

Federal Contracting 101: The Basics

The essentials to get started selling to the government

The federal contracting market is full of opportunity. Here are the basics your business needs to know to start selling to the federal government.

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Get Your Business Started in Federal Contracting

Contracting with the U.S. federal government, the world's biggest customer, is unlike working with any other client. The government establishes the laws and extensive web of contracting regulations known as the Federal Acquisition Regulations (FAR), and operates the courts that decide contract disputes.

While the labyrinth of regulations and bureaucracy can be daunting, the opportunity that comes out of federal contracting is unique: In fiscal year 2020 alone, the United States federal government paid contractors hundreds of billions of dollars. The government has a goal of conducting 23% of prime contracting with small businesses, and they have achieved that goal for several consecutive years. Once a company has navigated their way into the market, it can be a highly lucrative and reliable revenue stream.

Government contracting is a complex field, and nobody is an expert in every one of its facets. However, a sense of how federal government contracting works at a high level is necessary to get started in the market. In this guide, we present that high-level view and help you get registered and ready for federal government contracting.

The Federal Contracting Basics

Government procurement, also referred to as "acquisitions" or "public procurement," is the procurement of goods and services on behalf of a public authority such as a government agency.

Government procurement generally accounts for approximately 10 to 15 percent of gross domestic product (GDP) in developed countries, making up a substantial part of the global economy.

Nearly all federal contracting is governed by the Federal Acquisition Regulation (FAR), the principal set of rules related to government procurement in the United States. (The FAR technically applies only to executive branch agencies, so some agencies such as the Postal Service are not required to follow this regulation.) Federal contracting

includes any good or service purchased by the executive, legislative, or judicial branch of the federal government (although the majority of federal spending is done by the executive branch.)

Historically, federal opportunities have been posted on one individual government website. As of 2019, the federal government began posting most contracting opportunities to the SAM.gov website.

Government Procurement Rules and Regulations

Each federal agency has its own contracting officers who acquire goods and services and its own (slightly different) procurement regulations, but all must follow a set of core regulations captured in the FAR. A good example is the Department of Defense's acquisition regulations, called the DFARS which complement the FAR to accommodate the DOD's unique requirements.

The entire federal government now uses one website, Acquisition.Gov, as its primary resource for these procurement regulations and guidance.

Contracting Officers

All government contracts are initiated, written, and overseen by a contracting officer. Contracting officers (COs) are the only government officials with authority to spend federal money beyond the micro-purchase threshold (which, as of 2019, is \$2,000 for construction, \$2,500 for services, and \$10,000 for most goods.)

A CO – sometimes referred to as a KO by the Department of Defense, in order to differentiate them from the military's commanding officers – has written authority, known as a "warrant," given by a cabinet-level official to enter into contracts on behalf of the government.

Levels of Procurement

Government agency purchases are classified by how much they are valued monetarily and the nature of the product or service being acquired. The chart on the following page shows the different levels of procurement with some additional information about what those levels mean.

Procurement Level	Additional Information
Micro-Purchases	A micro-purchase is an acquisition of supplies or services using simplified acquisition procedures, where competition is not necessarily required. As of the start of 2019, the threshold for these kinds of acquisitions is \$2,000 for construction, \$2,500 for services and \$10,000 for most goods.
Simplified Acquisitions	Simplified acquisitions are procurements made in a simplified environment that mean agencies need not use a formal evaluation plan or score offers. As per the FY18 National Defense Authorization Act, the threshold for simplified acquisitions is generally capped at \$250,000.
Regular Purchases	A procurement not fitting into the above levels is considered a regular purchase, and generally must follow competitive procurement processes, including being advertised on a government website such as SAM.gov.

Types of Government Contracts

There are many types of contracts the government may write, each of which has advantages and disadvantages for both the contractor and the government customer.

How the Federal Government Acquires Goods and Services

Once a federal government agency has determined a need for a particular good or a service, it conducts program management activities and develops an acquisition strategy. Part of this strategy involves determining which contract type will best suit the government's needs.

Most government contracts over \$250,000 go through a competitive bidding process overseen by a contracting officer. This process can be conducted either through sealed bidding or negotiated procurement.

The Two Major Categories of Contracts

Government contracts belong to two general categories: fixed price and cost-reimbursement. The contract type defines the expectations, obligations, incentives, and rewards for both the government and the contractor during an acquisition. The contract type also determines:

- » The degree and timing of the responsibility assumed by the contractor for the costs of performance
- » The amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals

Fixed-price contracts are used by all federal agencies and generally provide a firm price for the work completed or items supplied. However, an adjustable price level is sometimes used for a ceiling price, a target price (including the target cost), or both.

Cost-reimbursement, or cost-plus, is a type of contract where a contractor is paid for all of its allowed expenses up to a set limit, plus additional payment to allow the company to make a profit. Cost-reimbursement contracts carry additional obligations for the contractor in how they account for the costs they are seeking for reimbursement.

Other Government Contracting Methods

There are a number of other contracting methods and vehicles that are commonly used by the federal government. Some methods will be a better fit for some businesses depending on the types of products or services that they offer. Two of the most commonly-used methods include:

- » Indefinite Delivery/Indefinite Quantity (IDIQ) contracts. IDIQ contracts are often used to provide the government with flexibility in regards to certain aspects of a project. The government can also use IDIQs to streamline the procurement process by limiting their decision process to a few pre-approved vendors that have agreed to a common set of terms and conditions.
- » GSA Schedules. These long-term government contract vehicles (sometimes called Multiple Award Schedules or Federal Supply Schedules) are intended to facilitate the purchase of commercially available products and services through pre-negotiated prices, delivery terms, and conditions that enable the federal government to negotiate more simplified contracts with private vendors. GSA Schedule contracts make up more than 20% of federal procurement spending, and require vendors to meet a set of requirements to participate.

Registering to do Business with the Government

Preparation pays off in federal contracting. Before you are even considered for a contract, you must register your business in a number of locations.

Before you do anything else, take these steps:

- » Register for an Employer Identification Number (EIN), which is a permanent tax number.
- » Find the appropriate North American Industry Classification System (NAICS) codes for your business.
- » Register for a Data Universal Numbering System (DUNS) number, which is required in order to register with the federal government for contracts and grants. (The government does have plans to transition to a proprietary government-managed system, and moving away from DUNS, within the next several years.)
- » Obtain a Commercial and Government Entity (CAGE) code, which is a standardized facility code.
- » Register with the System for Award Management (SAM), the government-wide vendor registration. This is required for all prime contractors as well as companies that are tier one subcontractors (those working directly for a prime contractor)
- » Register with the certify.SBA.gov login service, used for SBA services.
- » Review the SBA socioeconomic categories as noted below - businesses that qualify gain a number of advantages in contracting. Note that the NAICS code you compete in may have different size standards that determine whether your firm is qualified as a “small business” from the federal government’s perspective. This has an impact on your ability to compete under certain socioeconomic programs.

Many companies fail to win their first proposal due to not following the these steps. Follow these directions to give your firm the best chance of success.

Socioeconomic Categories

You should also determine which socioeconomic categories, if any, fit your business. These categories can give you another contracting advantage. For many types of contract, agencies are often required to set aside part or all of a contract for one or more of these categories of business. Similarly, large prime contractors are often required to submit subcontracting plans that require them to utilize small businesses of various socioeconomic status’ in carrying out their contracts.

Finding Government Contracts and Funding

Federal agencies use several methods of advertising their intent to spend money, including socioeconomic set-aside programs and government websites such as SAM.gov. Sometimes agencies also offer a preview of coming solicitations by hosting industry days.

Small businesses have a distinct advantage when searching for government contracts. The federal government provides many resources and programs for small businesses. Most agencies have offices of small



The SBA size standards are used to determine eligibility for SBA’s financial assistance and to its other programs, as well as to federal government procurement programs designed to help small businesses.

and disadvantaged business utilization (OSDBUs) and/or small business programs that are focused on ensuring the agency maximizes the opportunity for small business in their acquisitions.

Many contracts specify that small businesses must do a certain amount of the work, or are set aside entirely for small businesses. Published contracts can be found on SAM.gov. Contracts and pre-notification opportunities can be found on GovWin IQ's market intelligence platform.

The SBA offers a number of programs to help small businesses win some of these federal government contracts. Below are several of the most commonly-used programs:

- » Women-Owned Small Business Federal Contracting. The government aims to award at least 5% of federal contracting dollars to women-owned small businesses every year.
- » Service-Disabled Veteran-Owned Small Business. The government aims to award at least 3% of federal contracting dollars to SDVOSB firms every year.
- » 8(a) Business Development. The government aims to award at least 5% of federal contracting dollars to qualified small disadvantaged businesses every year.
- » HUBZone. The government aims to award at least 3% of federal contracting dollars to HUBZone-certified small businesses every year. A HUBZone is a historically underutilized business zone where the government is looking to foster economic activity such as job creation. Of the small business programs, it is the only program not focused on the ownership of the business, but rather on the location of the business and its employees.
- » All Small Mentor-Protégé Program. Small businesses can get valuable business development help from an experienced government contractor through the mentor-protégé program.

Though most opportunities to do business with the federal government appear on SAM.gov or other government websites, private companies like Deltek have tools such as GovWin IQ that track likely opportunities well before a bid or a request for proposal (RFP) is issued.

Companies often find that when they rely on SAM.gov or crawling other government websites, other more sophisticated companies have already been engaging the agency buyers in discussions and have done some "pre-selling". Once a solicitation is released on a government website, agency contracting officers and buyers have very restricted rules around communication that essentially preclude discussions with individual companies until the acquisition is awarded.

Working with Other Contractors

Small businesses often break into new fields or gain contracting experience through subcontracting and serving on a prime's team. It is a way of getting experience that often allows you to avoid some of the complicated compliance requirements and challenges competing against more established vendors, yet gaining some experience and past performance.

Capturing Federal Business

Veteran contractors know that successful businesses don't just follow the request for proposal (RFP) process to win business. Marketing to government agencies, much like marketing in the commercial sector, is about building relationships. And just like in the commercial sector, at the end of the day, government buyers buy from people and companies they know and trust.

Building a reputation as an expert in your industry, building relationships with potential customers and partners, and getting face time either at industry events or meetings are all as vital in government business as they are in private sector sales. However, it's important to recognize some of the rules and limitations you have due to acquisition regulations. Once an RFP is released, government communications and interactions with industry is very restricted. One-on-one discussions with the government post-RFP are generally not possible, so it is critical to establish relationships and build trust long before a solicitation is released.

Writing Proposals

When the federal government needs to acquire a new product or service, or has an expiring contract for a product or service it intends to buy again, it will release an opportunity for bid or a request for proposal (RFP). Understanding the bid or RFP and properly preparing to answer it are essential to proposal management.

Proposal management is a complex field, but well-written proposals can help make small businesses competitive in federal contracting.

Executing Contracts

After winning contracts, businesses move into the contract execution stage. Program and project management principles are extremely important when executing government contracts. The government also uses these principles to prepare programs and initiatives.

Compliance and Ethics

Just as in the private sector, public sector contracting is governed by an important set of rules. Both the government and its contractors must follow numerous rules and regulations such as the Federal Acquisition Regulation (FAR) and Procurement Integrity Act (PIA).

The regulations that provide guidance for government agencies and contractors include the FAR, PIA, and Defense Contract Audit Agency (DCAA) cost accounting standards (CAS). The FAR consists of sets of regulations issued by federal agencies to manage the process by which the government purchases goods and services.

Contractors must avoid conflicts of interest, improper influencing of contract awards or federal employees, and a variety of other improper appearances, omissions, and actions. Small businesses must also follow these rules.

Pre-Award Audits

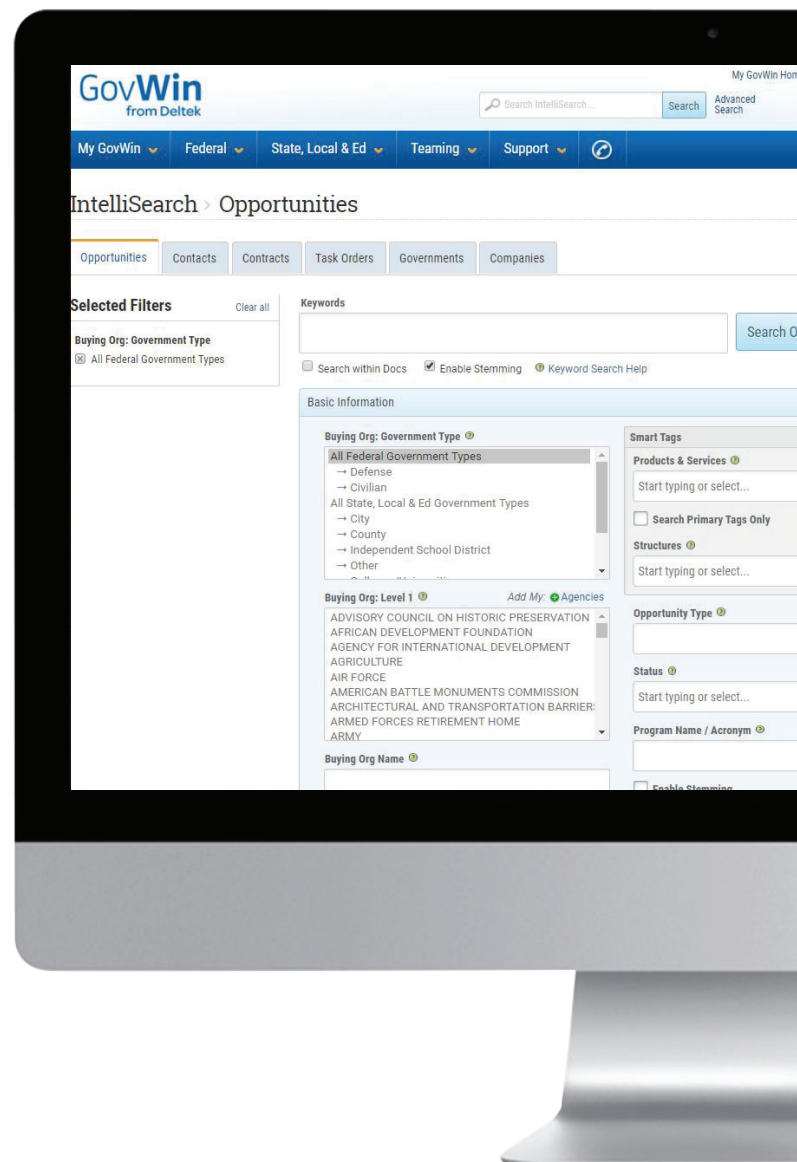
For certain types of contracts, agencies will require a company to have an adequate accounting system. Adequate in this case means capable of accounting for the direct and indirect costs associated with the contract and able to live up to the cost reimbursement requirements of federal contracts. As a contractor, you can be audited at any time – even before a contract is awarded. To pass a pre-award audit, you must have an “operable” accounting system (although it does not have to currently be in use). You must be able to demonstrate this new system to the auditor and be ready to implement it prior to incurring any costs on the government contract.

Here are some of the areas your accounting system will need to handle to pass a pre-award audit:

- » Segregation of direct, indirect, and unallowable costs
- » Job cost accounting
- » Indirect cost pools and allocation bases
- » Indirect rate computations
- » Timekeeping

Contractor Ethics

General government ethics guidelines have historically called for a high degree of public trust, a high standard of conduct, avoiding conflicts of interest or any appearances of conflicts of interest, complete impartiality, and lack of preferential treatment.



Next Steps for Success

Now that you have registered to do business with the federal government, you understand how to find government contracts, and you are prepared to meet the rules and regulations associated with federal procurement, you might be wondering – what comes next? How do you win government bids and RFPs? And how do you stand out from the crowd of government contractors?

Regardless of which products or services you offer, you will need to execute on a few key concepts to succeed in establishing a pipeline of government sales revenue:

- » Bringing a clear set of capabilities to the market that will set you apart from your competition
- » Developing relationships with a set of customers and partners that need the capabilities you offer
- » Establishing a contracting strategy to meet those customers through contract vehicles that they prefer
- » Leveraging the rules of the government market in ways that can give your company a competitive advantage

The businesses that master these concepts and succeed in the federal contracting market are using market intelligence to achieve their business goals. They benefit by gaining awareness of upcoming opportunities well before the solicitation is released, access to deep and broad analysis of the federal market, and knowledge of federal agencies, such as their spending tendencies and key contacts.

GovWin IQ provides these tools – and much more – to help businesses of all sizes, and in all industries, grow their federal government business.



Learn more about GovWin IQ

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