Normally we go out of our way to extend courtesy to fellow consultants who express opinions on topics of current interest.

Normally.

However, sometimes there is an interpretation that is so off-base that it demands to be set straight. People rely on solid interpretations and solid advice given by self-proclaimed experts; and sometimes those "experts" get it wrong.

Granted, there's a lot of gray area in the Federal Acquisition Regulation and Cost Accounting Standards. We've been doing this compliance thing for 30 years now, and we are still learning new things. That said, the fundamental requirement to giving good advice is to read thoroughly, think critically, and support opinions with facts. If you can't do that, you're in the wrong business.

Come we now to a little post on LinkedIn by a consultant who's been consulting for 6 months, after a 26 year career with DCAA. This consultant has "in depth understanding of Government contracting and extensive experience in compliance determination" and "over 20 years of extensive knowledge in Federal Acquisition Regulation (FAR), DFARS, and Cost Accounting Standards (CAS)." This consultant posted a link to a GovExec **article** entitled "Air Force Told to Save Millions on Contractors' Depot Labor" and used that article to offer potential clients the following advice:

Federal Government budget is not like it use to be due to cost costing mandated by the Congress. It is better for companies now thinking about getting in a new contract with multiple subs to do the job. It does not have to worry as much of cost control and still earn profit over subcontract costs plus an allocation of procurement and G&A costs. Forecasting costs and planning is very crucial. Best scenario in this environment. The problem of this for public companies is that they have to prove to shareholders and investors that sales are growing .

As we interpreted that advice, it seemed that the consultant was advocating use of subcontractors. Which was weird, because the article didn't seem to have much relevance to

that advice. Other LinkedIn posters interpreted the advice in the same way. One comment stated “Are you trying to say it is better for contractors to use subs than employees? I agree that subcontracting work is a good solution in some cases but definitely not always and in most cases I think it is more expensive to the contractor when they already have the capacity to hire employees as their own.” To which the consultant replied (somewhat cryptically) “Fee applies on total costs and subcontracts is a part of total costs.”

Had the consultant read the GovExec article more closely, or actually read the DoD OIG audit report that was the subject of the GovExec article, that consultant would have realized that the DoD OIG audit report was very poor support for the position that more subcontracting was better. To the extent the audit report was even discussing subcontracting, it was advocating that the prime contractor should not receive the same fee on subcontractors’ overhead as it did on subcontractors’ direct labor—which would tend to make subcontracting less financially attractive.

We pointed out the error but the consultant had a quick rebuttal to our point. The consultant posted “what IG talked about is an issue that has been around, it is called pass through costs to government where the prime applies fee to subcontract costs, as part of the prime's total costs. The opinion is that there is no added value of the prime on subcontract costs. …”

(Which was no rebuttal at all, but never mind that.)

The point of this article is that people and companies in search of government contracting consultants need to carefully vet those consultants before hiring them, paying them, and relying on their advice. The fact that somebody spent 26 years with DCAA—or 30 years elsewhere—doesn’t meant s/he knows what s/he is talking about. It’s not all about regulatory knowledge; it’s about applying that knowledge to further the business objectives of the client. And not everybody can do that, despite spending decades dealing with the issues.

Now let’s move on to the DoD OIG audit report (link above). Here’s a summary from the DoD IG website—

The Air Force did not effectively negotiate depot labor profit. Specifically, contracting officials did not adequately reduce or eliminate profit and fees paid for work performed by the depot. …

DoD guidance did not require contracting officials to:

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assess the depot at lower risk and reduce profit and fees when it was treated differently from other subcontractors, and

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eliminate profit and fees the contractor is paid on the depot non repair costs since those expenses do not directly support the maintenance performed. The non repair costs accounted for 69.3 to 78.4 percent of the total profit for the three contracts.

As a result, the three contractors will earn millions in profit and fees on low-risk DoD labor.

The DoD OIG report was addressing a fairly rare deal: the use of public-private partnerships to accomplish depot repair work. Public-private partnerships (PPPs) are “cooperative arrangements between a DoD depot-level maintenance activity and one or more private sector entities to perform DoD-related work or utilize DoD depot facilities and equipment." Right there we see that any lessons learned from the audit report were going to have a very narrow application.

In the PPP, the DoD depot activity is the subcontractor to a prime contractor. Obviously, having a government entity as a subcontractor is a bit different than the usual run-of-the-mill prime contractor/subcontractor relationship. The DoD OIG audit report addressed three PPPs between Warner Robins Air Logistics Center (WR-ALC) and prime contractors. In those arrangements, DoD negotiated prime contract prices with the primes that included the costs of WR-ALC depot activities as subcontractors. The WR-ALC depot costs consisted of direct labor plus allocated overhead expenses for such items as “office supplies, depreciation of buildings, and military salaries.” The DoD OIG asserted that the prime contractors shouldn’t receive the same profit on the overhead expenses as they did for the depot direct labor hours.

We read that audit report with some interest, because it seemed counterintuitive to split total costs into various constituent components and apply a different profit rate to each component.

That's not at all what the DoD **weighted guidelines** for negotiating profit/fee tell a Contracting Officer to do. Ultimately we decided against blogging about the IG audit report, because it seemed to be such a niggling point, with only limited applicability to the general contracting world.

But then our consultant friend decided to use an article about that audit report as the jumping-off point for … something. We really don't know what that consultant was trying to accomplish, other than perhaps get some LinkedIn recognition. But that something caught our attention. That something was misinformed and contained gross misinterpretations of what was really going on. Some people on LinkedIn saw that consultant's advice and the article that was being used as support for the advice, and they probably didn't click the link to the article (let alone read the original IG audit report), and so they didn't see that the article was poor support for the advice, and they didn't see what was wrong with advice and the follow-up posts. For all we know, some people might have taken the advice being offered at face value, which would have been a bad mistake.

And that's what led to this article.