



Compliance For Profit:
How to Hire the Right Compliance Staff
By Charles Bonuccelli

For most companies, it is easy to understand how hiring technical staff can enhance the profitability of the company. Such staff can improve customer relations, job performance and company reputations. The same can be said for hiring rainmakers, who have marketing skills and networks that increase opportunities for new work, but for indirect staff, like compliance staff, companies often see them as a burden that add little value. The reality is that indirect staff can directly affect the performance of government contracts and can enhance profitability or hurt the bottom line.

For a federal government contractor, compliance is not optional, it is mandatory¹. Companies should be looking for compliance staff to enhance contract performance and profitability. Federal contracts have a large number of complex regulations and laws that apply to them. A lack of compliance may lead to suspension or even debarment from being awarded Federal Government contracts, or worse, the civil or criminal prosecution of the company and/or staff.

While compliance is an important issue, it is not the only concern of a company. Operating the company for long term success and profitability are just as important. Having someone that understands the complexities of the relevant laws and regulations can make a company more profitable. Knowing the elaborate requirements of the FAR and CAS is not simply a matter of crossing "T's" and dotting "I's". It is the ability to utilize the regulations to make sure that you are optimizing cash flow, improving management information and increasing revenues. It is the ability to use the protections afforded under the regulations to hold the Federal Government accountable so that contracts can be performed efficiently and profitably.

A major benefit of the right compliance staff is the cost avoidance of a non-compliant practice. Examples include:

- Significant legal costs incurred before a suspension or debarment
- Litigation costs for Federal investigations and prosecutions
- Treatment of costs as unallowable that, properly structured, would be allowable
- Contractor costs for re-procurement in a termination for default
- Loss of revenue due to failing a system audit.

The right compliance person may also assist with strategic initiatives such as M&A, teaming arrangements, J.V.'s, and external restructuring. He or she should have hands-on duties and responsibilities in pricing, contract and subcontract management, internal audit, and cost accounting changes.

Sophisticated compliance staff can and will enhance the profitability of the company when given the proper responsibility and authority. For example, a division of a large CAS-covered company improved cost accounting practices by appropriately allocating additional cost to government contracts. This resulted in

¹ Federal Acquisition Regulation Part 3.10 requires all contractors to disclose incidents of wrong doing and contract overpayments. All companies not doing so are subject to suspension or debarment.

the company improving its bottom line by more than \$3 million dollars per year. The project cost to change the cost accounting practices, get the change approved by the Government and to implement the estimating, reporting and accounting changes were less than a quarter of the revenue generated in the first year. The ongoing consequences of the cost accounting changes involved identifying and segregating the additional costs of performance for improved management and control.

This example demonstrates how compliance with the Federal Government's rules and regulations can benefit a company's bottom line. To achieve such benefits, a company needs to develop, an experienced and sophisticated compliance team that understands management, operations, Federal procurement and cost accounting. If a company considers compliance as a checklist, it will miss the strategic opportunities to enhance the value of the company. The talents needed to accomplish strategic compliance may be obtained by hiring the right staff or using industry consultants. The knowledge and skill of such staff need to be commensurate with the industry, company revenues, and the types of the Government contracts involved. Essentially every company needs staff with the following skills:

- Understanding of the business
- Understanding of the nature of the contracts
- Knowledge of the cost drivers for the contracts
- Knowledge of company operations and regulations affecting them
- Understanding of Government cost accounting requirements
- Understanding of contract pricing requirements
- Knowledge of contract and configuration management
- Knowledge of contract changes and equitable adjustments
- Understanding of Federal billing and financing requirements
- Understanding the Government's administrative requirements

The perfect hire for a compliance function is a person with knowledge and skills that encompass all the above. Such a person is expensive relative to what may appear to be a person of or at the same level of responsibility. However, such a person is rare and often pays for themselves many times over in mid-size to large companies. A company needs to assess what it can afford by hiring staff and what it may need to outsource through use of consultants. The role of consultants with the experience and skills that are not within the company can add tremendous depth and value to a company's compliance function.

Many firms, regardless of size use both staff and consultants as a team to achieve the best overall approach to compliance. Business consultants in federal contracting can provide overall compliance assessments of company operations and accounting systems affected by Government regulations. This provides management with a snapshot of where such systems are not compliant and what steps need to be taken. The result will be a roadmap for success.

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Charlie Bonuccelli has deep experience in government contracting operations and compliance. For the past 30 years, Charlie has assisted clients in dealing with a full range of federal government contract accounting and administrative issues including reviews of labor and accounting systems, internal controls over government contracts, claims and equitable adjustments, termination settlement proposals, litigation consulting, bid protests, estimating systems reviews, FAR Part 31 cost principles, Cost Accounting

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