants say positioning for growth during the Obama administration will require companies to focus on core business capabilities and winning work in that area.

"Contractors should be performing organizational analysis in key accounts, assessing their technology portfolios and establishing thought leadership and visibility among potential appointees as they start coming in to their positions," said Deniece Peterson, principle analyst at Reston-based Input, a government industry research and consulting company.

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