

HOW TO REGISTER TO BID ON MILLIONS OF DOLLARS IN LUCRATIVE GOVERNMENT CONTRACTS

Disclaimer—This mini-course is designed to provide information useful to small business owners and those people interested in starting a small business. It is sold under the understanding that the publisher and author are not engaged in rendering legal, accounting or other professional services to the buyer. If legal or other expert assistance is required, the services of a competent professional should be sought.

It is not the purpose of this mini-course to reprint all the information that is otherwise available to authors and/or publishers, but instead to complement, amplify and supplement other texts. You are urged to read all the available material, learn as much as possible about the topic and tailor the information to your individual needs.

Every effort has been made to make this mini-course as complete and accurate as possible. However, there may be mistakes, both typographical and in content. Therefore, this text should be used only as a general guide and not as the ultimate source on any topic.

The purpose of this mini-course is to educate and entertain. The author and Fat Bellied Laughing Buddha shall have neither liability nor responsibility to any person or entity with respect to any loss or damage caused, or alleged to have been caused, directly or indirectly, by the information contained in this mini-course.

The 100 Questions of electronic courseware is designed for the busy entrepreneur. Most of our courseware is intentionally brief and intense because we believe you don't have time to read 300 pages of text to discover the data on the five to ten pages you will use. One spark of enlightenment from our series of small business courses and eBooks will return your investment many times over. Enjoy!

Use the PDF version of the 100 questions for meetings and brainstorming. It is generously laid out so that it can be written on. You may copy it freely within your organization as a handout to employees. Giving a completed copy of the questionnaire to all ERP suppliers will shorten the quote cycle time.

Your instructor for this course is Daniel Horne. Mr. Horne holds a Bachelor of Arts Degree in Business with an Accounting Major and an Economics Minor. He also holds a Master of Science Degree in Finance with post-graduate work in benefits & insurance planning. He has worked in high technology for the past 33 years, most recently as a Chief Financial Officer for seven years at a defense contractor.

HOW TO REGISTER TO BID ON MILLIONS OF DOLLARS IN LUCRATIVE GOVERNMENT CONTRACTS

The United States Government is the world's largest customer. It spends money in hundreds of billions of dollars.



This eBook will show you how to register to become a full fledged federal government contractor and receive requests for proposal (the government calls them solicitations) in your email box almost daily.

It will also guide you to the rules that the government uses for accounting and then discuss the various type of contracts that the government awards.

For ease of communication, “government” in this mini-course refers to the United States Federal Government. While many of these principles apply to all levels of government, it is the federal government that supplants all others in size and a wealth of the small business opportunity.

The Department of Homeland Security, the Justice Department, and the Department of Defense get a lot of the press, but Social Security and Medicare are rising to the top over all.

Whatever your skill, be you a homemaker or a college professor (or both), the government contracting has opportunities for you.

So, how do you cash in on the trillions of dollars that governments spend each year?

First, you need to form a business. It doesn't have to be a fancy business. It can be a sole proprietorship, a partnership, or a more exotic Limited Liability Company.

A great web site for books on forming your own business is www.nolo.com

Lowest of the low budgets:

1. Open a free personal checking account for doing business. The IRS doesn't want you to co-mingle your business money with your personal money.

2. Treat it like someone else's checking account and obey the rule.
3. Get a debit card for that account.
4. All of this can be in your name. Name isn't important, keeping the money separate is important.
5. Setup a free account at www.fedbizopps.gov.
6. Search for opportunities and bid as you see items you opportunities posted.
7. You're a government contractor.
8. If you're an artist, a trades person, or supply any product or service, you're on your way.



A step up in budget:

1. Make your company more formal by filing a fictitious business name with your local Corporation Commission.

It's called different names in different states, but it is where you file for a business name and get a business license.

2. Obtain federal, state, and local sales tax id numbers. You get federal at www.irs.gov, state by searching the Internet for "[Your State] income tax filing". You may not have state income tax (aren't you the lucky one!)

3. Obtain a local business license (aka: a sales tax license) by searching for “[Your County] sales and use tax license”. .
4. Locally, this can be a bit of a hassle because the purpose is to collect sales tax and you’ll have to fill out a form every month even if it’s zero tax due. Negotiate filing quarterly, or even twice a year, until your business gets up and running.
5. The complete instructions for setting up tax IDs are in the *How to Setup a Business* mini-course. There is information on how to pay business taxes in the *Self-employed Taxes Demystified* mini-course.
6. Go to the Dunn & Bradstreet website www.dnb.com. Join and apply for a “free” D&B number. This will take three or four weeks and it will show up in your email.
7. The free number is all you need to become a registered government contractor. D&B will use the information to market to you over the phone several times before they give you the number and they’ll call periodically after that. I don’t recommend buying anything at this stage.
8. Once you get your D&B number, you can go to Central Contractor Registration at www.ccr.gov. Joining is free and it will get you into FedBizOpps in a bigger way.
9. Be sure to set yourself up as a small business “set-aside” contractor.





10. If you are a Veteran, Ethnic Minority, Woman Owned or other type of business that qualifies for “set aside” moneys, click them all.
11. If you are a trade worker (ie: carpenter, electrician, etc.), you may be eligible for the *Very Small Business* opportunities.
12. Once in FedBizOpps, set up various search agents by SIC & NAICS codes to comb opportunities and sent you emails when they appear.
13. The NAICS code descriptions are cut off in FedBizOpps and impossible to read in some cases, so go to <http://www.census.gov/epcd/www/naics.html> for a full explanation. Make a long list of codes for all possible NAICS opportunities, then return to FedBizOpps and check the box. You’ll be glad you did.
14. You’re almost done and you haven’t spent a dime!
15. Now, for ORCA and some really big acronyms. By the way, you can get some definitions for all these acronyms at http://www.acquisition.gov/faqs_what_is.cfm).
16. ORCA is located at <https://orca.bpn.gov/>.

This is where your DUNS number will be used and you can register on ORCA to make bidding for a federal government contract easier.



17. ORCA registration will provide you with a CAGE code. Your CAGE code is a unique identifier for your business and it allows for more visibility on FedBizOpps.

18. Now, you're a fully registered federal contractor. You'll get lots of emails wanting money for this and that opportunity. Hold out on spending any money for a few months.



19. When you want to expand into paying something, I recommend the National Association of Government Contractors. The website is <http://www.governmentcontractors.org/>. You can get a three month trial membership free. (You may have to call to receive this. It appears and disappears on their website).

20. After 3 months, membership is \$300.00/year as of this writing. Inside of their website, you'll find another service with a 7-day trial period called On Demand. It will run you another \$39.95 / month to register for all the government opportunities at the state and local level for your state. There's a cheaper Metro fee and a more expensive national fee too if you're interested.

If you are seriously considering government contracts, be sure to download the mini-course titled *Inflation Demystified*. The government redesigned how it calculates inflation in the mid 1990s (which is why cucumbers cost a dollar and you keep hearing how good everything is). You'll run into inflation discussions when negotiating multi-year contracts. I usually win them and you can to.

From here on in, everything you do costs money, so be wary of joining too much too quickly.

You can formalize your business more, get employee benefit discounts at NAGC if you are a member.

The best way to get government contracts is to build relationships with the people assigned to place the bids.

There are a number of small business set-asides that are sold-sourced. That's the business you want to aim for.

There are basically two types of contracts you'll enter into with the gov-

ernment: *At Risk* and *Cost Reimbursable*. Both have upsides and downsides.

There are two types of cost reimbursable contracts. Most people initially desire either a Time and Material (T&M) or Cost Reimbursable Plus a Fixed Fee (CPFF or Cost+) type of contract thinking it's ideal. But, while our politicians may act like fools, a lot of Civil Servants aren't.



Let me give you some real world education on these two types.

T&M can be an entire contract or one to several Contract Line Items (CLINs) in a larger contract.

Despite the government's reputation for mis-managing money, it is the exception rather than the rule if you find T&M to be a gold mine.

Quite the contrary, there is more oversight on T&M than any other type of contract, so you'll need to have your ducks in a row from an accounting perspective or expect to run into trouble. That trouble might be a few years in coming, but it will come.

The government also will grind at your profits the most on T&M awards.



Your labor *rates* are fixed and your future year's rates are will either be fixed or quasi-fixed.

All the marbles are in the government's court on this type of contract, so if your cost of labor or overhead goes up significantly and you've gotten yourself locked into a long multi-year T&M effort your joy will quickly turn to tears.

T&M has another side effect as well. The predominance of T&M work is a large pot of money that is allocated to some task that may, or may not, produce fruitful results.

There is another term in government contracting, **Indefinite Delivery Indefinite Quantity (IDIQ)** contracts that mean just that. So you might have a \$2 million IDIQ T&M award that requires you to invest heavily to meet its terms and conditions only to have the government actually use less than \$50 thousand of the funds.

While T&M is fraught with risk, it is a fully cost reimbursable way of doing business and you will get paid each month.

It's the best way of doing business with the government on a cash flow basis because you don't have to finance months of labor before you reach a payment milestone (if you have payment milestones).

Be careful with T&M. It's the least profitable, highest risk type of contract you can be awarded. It's also the best for cash flow if you know what you're doing.

CPFF contracts are free of many of the rigors of T&M.

Like T&M, CPFF can be an entire contract or one to several contract line items (CLINs). CPFF is typically reserved for research and development awards.

CPFF is probably the toughest type of award to win.

The government makes a decision on firm fixed price (FFP) or CPFF based on their opinion about your ability to offer a fair and reasonable price quote.

Engineering efforts, particularly research and development are often CPFF because their cost is indeterminate.

You should note that the government typically owns all of the intellectual property rights in a CPFF award.

You're a government employee as a practical matter when it comes to intellectual property rights under a CPFF contract.

You will not have to worry about the government funding millions of dol-



lars on a CPFF effort and not using most of it. However, you will need to worry about cost overruns.

Uncle Sam frowns on cost overruns and when you go back to the pot to beg for more money, make sure that you've given plenty of notice (typically at the 75% of completion, or 75% of funds consumed level) to your contracting officer.

There are times when more money will not be added to the total; however, if you've kept your Contracting Officer (CO) informed and up to date, they likely have seen a cost overrun coming for some time and are prepared for it.

The primary rule with CPFF is to know your own capabilities.

I can't stress this enough. The government will grind you on fee, but your cost is your cost. Never negotiate cost!

However, negotiate fee and sometimes negotiate level of effort in order to come in within the budget guidelines the CO is strapped with.



The nightmare to CPFF comes when you've got people estimating the level of effort to complete the work and they are overly optimistic (*in other words they under bid how many hours will eventually be required*). This will kill you.

You need to justify your hours and the level of effort required. If you can't the government probably won't consider you to have submitted a winning proposal.

Make sure you are the first person to *murder your proposal*. This is a good investment of time and money and will save your backside on occasion too.

With a Firm Fixed Price (FFP) contract, you are fully at risk to your profit or loss. This is true capitalism in the government sense at least.

FFP contracts are significantly different from cost reimbursable contracts in a number of ways.

The government will accept a higher profit margin.

Your costs will be examined, but not questioned with near the scrutiny.



You might be deeply out of pocket before the government pays you if you aren't careful.

In short, like all capitalistic opportunities, FFP contracts off the most risk, the least oversight, and the most profit potential. These are by far the preponderance of all government contracts awarded.

FFP contracts are awarded for everything from toilet paper to Stealth Bombers, so don't think that you aren't a candidate. If it exists, the government uses it somewhere.

As a small business, you will need to be wary of several hurdles with FFP contracts.

One is cash flow.

Do you best to structure the contract terms and conditions so that you are cash flow neutral through most of the contract duration.

If you can convince the government to pre-pay so that you are cash flow positive, then so much the better.

If you don't iron this out in contract negotiations, don't expect it to change later. The government seldom has sympathy for your bad judgment.

The PCO (Procuring Contract Officer) will be more worried about getting a black eye than about bailing you out with a contract modification.

You'll need to have your cost divided into Direct Costs and Indirect Costs.

And expect an audit from DCAA on your cost proposal unless this is a competitive bid award. (Many small business awards are not competitive bid)

Uncle isn't a tutor. You'll learn through the school of hard knocks or do better in your next business venture if you don't get the cost pools and proposal rates right at the beginning.

Proposals and labor rates are areas where even the big guns get consulting help, so don't be shy about investing in some.

Your proposal may be reviewed in any number of ways.

You might submit it by email, you might be required to fly to the government offices and present the proposal in person with other contractors, and you might have to send it via Express Mail with CD-ROMs full of spreadsheets and illustrations. Don't be shy about asking questions up front. It will save you a lot of headaches and a lot of lost effort if you do.

Many people shy away from bidding on lucrative government contracts because of the fear of government contract accounting.

Indeed, it does take some getting used to when you have your customer examining your books to make sure that your price is acceptable.

Still, government contract accounting, while a specialty, is worth the effort.



The government typically pays within three to five days of an approved invoice being received and if they pay later than 30 days, you will receive interest from them.

There are no collections or aged accounts receivable per se for a contractor to the federal government.

The government buys in one of two ways.

Where there is a market value for products openly sold to consumers, they purchase through the General Services Administration (GSA).

If you have these type of products, you may want to get on a GSA schedule and get a Federal Supply Code (FSC) number for them.

With a GSA scheduled product or service, the market sets the price and there is no government cost accounting to deal with.

However, when there is no market to set the price for goods and services, the government is blindly dependent upon registered contractors to submit a fair and reasonable price for the products or services for which a Request For Proposal (RFP) has been released on FedBizOpps.

The winning contractor is then issued a contract with stated deliverables at an agreed to price.

The government does have plenty of experts who know what the ballpark is for a price to acquire most goods and services for which no open market exists. So, when I say blindly dependent I don't mean they are without resources.

One of those resources is The Defense Contract Audit Agency (DCAA).

With a few exceptions, government contract accounting is almost totally cost accounting (as opposed to



general ledger accounting) and DCAA specializes in staffing accountants who are skilled in cost accounting.

There is little attention paid by DCAA to your Income Statement or Balance Sheet throughout the year.

However, they will roll up their sleeves and get deep into your business when you say that something costs X dollars to deliver.

The first point of consideration in government contract accounting is the proposal you submitted. Contract accounting really begins with the proposal the government used to award the contract to you.

It is expected that you were truthful on that proposal and “as you proposed, so shall you execute”.

One of the places that new contractors get themselves into trouble is to propose a cost using expensive sources that they have no intention of using and then buying from a cheap source they didn't include in the proposal estimate.

While you will not have to purchase all of the materials for your contract exactly as you proposed, your proposal better darn well be representative (financially) of the reality when you execute on the purchase.

It can cost you substantially more and the government will shrug at it, but if it costs you substantially less be prepared to defend why that happened.

Material and subcontracts are fairly straightforward because they are arrived at more often than not by a written quotation.

Labor is not so easily documented. Labor is divided into two categories for contract accounting purposes.

Direct Labor is the labor directly associated with a clear cost objective



(think contract deliverable).

Indirect Labor is all other labor.

When you submitted your proposal you included an hourly rate for each category of labor that you bid times the number of hours that you estimate the effort will require.

There might be 500 engineering hours and 2,000 technician hours for a manufacturer. Or, it could be 500 Senior Accountant and 2,000 accounting clerical hours for a service provider.

Engineer, Senior Accountant, Technician and Clerical Worker will all have an hourly amount you put in your proposal as their cost.

The Contracting Officer (CO) may decide that the contract is large enough to require an audit.

When that happens, DCAA is called upon to send an auditor to see you for a few days. There is nothing suspicious about this activity.

Large government contractors have government auditors on-site and live under the spotlight of government scrutiny.

Luckily for all of us, the vast majority of government auditors are reasonable people who have a job to do and don't take it home with them at night.

The local DCAA office to be helpful on any number of occasions when I've had a question, but understand that it isn't DCAA's charter to act as your counselor in matters relating to cost accounting.



It is important to cultivate relationships, so that you can make a phone call from time to time and ask a question.

During an audit DCAA will request a certain number of documents to

verify your proposal's price.

They will look at quote documents from various suppliers for material and subcontract costs (or if the parts are things you buy routinely, they will use the historical cost).

They will examine the method you used to determine the labor rates for the different direct labor categories and make sure your methods are accurate, fair and reasonable.

They will examine the methods you used to determine Overhead, General & Administrative, and any other indirect costs you proposed also used standard cost accounting methods.

Once the auditor is finished and the audit report issued, the contract can be awarded.

You may find that the delay to wait for the audit

put the contract's success at an unacceptable risk. In that case you can either proceed "at risk" of not being paid, or you can request an "authorization to proceed" (ATP) letter from the CO.

An ATP is a not to exceed amount that will fund your activity until the DCAA's work is complete. Don't be shy about asking for an ATP. This is a common tool CO's use in the performance of the job.

The rules for recordkeeping of labor hours are extensive and strict.

Copyright 2008 Fat Bellied Laughing Buddha, LLC All rights reserved



Contractor employees working on one element of cost (Deliverable A) and charging to another element of cost (Deliverable B) is an old problem.

One of the solutions the government has developed to ensure labor charging compliance is the timecard system.

You can use a piece of paper with lines drawn on it as long as the rules are followed, but the rules must be followed. If you want to draw a grid in some software program and print it on pieces of paper for your employee that's okay too.

The rules are that no one but the person charging time to the contract can enter time in their timecard.

Time must be entered as it is worked at a minimum of once per day. It must be entered in ink and cannot be erased.



When time is changed, a line is drawn through the incorrect entry and the correct entry is added. This has to be done by the worker charging time, it cannot be done by a supervisor.

When a pay period (usually one or two weeks) is complete, the worker will submit the timecard to their supervisor who will approve it.

Two levels of approval are required for all timecards prior to their being sent to accounting for processing.

Timecards are then kept for seven years after the completion of the contract, or until the contract undergoes a "post-award" audit after

it is completed.

There are more rules concerning labor tracking for government contracts and I will refer you to the Federal Acquisition Regulation (FAR) Part 31 to

learn them.

Don't skimp on your knowledge of the FAR as regards contract proposal and execution. Things generally run smoothly, from a regulatory perspective, as long as contractors obey the FAR to the letter.

If the FAR is inconclusive, you can also find the latest DCAA audit manual for reference. Both these are free and downloadable online. The FAR can be obtained at <http://www.acquisition.gov/far/index.html>. The FAR is many thousands of pages thick, so before you run away from it, know that Part 31 and Part 52 are the two main sections that you'll be dealing with. Most of it you'll never encounter.

Sometimes the FAR is vaguely worded and you may disagree with DCAA on a point. That's fine, the DCAA audit manual is online too at <http://www.dcaa.mil/cam.htm> and you are welcome to question any of the facts they question as well.



The auditor has rules to follow as well as you and any overzealousness on their part can be questioned with their supervisor without penalty.

There is the practical problem of irritating people if you throw a fit about everything, so I suggest reserving your complaints for when you really need them.

I've found DCAA to be a fair agency to deal with, but then I don't take an antagonistic stance with them either.

Two final points.

First, if you are doing business with the Department of Defense, you will run into a supplemental set of regulations known as the Defense FAR or DFAR for short. Don't fear it. You probably won't even know it's there.

Second, entire careers are spent specializing in the FAR and submitting proposals to the government. Don't expect this mini-course to be any more

than a starting point for a long journey.

That said, working government contracts can be lucrative and rewarding and there's something to be said for getting paid without worrying about the customer going bankrupt.

After all, if the government runs out of money, they can always print some more.



Those links again are:

Nolo Books: www.nolo.com

IRS: www.irs.gov

Dun & Bradstreet: ww.dnb.com

FedBizOpps: www.fedbizopps.gov

Contractor Central Registration: www.ccr.gov

ORCA: <https://orca.bpn.gov/>

NAGC: <http://www.governmentcontractors.org/>

FAR: <http://www.acquisition.gov/far/index.html>

DCAA Audit Manual: <http://www.dcaa.mil/cam.htm>