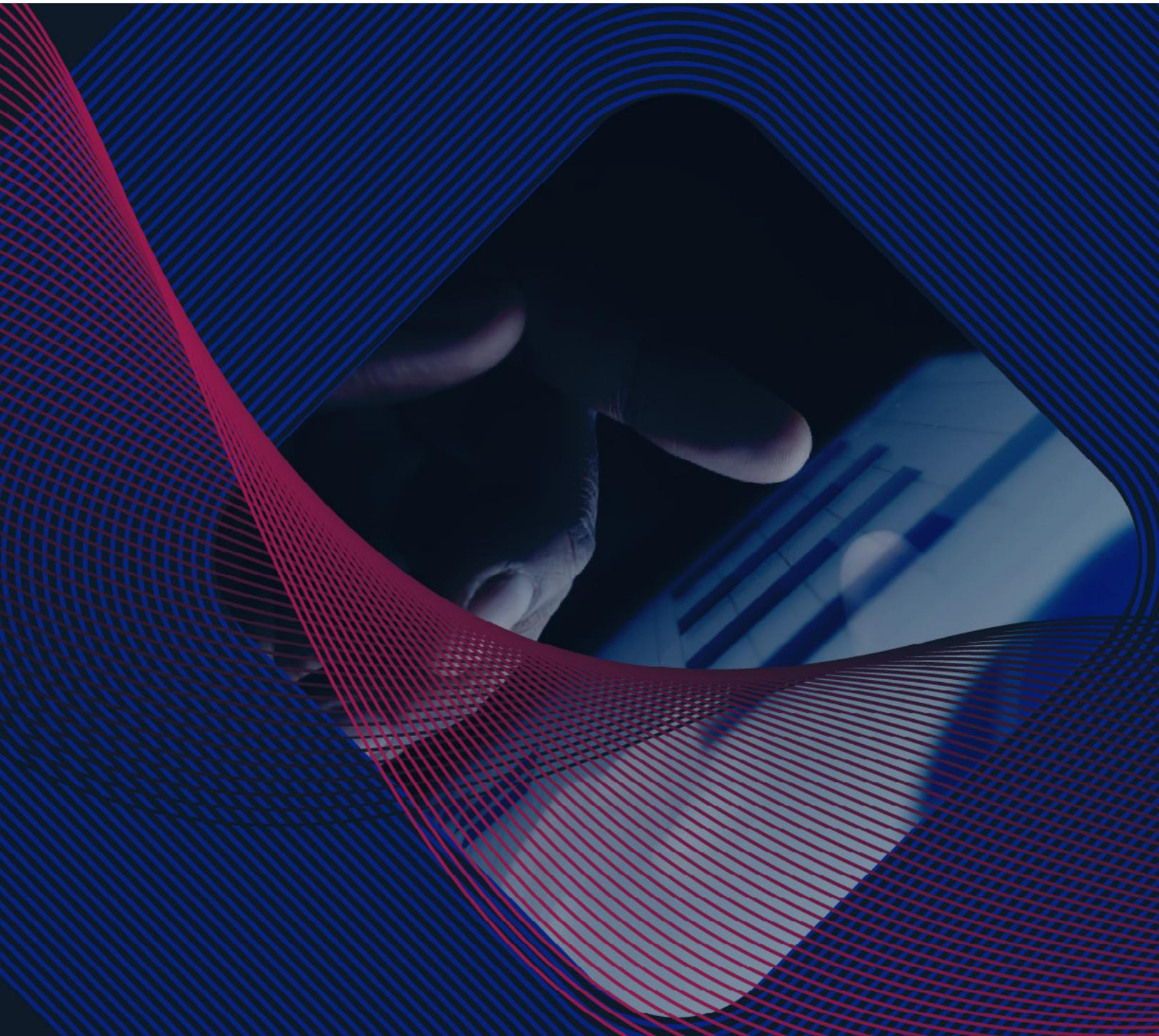
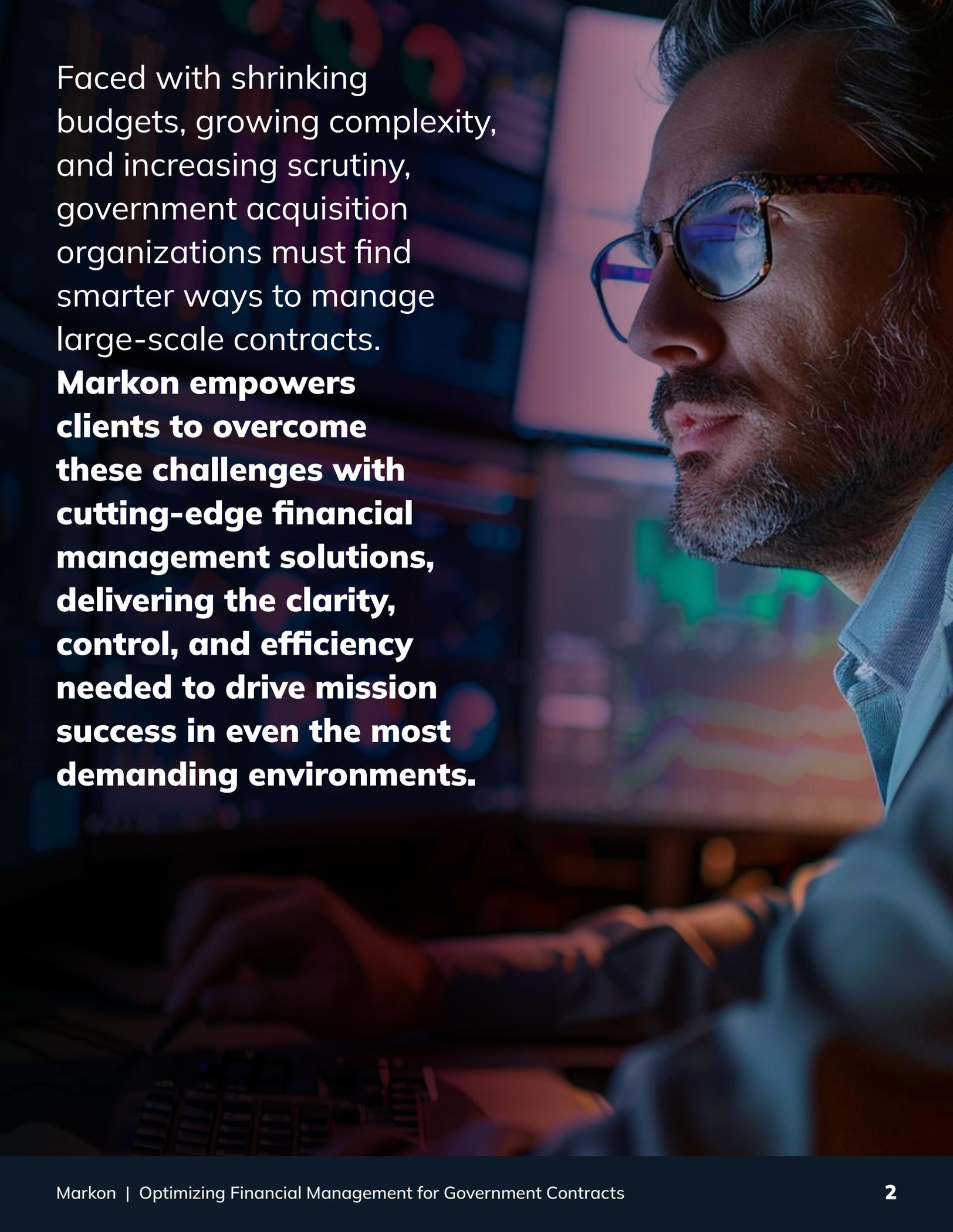


Optimizing Financial Management for Government Contracts



A man with glasses and a beard is shown in profile, looking intently at a computer monitor. The scene is dimly lit, with the primary light source being the glow from the screen, which displays some data or charts. The background is dark and out of focus, suggesting a professional office environment.

Faced with shrinking budgets, growing complexity, and increasing scrutiny, government acquisition organizations must find smarter ways to manage large-scale contracts.

Markon empowers clients to overcome these challenges with cutting-edge financial management solutions, delivering the clarity, control, and efficiency needed to drive mission success in even the most demanding environments.

Financial Monitoring and Controlling Large, Complex Enterprise Contracts

Government contract management involves establishing and maintaining formal business relationships between government agencies and private-sector contractors who supply goods or services to the government. Once the contract has been awarded, most responsibilities for monitoring the performance and measuring actual contract achievement fall squarely on the shoulders of the government Contracting Officer's Technical Representative (COTR).

The COTR is primarily responsible for managing the financial risks related to a contract and for budgeting, financial planning, record-keeping, cash flow management, and other high-level financial aspects of the contract. The COTR is also responsible for communicating the financial performance and forecasts to the contract's customer community.

The efforts devoted to these tasks and the techniques used to perform them will become increasingly complicated depending on the type of the contract, the size and complexity, and the resources available to the government. This can be overwhelming without ample support, especially when it involves sizeable multi-million-dollar enterprise contracts comprising many organizations.

Due to the current federal budget environment, there is a demand for better contract financial management growth. To assist with managing these increasingly limited budgets, government agencies require additional emphasis on implementing more effective contract monitoring and control on their acquisition programs.



Markon has consistently applied a successful management approach to all our various contracts. Our contract management experience includes those efforts requiring only one organization and few resources, leading to considerable, complex efforts involving many organizations and additional resources.

Our acquisition team is heavily involved with numerous projects and initiatives that our government acquisition client relies upon as best practice guidance. Our approach has enabled our success as a leader and trusted advisor in the intelligence community, spearheading efforts to support our federal clients. More importantly, our method allows our customers to succeed in achieving their missions while realizing cost savings due to our proven, well-defined processes.

For instance, we created a standardized data collection format that allows the government to

collect contract financial data from the vendor uniformly. In addition, our team has led numerous process improvement efforts that helped streamline the office's business processes, such as developing standard guidance on how to submit a Benefit-Cost Ratio (BCR) and accurately obligate and de-obligate funding. We also introduced applying performance management principles to budgeting to minimize the unliquidated obligation.

Through a unique blend of experiences gained from the current support we provide to a government acquisition office, old-fashioned contract monitoring and control know-how, and innovative approaches to financial management, Markon is well-equipped to assist government clients.

Challenges Facing Acquisition Organizations

Congress annually provides billions of dollars to US government agencies for acquisition and military operations. Each year, the budget gets smaller while the budget requests grow more extensive, thus leading to an increase in competition for limited resources. Every dollar spent on one program will mean one less dollar available to fund other efforts. Therefore, government acquisition programs must be financially sound and efficiently operated.

Congress is becoming increasingly critical in its oversight of the federal government's stewardship of public funds. Government agencies must demonstrate that they are executing their funds wisely. To meet the challenge of using available public funds wisely, agencies must methodically employ management practices and processes. Of these processes, effective contract financial management is a good way of exhibiting adherence to sound program management principles.



The ability to conduct reliable contract financial management and monitoring is a critical function. Without it, agencies risk experiencing potential cost overruns, un-liquidated funding, missed deadlines, and performance shortfalls. These are all recurring problems that government programs frequently encounter. Furthermore, unexpected cost increases or unused funding often mean that the agencies cannot fund as many projects as intended or deliver them when promised.

For small and more straightforward, non-critical contracts, an occasional telephone call to the vendor may reassure the COTR that everything is proceeding according to plan. However, large, and complex LOE contracts that span multiple organizations may require the COTR to oversee more extensive analyses, regular meetings with the task managers, and other ad-hoc technical reviews and financial reports. This can be a daunting task for any COTR to take on without having additional support. Employing various analyses and reports, Markon offers government acquisition offices a reliable and quantitative ability to oversee and manage the economic health of their programs at the contract and higher organizational levels.

Current Government Practices

Observations made by our team on the practices currently employed at several government acquisition organizations found inconsistencies in the collected data, analyses performed, and reports produced on an informal, ad-hoc basis. For instance, whenever a question came up, instead of having completed preset data readily available to provide a comprehensive answer, acquisition offices often first reach out to the vendors and other financial counterparts to collect necessary information, then perform the analyses.

Often, the data is collected informally and interpreted according to the organization's internal processes, preferences, and desires, while analyses are done depending on the requirements. The inconsistency in data collection methods and "non-standard" reporting and analysis can lead to problems including:

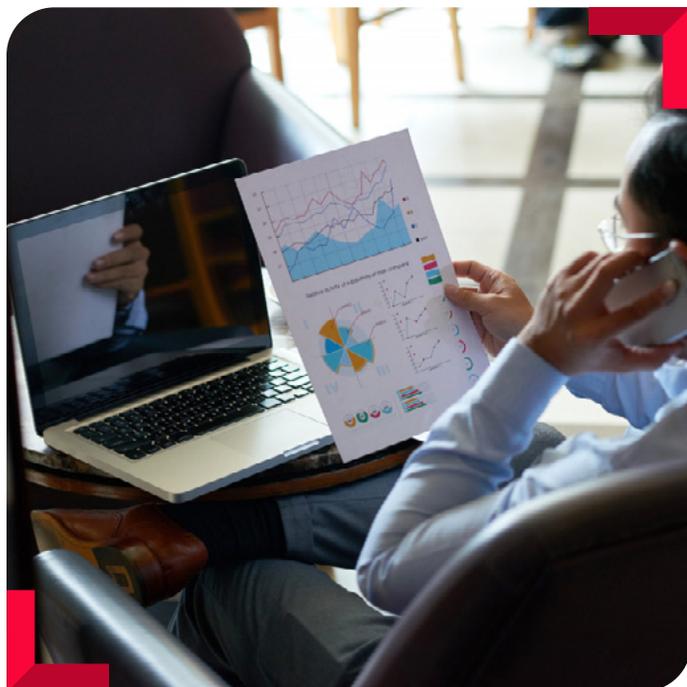
- Delays reactively responding to programmatic and technical changes on the contract in supporting the mission.

- Inability to proactively manage the overall “health” of the contract via standardized analyses and reports.
- Inability to effectively monitor the contract to comply with its internal policies and processes.
- Failure to detect early potential financial issues and make correct recommendations to ensure the contract is appropriately funded while minimizing the possible un-liquidated funding.
- Correctly invoiced and expended.
- Fulfilling the contract obligations within the planned budget.

A need for more reliable consultation with the government’s financial and contractual activities, such as budget planning and contract negotiation.

Markon’s Proven Approach

Understanding the funding requirements, rate variation, and performance against the planned schedule is essential to successfully execute government contracts. Markon provides acquisition organizations with a proven framework for isolating shortcomings through stakeholder interviews,



exploring existing facts while uncovering the available data, and developing and standardizing the data collection method using normalized templates.

By leveraging our normalized data, standard and customary documentation, evaluations, and analyses were introduced to enhance the ability to measure the “financial health” of each contract. These comprehensive reports comprise three tiers from a high-level, multi-contract, or organizational view (e.g., general standardized assessments) to contract deep diving (e.g., ad-hoc reports for a specific contract or customer).

Five-Step Methodology

Markon developed a five-step methodology that includes fact-finding, analysis, data collection, and documented reports to identify the relevant data required for the desired assessments effectively.

1) Identify key concerns

General interviews are conducted among the COs, COTRs, and the Senior Leadership Team (SLT) to identify office-specific concerns.

2) Define the client’s financial management scope in response to the identified issues

Three main areas of concern are identified via technical interviews conducted with stakeholders:

- Program acquisition funding obligations, expenditures, and unliquidated obligations in meeting the government’s Anti-deficiency Act.
- The need to improve contract financial performance, increase efficiencies, and reduce overall costs while continuing to provide high level support to the mission.
- Effectively manage the labor categories and monitor the contract rates down to the individual level.

3) Develop a data collection plan

Standardized data collection templates that emphasize the collection of current and relevant contract cost data from the vendor are implemented to support their monthly invoices and total cost projection. The collected data is analyzed for

cost accounting factors, ODC costs, escalations, adjustments, and provisional fees.

- **Invoice Template** – A collection of individual resource data supporting labor contracts with the respective labor category and the CLIN and WBS with full detailed accounting data such as G&A, OH, and Fee.
- **EAC Template** – The vendor’s best estimated total amount (\$) and level of effort (hours) at the individual level needed to complete authorized work within a given period of performance.
- **Negotiated Value Template** – A timed-phased budget execution baseline within a specific contract period of performance where the Budgeted Cost of Work Performed (BCWP) is set to equal the Budgeted Cost of Work Scheduled (Contract Value) for a Level-of-Effort (LOE) contract.

Data from the existing financial management system will be leveraged to allow the team to analyze cost drivers, trends and outliers, variances, and more.

4) Define a standard reporting structure

A formal three-tier financial reporting structure catered towards the end customers’ specific needs monthly is implemented.

Tier 1, which includes Senior Leadership and higher-level audiences, are provided a report that encompasses the following information:

- Comparative trend analyses at the organization level and across enterprise contracts.
- Agile reports are provided ad-hoc or in response to a data call request.

Tier 2, which includes Contracting Officers (COs) and Contracting Officer’s Technical Representatives (COTRs), are provided a report that details:

- Deep dive analyses are conducted at the contract level, focusing on these key areas: funding status, performance, burn rate, cost variances and trends, and labor categories and rate variances.
- Customized analysis is also performed depending on contract-specific or potential issues that must be emphasized.



Tier 3 involves a continuation of existing ad-hoc level support for Customers and Government Task Managers (GTM) to include:

- Customized analyses and reports, mainly at the WBS/Project (i.e., customer-specific level) that include all three aspects of contract financial management—funding, performance, and rate analysis.

5) Document analyses and create a contract dashboard

- Present analyses in PowerPoint or dashboard format using visual charts and high-level explanations of the underlying issues and any potential causes for future concerns.
- Document the three focus areas—funding status, performance, and rate analysis.
- Ensure the content is clear and complete so that those unfamiliar with the contract or program can easily understand the analyses.

Three-Tier Financial Dashboard

The dashboard structure is designed to meet the customers’ specific needs monthly. The content, centered around three main areas—from funding status to contract performance against planned FTE skill/rate analyses, is designed to be a reliable and comprehensible resource so that those

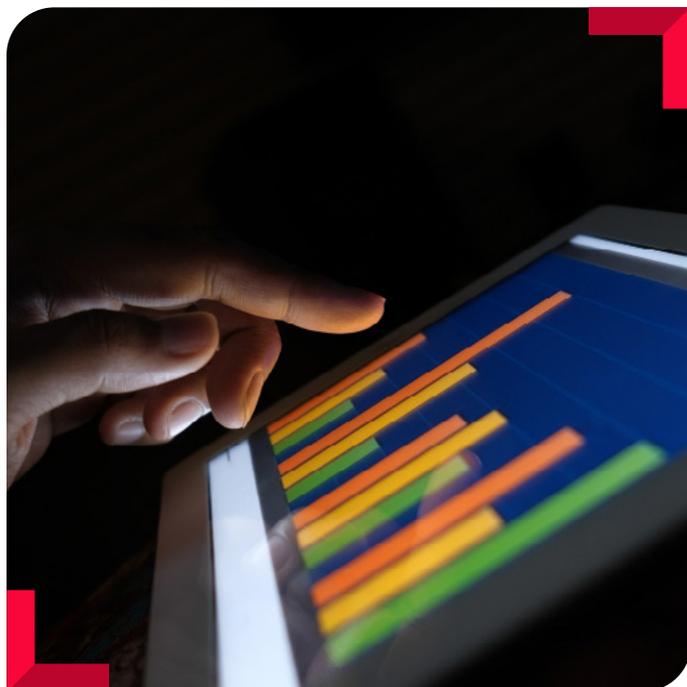
unfamiliar with the contract(s) or project(s) can easily understand the analyses.

TIER-1: Enterprise Cross-organizational Analysis and Reporting Dashboard

The TIER-1 dashboard is designed to accommodate SLT- level customers who need to make decisions at the Corporate/Group level. This dashboard includes analyses and reports across the enterprise's organizations and contracts at the Enterprise/Organization level. For example, TIER-1 analyses highlight funding status by organization and across multiple contracts, comparing group year-to-date actuals versus planned achievements. It also evaluates the labor force's skill mix and average rates to ensure an optimal return on investment. Additionally, expenditure trends across organizations and contracts are reviewed and examined to ensure the work is performed within the planned schedule and budget.

TIER-2: Contract Analysis and Reporting Dashboard

Cost control, schedule control, compliance with contract specifications, contract terms or statement of work, and other related contract aspects are common concerns for the COs and COTRs. These challenging decisions that involve the budget, requirements, or schedule can be easily managed



with comprehensive and timely analyses and reports.

The TIER-2 dashboard serves as an oversight tool to provide COs and COTRs with valuable insight into the health of their respective contracts and reassures them that all issues are addressed proactively and in a timely manner.

Specific elements in this dashboard include:

- Funding Status Analyses
- Spend Rate / Limitation of Funds
- Unliquidated Obligations
- Available Status by Fund Type
- Performance / Cost Variance Analysis
- EAC Variance from Negotiated Value
- Contract Cost Efficiency
- Expenditure Trends

TIER-3: Customer Management Analysis and Reporting Dashboard

The TIER-3 dashboard is centralized around providing information dynamically and tailored to the specific needs of the organizations. These analyses and dashboards offer access to a wealth of information that can assist customers with managing strategies and communications. Additionally, this dashboard provides a concise snapshot of customer-driven performance and related activities through a range of features and functionalities empowered by a data visualization approach. Specific elements in this dashboard include:

- Fiscal and Funding Status Analyses
- Commitments - Obligations - Expenditures (COE)
- Spend Rate / Limitation of Funds
- Unliquidated Obligations
- Available Status by Fund Type
- Performance / Cost Variance Analysis
- EAC Variance from Negotiated Value
- Expenditure Trends
- Labor Skill Mix and Efficiency Analyses

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CONTRIBUTORS

TUAN BUI

Tuan is a senior director at Markon with over 20 years of experience in program management and financial consulting serving the Intelligence Community and Department of Defense. Tuan earned an MBA in International Trade and Business from Strayer University and a BS in Economics and Information Systems & Operations Management from George Mason University.

ABOUT MARKON

Markon is a national consulting firm with a federal government focus, specializing in enterprise technology, business operations, and critical infrastructure for the nation's intelligence community and civilian and defense agencies. We bring a fresh approach to consulting, with deep dedication to what matters most – advancing our clients' missions and supporting our people.

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