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**DEVELOPING A BUSINESS PROCESS MODEL FOR RESPONDING TO
DEPARTMENT OF DEFENSE SOLICITATIONS:
A CASE STUDY OF TWO SUCCESSFUL COMPANIES**

by

David I. Bertocci

**A Dissertation Presented in Partial Fulfillment
Of the Requirements for the Degree
Doctor of Philosophy**

Capella University

November 2001

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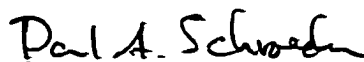
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Abstract

This research project consisted of a case study of two successful entrepreneurial small businesses that have overcome complex legal, financial and accounting restrictions imposed by the Department of Defense as prerequisites to being awarded business contracts. Through a rigorous analysis of documents and regulations together with a detailed questionnaire and personal interviews, data was gathered and synthesized and a business process model in the form of a flow chart was developed for other entrepreneurs to follow. The data gathered were verified and validated by subject matter experts including government contracting officials. The findings concluded that the business process model could be used as a roadmap for other prospective contractors to follow when responding to DoD solicitations.

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When one chooses a path to follow, there are persons along the way that one must be indebted to for providing guidance, direction, and assistance in order for you to continue along the path. Sometimes those persons push, sometime they pull, sometime they even carry you, but in all cases, they are directly responsible for you completing your journey. They are called friends. I am truly blessed to have friends along my path that assisted me to complete the journey. It has been long and difficult.

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CHAPTER 1 - INTRODUCTION

Introduction

There has always been a partnership between the Department of Defense and industry. In addition to procuring needed supplies, services, and equipment, the Department has always had a requirement for private sector contractors to provide specific or unique support specialties such as civilian test pilots, security guards, maintenance personnel, and other similarly skilled personnel. (Note: Hereafter, the acronym "DoD" will connote the term "Department of Defense.") Typically, DoD awarded contracts to large hardware vendors for major end items (aircraft, ships, tanks, and other similar products). Contracts were also awarded to industry for major systems and system components for those end items. Additionally contracts were awarded for unique support service requirements such as specialized personnel to support government missions and tasking. What changed in recent years is the increased emphasis by the government to outsource or privatize (government terms, which have come to mean contracting to vendors/suppliers outside of the government establishment) many of the functions previously performed by military or civilian government employees. This change in philosophy is significant because it modified the way the government conducts business and created an entirely new category of business opportunity for a wide variety of entrepreneurial small businesses. Caused by the downsizing of the government and the resultant loss of skilled talent, new and exciting business opportunities emerged for prospective entrepreneurs to carve out a niche in these very technical support areas.

In spite of recent efforts to simplify the acquisition process, however, conducting business with the government, specifically DoD, has remained technically challenging, with many pitfalls for disaster. A 1996 publication by the Defense Contract Audit Agency, DCAA Pamphlet 7641.90, reinforced this perception and presented very detailed instructions for contractors in an attempt to explain the complex procedures. Many of the difficulties faced by prospective contractors are traced to the following issues:

1. The Government Acquisition Reform movement is constantly evolving and is changing the acquisition process, leading to an unsure and unproven process with constantly changing legal, financial and accounting requirements.
2. DoD implementation of the Government Reform Initiatives further impacted the legal, financial, and accounting requirements and included significant changes to normal accounting standards.
3. Information pertaining to solutions to these problems is disjointed and is mainly only published in government documents or specialized trade publications focused on government operations. Unless prospective entrepreneurs know where to find this information, solutions are difficult to structure.

This project sought to develop a business process model that provides the detailed and specific information needed to meet these varying legal, financial, and accounting requirements in order to successfully conduct business with the DoD. Two successful entrepreneurial small businesses used different approaches to overcome the barriers and successfully conduct business operations with the DoD. Integrating their strategies has provided a greater understanding of these requirements and led to a business process model, which provided a roadmap for others.

Statement of the Problem

There are four main roadblocks to bidding and winning contracts from the government:

1. The legal and financial/accounting requirements imposed on contractors.
2. The limited resources that describe how to address these requirements.
3. The complex and difficult to understand process of responding to government solicitations.
4. The extremely subjective process wherein agencies evaluate technical and cost proposals and award contracts.

The net result of these roadblocks has been an environment of limited competition with the barrier to new entrants set very high, even though the overall volume of business has been increasing. In sum, these barriers have allowed a limited number of small business entrepreneurs to slice up an ever-increasing “pie.”

Background

There is nothing so permanent in DoD as change – organizational change, policy change, personnel change, procedural change, and philosophical change. To many outsiders, it would seem that the only constant is change. Some change comes about as new administrations come and go and new Cabinet Secretaries are appointed. Some result from change in military strategy. Some arise from new or different countries emerging as allies or enemies. Most, however, come as a result of a desire by defense officials simply to change “what once was” to “what is now.”

Over the years, a formal, highly regulated, and rather sophisticated (compared to the private sector) process for the award of government contracts has evolved. The original framers of this elaborate process sought to provide a system of “checks and balances” that precluded unnecessary, illegal, or unethical practices. Creation of this process was well intentioned in the beginning. However, over time, what had been intended as a simple review process quickly grew into a complicated system of multiple mandatory reviews and approvals, and has become bloated with increasingly important bureaucratic requirements.

The procurement of the first aircraft from the Wright Brothers gives stark evidence of the growth in the acquisition process. In the early 1900’s, when the Army Signal Corps sought to purchase an aircraft from the Wright brothers, a Request for Proposal of one page in length was issued. The ensuing fixed-price incentive contract filled only two pages, resulted from a 40-day competition among 41 bidders, and was awarded after a 9-day government evaluation period. Today, the solicitation process has become notably more complex. The November 1999 edition of Aviation Week and Space Technology reported that the U.S. Air Force issued a solicitation to industry for its next-generation aircraft trainer. The solicitation totaled over 2,700 pages, plus amendments. Even without these amendments, the solicitation was more than 6 inches thick. Much of the bulk was contracting “boilerplate,” but the solicitation contained over 400 pages of specific requests for data that took one respondent more than 4,000 pages to answer—at a cost of \$2 million dollars.

Another contributing factor for the growing complexity of the acquisition process is the propensity for legal confrontation over the last 15 years. During the period 1990-1999, protests or other forms of legal confrontation between industry and the Defense Department quadrupled. (Defense News, 1999). As the evolutionary trend to insert more restrictive terms and conditions into government solicitations and contracts continues, the opportunity for legal confrontation has dramatically increased. The government has increased use of nebulous and complex contractual terms and conditions that only served to whet the appetite for more legal confrontation, miring the entire process in legal interpretation, confrontation, and formal protests.

A brief review of the recent government reform measures can provide insight relative to the increase in business opportunities for interested small business concerns. In December 1993, then newly appointed Undersecretary of Defense for Acquisition John M. Deutch outlined the Clinton Administration goals and objectives to reform and streamline the DoD acquisition process at his confirmation hearings before the US Senate. The Clinton plan capitalized on a 1992 White Paper by the outgoing Bush Administration that laid out the basis for streamlining the bureaucracy in defense acquisition. Part of the Bush white paper called for increased utilization and reliance on the private sector, thus setting the stage for next 8 years (Grier, 1993).

These initiatives, coupled with other reform measures such as massive downsizing of the government, created shortfalls in the civilian and military workforce. Compensating for these shortfalls called for renewed efforts to privatize some functions

and to outsource work to qualified small business enterprises (Harvey, 1996; Kinsilla and Heberling, 1996).

In recent years, both DoD and industry managers have discovered they could no longer afford the exorbitant cost of conducting business operations. Both sides agreed they had to simplify the process, which also led to efforts to streamline and expedite the acquisition process and included increased efforts to outsource work.

Since its establishment by the National Security Act of 1947, there have been many attempts to reform and streamline the DoD acquisition management process. Over the years, several executive branch commissions have studied the problems, mainly as political initiatives. Several of the commissions even made specific recommendations to modify or change the relevant law. Over the years however, few recommendations proposed by these study groups actually resulted in legislation that changed the system.

The passage of the DoD Authorization Act in 1991, however, was the first step toward real change. The law called for the establishment of a panel of experts, from government and private industry, to study the laws governing defense acquisition, and to propose to the Congress a set of "relevant acquisition laws." The Section 800 Panel (Public Law 101-510, section 800), as it was called, established the framework for the current acquisition streamlining provisions including the development of the current set of Federal Acquisition Regulations (FARs).

The Section 800 report, submitted to the defense committees of Congress in January 1993, contained a recommendation to repeal, delete, or amend almost 300 laws (approximately 50% of those reviewed). The panel concentrated on changes to the FAR

that would help streamline the acquisition process throughout the 1990s, an era characterized by declining DoD budgets, smaller workforces, and significant changes in the threat to national security. Specific areas included an emphasis on fewer and more understandable laws, use of commercial items instead of uniquely developed military products wherever possible, and implementation of a set of simplified acquisition procedures intended to reduce the administrative overhead associated with small purchases of less than \$100,000. Many of the panel's recommendations were implemented with subsequent legislation. The most notable examples are the Federal Acquisition Streamlining Act (FASA) in 1994 and the Federal Acquisition Reform Act (FARA) in 1995.

President Clinton signed FASA on October 13, 1994, and the act made additional changes in the acquisition process. The Act was an initial attempt by the administration to make the federal government more like industry in its business operations. Specifically, it implemented a number of significant changes in the acquisition process including the use of electronic data interchange for the solicitation and award of government contracts, and increasing the small purchase threshold to \$50,000 using a simplified purchase order format. Four other significant reform changes were:

1. Repealing the Brooks Act requiring procurement of commercial computer equipment through the General Services Administration, which then allowed each government agency to satisfy their needs for computer equipment through a decentralized procurement process and permitted small companies to compete for these procurements.
2. Clarifying and simplifying procurement integrity standards, which provided a level playing field for small businesses to compete fairly against larger companies.

3. Simplifying procurement procedures for commercial items, which permitted each agency to procure commercial items simply and easily and allowed small companies to provide these items.
4. Restructuring the DoD acquisition organization and workforce, including a 25 percent reduction over the following five years, which eventually led the way to privatize many government functions and outsource the tasks to the private sector.

Subsequent to FASA, then-Secretary of Defense William Perry directed a number of other initiatives to improve the acquisition process. A series of Process Action Teams were chartered to investigate a variety of topics such as the elimination certain military specifications and standards, acceptance of more off-the-shelf items, and simplification of contract administration procedures. Policy memos from the Undersecretary of Defense for Acquisition and Technology implemented many other policies to streamline the acquisition process. These included the institutionalization of Integrated Product and Process Development Teams (IPPD) and Integrated Product Teams (IPT) with industry included as full partners with the government, emphasis on the use of simplified commercial specifications and standards, implementation of performance-based specifications, and recognition of Cost as an Independent Variable (CAIV) (Cohen, March, 1997; Cohen, September-October 1997; Ferrera, July-August 1997).

Major emphasis for government reform also came as a result of Vice President Al Gore's National Performance Review (NPR). The NPR was broad in scope, but included wide-ranging reform measures associated with the government acquisition and contracting process that influenced DoD acquisition processes. One of the reform measures involved the rewrite of several sections of the Federal Acquisition Regulations to encourage competition and simplify the interchange between industry and government.

The new regulations made government practices more closely resemble those used by successful commercial companies when buying goods and services, including the increased use of contractors in lieu of staff. (NPR, www.acq.osd.mil/ar).

A key element in the Acquisition Reform movement has been the systematic reduction of the military and civilian workforce. Since 1992, the military forces have lost 709,000 active duty military personnel, 293,000 reserve forces, 8 standing Army divisions, 20 Air Force and Navy air wings with over 2000 aircraft, 232 strategic bombers, 13 strategic ballistic missile submarines, 4 aircraft carriers, and 121 surface combatant ships and submarines. Reductions in the federal workforce have been even more dramatic due to reductions in force, retirements of the workforce and personnel hiring freezes to preclude filling open vacancies (Gershonoff, 1999).

Together these situational factors have led to the administration placing increased emphasis on the need to reform the government while at the same time continuing to meet military obligations worldwide. Consider how the administration has deployed the military in recent years – Haiti, Panama, Bosnia, Somalia, Kosovo, Iraq, Iran, and other less publicized locations. With the decline in military forces, and the reductions in federal workforce, the administration has placed increased emphasis on seeking other methods to accomplish what government employees previously did.

Measures invoked during the past several years have continued the commitment to acquisition reform and have focused on reducing the federal workforce, becoming more business-like and outsourcing technical and engineering work to the private sector. This major change in acquisition philosophy created entirely new business areas open to

small business niche players (Cohen, March – April 1999; Cohen, April 1999; Gantsler, March – April 1999; Gore, March – April 1999; Hamre, May – June 1999; Soloway, March 1999). Significantly, the initiative to expand on the longstanding policy to privatize some of the functions previously performed in-house and outsource those tasks to the private sector continues to receive favorable support and has indeed flourish.

This was a major change for acquisition reform movement by expanding the long-standing policy regarding outsourcing work to the private sector. During the last half of the 1990's, fueled by the 15 year shrinking defense budgets, the government perception was - that business works; government doesn't - and led to a government business decisions to contract work out to the private sector. OMB Circular A-76, published in 1999, and codified by law, is the primary document that implemented the privatization of the government. Outsourcing goals for Fiscal Years 1997-2005 indicated that 230,000 positions were to be considered for competitive contracting and predictions were that reductions in manpower of nearly 76,000 – 77,000 positions were possible. (Randall A. Yim, Deputy Under Secretary of Defense, March 2000). OMB Circular A-76 requires each agency to submit an inventory of all activities that are performed by Federal employees, but could be performed by private sector contractors. Each agency annually makes recommendations as to what positions are to be eliminated through privatization of the work and outsourcing that work to the private sector. Thus, with the publication of OMB Circular A-76, the formalization of the process leading to an increase in contractual opportunities was formally established.

In reality, however, the myriad of legal and accounting/financial requirements that remain integral to the contracting process serve as a seemingly insurmountable barrier to new small business entrants, despite the vastly increased business opportunities that acquisition reform has created. In 2000, the Small Business Administration provided more than \$13 billion worth of guaranteed loans and venture capital financing to small companies. As further example of the growth in business opportunities to the private sector, small business enterprises employed more than half of the private work force and provided more than half the nation's private gross domestic product (Aida Alvarez, SBA Administrator, 2000). The latest information published by the Small Business Administration indicates the growth of small business in 2000 continued to increase at a rate of nearly 5% per year. A publication by the SBA indicates that the Federal contract markets are changing at an unparalleled pace due to FASA and FARA. Contributing to this phenomenal growth is the Office of Management and Budget A-76 legislation that requires each federal agency to annually set aside business opportunities to be outsourced to the private sector.

Purpose

The purpose of this project was to develop a generic business process model that could be used by small business organizations seeking opportunity within DoD, and are yet unable to do so because of the barriers previously mentioned. The model will assist these firms in understanding the requirements and also provide a roadmap to pursue their organizational goals.

Theoretical Basis for the Study

The theoretical basis for developing this model includes government bureaucratic process models and the complex legal foundations of the acquisition process.

Research Questions

Entering into contractual arrangements with the DoD remains a complex maze of regulations, directives, and requirements unlike those found in the private sector. In order to achieve the purpose of this study and develop an effective process model to guide entrepreneurial small businesses and improve their probability for success in winning government business, the following research questions were formulated:

1. Do the complex legal, financial and accounting requirements imposed on entrepreneurial small businesses seeking to enter into contractual arrangements lend themselves to modeling?
2. Can a standard process be developed for small business evaluation of government solicitations, and can such a process accommodate the idiosyncrasies by which the government evaluates proposals and selects the winning bids?
3. Can a model be created for entrepreneurs to respond to these solicitations, to include the necessary business development activities that take place prior to development and submission of the proposal?

Significance of the Study

Conducting business with the government, specifically DoD, remains a technically challenging venture. There are numerous legal requirements as well as implementing regulations and directives. Numerous sources contain conflicting guidance. To complicate the situation further, government published instructions

pertaining to finance and accounting vary widely from those standards typically found in the private sector. The process remains complex with very little published outside of government publications. Prospective entrepreneurs will be able to use the business process model to seek out and win government business.

Case Study Units of Analysis

The units of analysis for this study are two small entrepreneurial companies currently providing Professional Support Services (PSS) to DoD. Each of the companies has been in existence for more than five years and has shown a steady growth in sales and personnel, reflecting a successful ratio of bids submitted to contract awards. The companies are excellent examples of enterprises that have taken advantage of the opportunities presented by acquisition reform initiatives discussed earlier. The project presumes that by integrating the process each used to pursue and win contracts; a model can be created that is useful to prospective contract seekers.

Assumptions and Limitations of the Study

The purpose of this study was to create a business process model that would enable entrepreneurial small businesses to pursue the expanding opportunities provided by acquisition reform in DoD. The study did not examine and analyze the success or failure of the government reform movement or any acquisition streamlining initiatives. That would be a massive undertaking. The study concentrates on only one aspect of the

reform movement—the privatization of certain functions through outsourcing to the private sector.

One of the limiting factors for this study was the proprietary and very competitive nature of the DoD marketplace and the unwillingness of competing companies to share their processes of responding to government solicitations. Competing companies were unwilling to share proprietary information for fear of compromise, thus creating a limitation as to the number of companies that could be used to gather data.

Organization of the Study

This research study is organized into a five-chapter format. (Rossman, 1995). Chapter I contains the Introduction, Background, Statement of the Problem and other related subjects. Chapter II contains the literature review. Chapter III describes the research methodology as well as the elements of the case study and the model building process. Chapter IV of the presents the results (findings) of the analysis, as well as the data gathered from the questionnaires and interviews of the case study participants. The data gathered was summarized into presentation of the final process model. Chapter V presents a summary, conclusions and recommendations.

Definition of Unique Terms

1. Contractor Support Services (CSS). Personnel provided by a contractor to support the government in the performance of routine administrative, logistical, or programmatic tasks.

2. **Engineering and Technical Support (ETS).** Personnel provided by a contractor to support the government in highly specialized technical and engineering tasks.
3. **DoD** – acronym for Department of Defense
4. **DCAA** – acronym for Defense Contract Audit Agency
5. **FAR** – acronym for Federal Acquisition Regulation
6. **DFARS** – acronym for Defense Federal Acquisition Regulation Supplement
7. **OMB** – acronym for Office of Management and Budget
8. **SBA** – acronym for Small Business Administration
9. **CASB** – acronym for Cost and Accounting Standards Board
10. **FASA** – acronym for the 1994 Federal Acquisition Streamlining Act
11. **FARA** – acronym for the 1996 Federal Acquisition Reform Act
12. **DSMC** – acronym for the Defense System Management College at Ft. Belvoir, Virginia
13. **RFP** – acronym for Request for Proposal

CHAPTER 2 - THE LITERATURE REVIEW

Introduction

Literature selected for review provided information relative to the following nine major topics or themes. Each major topic provided essential background and pertinent data that contributed to a baseline of understanding and the underlying theory and principle for this research study.

1. Those works that address the various theories of bureaucracies and how governments operate in order to develop a baseline of understanding.
2. Those works that describe the acquisition reform movement, specifically the move to privatize government functions and outsourcing to the private sector.
3. Publications and documents relating to the legal requirements imposed on small businesses prior to, during and following completion of the contract including the legal basis that permits the government to enter into binding contracts with the private sector.
4. Publications and documents relating to the financial and accounting requirements imposed on small businesses prior to, during and at contract completion.
5. Publications and documents relating to the process used by the government to advertise and solicit requirements including the evaluation and selection process used to determine the winning proposal.

6. Publications and documents relating to the process used by industry to respond to government solicitations including preliminary business development activities
7. Publications that describe entrepreneurship and the formation of entrepreneurial small businesses.
8. Publications pertinent to case study methodology and its applicability for this particular case study.
9. Publications relative to development of Business Process Models and their applicability for this study.

The Literature Review

Theories of Bureaucracy

The evolution and growth of the bureaucracy to the point in 1990s where the Bush administration developed a plan to reduce the size and scope of the government bureaucracy is the catalyst leading to the privatization of government functions and outsourcing to the private sector. A review of the bureaucratic system sets the stage for the purpose and objectives of this study because the reform in government is highly dependent on reducing not only the bureaucratic workforce but also the bureaucratic acquisition process that has evolved.

Literature describing the bureaucracy in government can be found in numerous sources and range from complimentary descriptions of the benefits provided by the bureaucracy to negative comments regarding size, power or authority. Bureaucracy has various meanings. The traditional usage is the political science concept of government by bureaus but without participation by the governed. In most cases, bureaucracy refers to the negative consequences of large organizations such as excessive red tape, procedural delays, and general frustration. In Max Weber's The Theory of Social and Economic Organization (1947), he describes bureaucracy as a particular way to organize collective activities so that one group can dominate other groups. According to Weber, the bureaucratic structure is superior to any other form in precision, in stability, in the stringency of its discipline and its reliability. It makes possible a high degree of calculability of results for the heads of the organizations and for those acting in relation to it. Weber's description of bureaucracy and its five characteristics was fairly accurate for the government in the 1940's. Weber, as well as a compatriot of his, Henri Fayol believed that the five characteristics devised by Weber, described the most effective organizations, one that functioned in a machinelike manner to accomplish the organization's goals in a highly efficient manner. Thus the term mechanistic aptly described such organizations. (Gibson, 2000).

Charles Peters presents another perspective not as complimentary as Weber and Fayol. In his book, How Washington Really Works (1993), Peters claims the bureaucracy has become in effect, the fourth branch of the government. He provides statistics demonstrating that over four million federal employees are currently working

for the government and six times that number are employed by state, county and municipal governments. In effect, growing from nearly 500,000 in the 1940's to nearly half million today. Peters describes the evolution of the federal government bureaucracy to situations that were related to national defense and spreading to other federal agencies, organizations/department. As the war years of the 1940's gave way to the Korean War era, then to Vietnam, and to a series of lesser conflicts and eventually to the Gulf War, the need for an ever expanding cadre of civil servants to execute programs, administer funding, implement decisions, etc grew beyond control. Naturally as the ranks of the government workforce grew, additional middle managers were needed. The more middle managers there were, the more top-level supervisors were needed. And so the path to increased bureaucracy is set. (Harper-Collins, 1992 and Peters, 1993). Peters proposes four types of inflation contributing to growth of the bureaucracy:

1. Slot inflation wherein positions are created in a department to deal with an emergency of some type – such as conflict in Korea or Vietnam, or the Gulf. Once the conflict is over, however the positions are never abolished.
2. Grade creep where people are in positions long enough that they continue to get promoted beyond the level of the work. As time passes, the function remains essentially the same, yet the person in the position has been promoted far beyond the grade required for the work performed.
3. Payroll inflation wherein the government worker is paid too much for the work performed. Although some technical and professional employees may be underpaid – such as air traffic controllers – many are over paid for the

services performed. In 1992, civil servants were paid \$6000 more than the average American and a whopping \$14,000 more if the civil servant worked inside the Washington DC beltway. (Peters, 1993).

4. Inflated job description wherein job descriptions are written to inflate the prerequisites for the job, the tasks performed on the job and the qualifications needed to retain the job. A skilled manager can turn typists into word processors, elevator operators into vertical vehicle operators and garbage collectors into environmental waste engineers. The result of inflated job descriptions is inflated salaries to match the inflated position.

Inflation in grade, pay, or job growth also means inflation in space as well. The higher the pay grade the more office space assigned. A level six-government worker gets sixty feet of office space while a level sixteen worker gets three hundred square feet. Peters claims that the result is a bureaucracy that is not only overstaffed, but also overstaffed with unproductive employees, employees who know that the government's rate of discharge for inefficiency is only one-seventh of 1 percent. (Peters, 1993).

Publications reviewed reveal there are two accepted types of federal bureaucrats – political appointees and career civil servants. Approximately three to five thousand are appointees (dependent on the administration in power) and the remainder (nearly ½ million) are career civil servants distributed in numerous agencies, department, commissions, and government corporations. As Presidential administrations come and go, the continuity of government and the permanent administrative organization for the government is the bureaucracy of the government workforce. (Harper-Collins, 1992)

describes this bureaucracy in positive terms relating that the bureaucracy is an essential element of the American political system and each administration cannot function without the bureaucratic civil servant workforce to implement decisions, execute public policy and carry on the daily operational routine. The other perspective presented by Harper-Collins (1992) is the criticisms of the bureaucracy, which grow increasingly dominant as the bureaucracy grows. The six major criticisms are:

1. Complicated rules and procedures referred to as red tape creating delays, confusion or excessive paperwork.
2. Inflexible rules that are not designed to handle cases, which represent exceptions to those rules.
3. The cost of coordination between department involving areas of responsibility split between two different departments, both of which think they have the sole responsibility.
4. Turf battles resulting from competition over which one has the responsibility for implementing certain policies. All government programs do not clearly fall within the purview of one department or agency and often multiple departments have domain over the execution of the program. Clearly this becomes evident in the Department of Defense and the Department of State wherein purview of the policy toward a country may fall into both departments.

5. Contradictory policies wherein congressional policy or presidential policy may be contradictory to different departments. Evidence the subsidy to tobacco farmers supported by the Department of Agriculture and the anti-smoking policy of the Department of Health and Human Services and the Surgeon General.
6. Wasteful duplication of agencies or department performing the same function. For example both the Customs Service and the Drug Enforcement Agency seek to prevent drugs from being brought into the country.

Both Harper-Collins (1992) and Peters (1993) discuss reform movements intended to reduce the bureaucracy and streamline government processes. Up to the Bush and Clinton administration, these efforts had minimal effect and impact. Peters describes the situation as follows, "Laws are passed, orders are given, compliance seems to occur, but nothing changes. Bureaucrats don't like real change, on the appearance of change. That is why they are so fond of reorganization. Reorganization gives them something to do – redrawing charts, knocking down walls – but nothing outside the agency, such as poverty, or hunger, or disease, is affected in the slightest. What does happen is that new jobs are created, almost always with a higher-grade classification, which of course means higher salaries for the reorganizers. The bureaucrat can figure that if he (no specific gender implied) takes real action, if he's truly effective, he'll be out of work – he won't survive. If, on the other hand, his action is make believe, poverty will not disappear, the energy problem will not be solved, and his job will be safe – he will survive. The fundamental principle for continuation of the bureaucracy then becomes: "Make-believe

= Survival.” For no matter how many laws are revised as part of the reform or how many policies are revamped, implementation of the reform is dependent on execution by the civil servant workforce. And a simple underlying premise that precludes complete success of the reform movement is that civil servants don’t have anything to gain with reform, they only see it as a loss. Thus a threat to reduce the number of a bureaucrat’s employees is a challenge not merely to his/her ego, but also to his/her position and income. (Peters, 1993).

Graham Allison and Philip Zelikow in their book, Essence of Decision, weave another perspective on bureaucracy and the impact of bureaucratic processes focused around the policy and decisions surrounding the Cuban Missile Crisis. (1999). Describing various models of policy and decision making, the authors present an understanding of government behavior and organization in terms of those who are actually engaged in the interaction. Describing the seven causal factors for group decision-making, the authors align themselves with other writers that describe bureaucrats and the bureaucratic process. The seven causal factors described by Allison and Zelikow are:

1. A higher quality of decisions
2. The agency problem: principles, agents, and players
3. Participants: who are the players
4. Decision Rules
5. Framing Issues and setting agendas

6. Group Think

7. Complexity of Joint Decisions and Actions

In Essence of Decision, the bureaucratic process is summarized by the observation that the government is comprised of people – people who may have different agendas, different perspectives on the decisions to be made, different perceptions of the potential outcomes, and very different avenues to follow in their individual actions.

The Acquisition Reform Movement

Many of the references describing the acquisition process are published either by governmental agencies in the form of regulations, legal documents and directives, or are available by other means such as those trade journals published by organizations that support the government. In selection of the literature, it was also necessary to use the government Internet websites extensively in order to extract the most current publication pertaining to the research project.

The on-going evolution in the acquisition reform results in publications being outdated almost immediately after distribution of the document from the Government Printing Office. The extensive changes to the Federal Acquisition Regulations and Defense Federal Acquisition Regulation Supplements are on-going phenomena. To account for this rapidly changing situation and to ensure the most current publication, the specific government website was used to review the most current directive. Even finding the most current literature on each research question dramatically points out the difficulty

prospective contractors have in participating in the new business opportunities due to the rapidly changing requirements.

The modern acquisition reform movement originated by the Bush administration in the early 1990s and continued by the Clinton administration through the 1990s, stemmed from the need to streamline the federal government and reduce the size of the government workforce. Literature describing the evolution in acquisition reform can be found for the most part in governmental publications or in trade journals that focus on government operations. Specific government publications include the 1996 Federal Acquisition Reform Act (FARA) and the 1994 Federal Acquisition Streamlining Act (FASA). Other formal literature published by the government includes the National Performance Review (1995) by Vice President Al Gore as well as several reports to the Congress by government officials (National Defense Panel Report, 1997; National Defense Quadrennial Review Report, 1997; Defense Reform Initiative Report, 1998; National Defense Authorization Report, 1998; Changes in Management of Defense Programs Report, 1999; Defense Reform Initiative Report, 1999; Secretary of Defense Report to the Congress, 1998; National Partnership for Reinventing Government Report, 1999). These documents clearly describe the government commitment to acquisition reform as part of the overall reform in government initiative.

Other works that address the acquisition streamlining movement are concentrated in trade journals such as the Program Manager Journal (1993-2001) published by the Defense Systems Management College at Fort Belvoir. The Program Manager Journal is a trade journal that reports on the status of government operations and initiatives, as well

as formal reports to the Congress by Defense officials pertaining to Defense initiatives. Journals for the part several years have reported on the evolution of the acquisition reform movement and are a good source of information relative to the progress to reduce the size of government and the increased emphasis to privatize functions and outsource to the private sector. These government publications as well as the government focused trade journals document the evolution of the reform movement from the government perspective. The publications are obviously intended to gain public and congressional support for the reform initiative, to minimize the adverse publicity by the media, and to foster support by the group charged with implementing the policies, decisions, and laws – the bureaucrats themselves.

A publication by the Defense Systems Management College, Program Management 2000, (2000) presents an excellent summary of the evolution of the reform movement in government and the impact on acquisition streamlining activities in view of the trend to privatize government functions by outsourcing them to the private sector. Written by research fellows from the Defense Systems Management College that participated in a program at Harvard University Graduate School of Business, the publication presents another diatribe on the successes of the Acquisition Reform movement in government by reiterating the initiatives developed over a ten-year period. However, the book falls short by not delving into the implementation of those initiatives by the government workforce and the failure to achieve total success because of that faulty process. Again, it is evident that reform directed from the top through legislation,

decisions and policy changes is doomed to moderate success because the workforce that is being reduced is called upon to implement the initiatives and enact the decisions.

The acquisition reform movement continues under the new Bush Administration. In January 2001, newly appointed Secretary of Defense Donald Rumsfeld testified before Congress detailing the DoD Goals and Objectives. His speech confirmed the new administration's intent to continue the acquisition reform movement by "shedding unnecessary organization and facilities". This strong endorsement of the acquisition reform movement and the continued reduction of the government workforce ensure the continuance of outsourcing certain government functions to the private sector. (Program Management Journal, 2001).

For a completely different perspective, a publication by Michael D. Williams, Acquisition for the 21st Century, (1999) focuses on the United States Air Force F-22 research, development, and acquisition program. This publication addresses the issues of acquisition reform from the private sector viewpoint and discusses some of the good aspects of acquisition reform as well as those initiatives that for one reason or another did not impact on research, development and acquisition of the F-22 aircraft. While the publication presents the perspective from the hardware manufacturer, many of the observations also pertain to professional support contractors.

The Internet has been an important player in the dissemination of information pertaining to the reform movement. Several pertinent websites have been created to set forth the government initiatives and actions in this regard. Websites from the Under Secretary of Defense for Acquisition and Technology (www.acq.osd.mil), the Deputy

Under Secretary of Defense for Acquisition Reform (www.acq.osd.mil/ar), the Acquisition Systems Management Board (www.acq.osd.mil/api/asm), the Acquisition Workforce Home Page (www.dtic/acqed2/acqed), the Defense Acquisition Deskbook (www.deskbook.osd.mil), the Defense Acquisition University Acquisition Reform Communications (www.acq.osd.mil/dau) are among the most popular.

Acquisition Reform is essentially change since the major provisions of the streamlining initiatives are reduction of the workforce, change in procedural laws and regulations and change in conducting business operations. Literature sources are plentiful relative to change management and change decisions. One source (Gibson, 2000) describes an inevitable fact for organizations of the 21st century - Change. Change has been the most obvious promise of political candidates during local and national election campaigns of the 1990s. Great companies have undergone change, governments have undergone change and political rhetoric would indicate that more change is to come. Managers, both in the government and in industry, must view change as an integral responsibility, rather than as a peripheral one. (Gibson, 2000). By reviewing three alternative change management approaches, one can readily see the change management approach utilized by defense officials as they attempt to change the bureaucracy and the bureaucratic methods of the past. Although the terms applied to the different approaches vary from author to author and from proponent to proponent, the underlying theme is the same. Gibson (2000) proposes these three change management approaches:

1. Managing change through power. The application of power to bring about change implies the use of coercion and is one of the methods used by defense officials to bring about change in the bureaucratic system.
2. Managing change through reason. The application of reason to bring about change is based on the dissemination of information prior to the intended change. Again, this technique is also evident when reviewing the evolution of the acquisition reform movement over the last eight years.
3. Managing change through reeducation. The use of education to bring about change is a technique used by defense officials who recognize that neither power nor reason has been totally successful in implementing change. Change through reeducation is generally thought to be the essence of organizational development theory.

By reviewing change management theory, one can understand the various approaches used by defense officials in attempting to change the bureaucratic system and implement acquisition reform measures to an unwilling and unhelpful audience – the bureaucracy itself.

The Legal Requirements

Several publications were reviewed relative to the legal basis for a government agency to enter into a binding contract with a private company. The literature depicts the evolution of legal requirements from Title 10 of the US Code, which is Public Law, to implementing regulations, directives and official guidance published by the Department

of Defense. Very few publications were found that provided specific and detailed information relative to the legal foundations and the legal requirements. There were some publications from each individual military service that are intended to implement the overall Department of Defense directives and regulatory guidance. However, those documents and publications provided no additional data and therefore were not included in this review because they tend to contain military service nuances not appropriate for this study.

Legal requirements for business operations with the Department of Defense flow from four principal sources. These sources include the Law, Executive Direction, Office of Management and Budget (OMB) Circular A-109, and the Federal Acquisition Regulations (FAR) with its DFARS supplement. Specifically, Title 10 of the United States Code empowers the Secretary of Defense to establish policies and procedures for the effective management of acquisitions within the Department of Defense. Incorporated in the law is the provision for the Secretary of Defense to approve or define the cost, performance, schedule requirements, and to establish each phase of the acquisition process. Title 10 also empowers other officials within the DoD to solicit from industry (the private sector) products, services or equipment necessary to meet defense obligations.

The legal foundations set forth in Title 10 of the United States Code and promulgated by Executive Direction are then embodied into the Office of Management and Budget (OMB) Circular A-109 which is the broad implementing directive translating the US Code into specific guidance. OMB Circular A-109 defines the system acquisition

process and establishes the basic acquisition policy for all federal agencies, particularly for major programs. However, it does not contain agency/department specific guidance, but it is the basic document used by the DoD (and other agencies) as source material for departmental specific regulations and directives.

The Federal Acquisition Regulation (FAR) takes the broad language from OMB A-109 and serves as the primary regulation for use by all federal agencies for the acquisition of supplies and services. This document, published in 1984, serves to codify and publish uniform policies and procedures for system acquisition by all executive agencies and consolidates the major procurement regulations of the various departments and agencies. The FAR guides and directs contract award procedures, acquisition planning, warranties, and establishing guidelines for competition. Besides the FAR, each federal agency has a supplement to describe its own particular ways of doing business.

DoD implementation and supplementation of the FAR is issued in the Defense Federal Acquisition Regulation Supplement (DFARS). There are 62 sections of the DFARS that set forth the specific language and directions for the DoD acquisition process, including participation by the private sector through competitive procurement activities.

Specific legal requirements for prospective contractors are set forth in Part 9 of the FAR and Part 209 of the DFARS. A determination of contractor qualification is crucial to participation in the contracting process. The definition is as follows:

“Purchases shall be made from, and contracts shall be awarded to, responsible prospective contractors only. No purchase or award shall be made unless the contracting officer makes an affirmative determination of responsibility. In the absence of information clearly indicating that the prospective contractor is responsible, the contracting officer shall make a determination that the company is not a responsible company.”

When reviewing Title 10 of the United States Code, it becomes evident that the Secretary of Defense is empowered by Congress to enter into contracts with Industry (the private sector) to procure needed supplies, equipment and services. The Secretary of Defense is entrusted to establish policies and procedures for the effective management of acquisitions within the Department of Defense. Incorporated in the law is the provision for the Secretary of Defense to approve or define the cost, performance, schedule requirements, and to establish each phase of the acquisition process. Title 10 also empowers other officials within the DoD to participate in the acquisition of defense products. For example, the Comptroller of the Department of Defense is empowered by law to evaluate the cost proposed for each major acquisition program and grants the authority to continue or cancel the program.

Contractors desiring to enter into contractual obligations with the DoD will experience mandatory legal requirements unlike those in commercial practices. Literature outlining those requirements is typically published by the government in the form of memorandums that have the effect of law, regulations, directives and other

publications that serve to inform contractors of the legal requirements they will be expected to comply with.

The fifty-three volumes of the Federal Acquisition Regulations (FAR) and sixty-one volumes of the Defense Federal Acquisition Regulation Supplements (DFARS) contain most of the legal requirements of concern to defense contractors.

Certain other government publications also are of interest and contain information important to defense contractors. Several recent publications fall into this category. A Memorandum for DoD Acquisition Executives dated January 5, 2001 sets forth incentive strategies for defense acquisitions setting forth changes in types of contracts considered for award and the financial incentives tied to each type. Another Memorandum also dated January 5, 2001 from Secretary of Defense Rumsfeld establishes an Integrated Process Team to insure a fair distribution of contractual opportunities for small businesses. A third Memorandum also dated January 5, 2001 sets forth new requirements for obtaining commercial products and services. Each of these documents contain legal requirements of interest to prospective government contractors.

The Financial And Accounting Requirements

The unique accounting policies and procedures required by the Department of Defense and administered by the Defense Contract Audit Agency (DCAA) are somewhat different than those practices found in the civilian industries and permits the government unparalleled insight into company business operations. The Government Printing Office publishes various government regulations, directives, circulars, or other documents to

describe this process. The unique accounting policies and procedures required the Department of Defense are embodied in Defense Contract Audit Agency Pamphlet DCAAP 7641.90 and DoD Circular 4201. The publications describe financial and accounting practices that are somewhat different than those found in the civilian industries and contain language that permits the government unparalleled insight into company business operations. The unique accounting procedures are a result of the changes imposed by The Cost Accounting Standards Board (CASB), which is part of the Office of Federal Procurement Policy in the Office of Management and Budget.

The Cost Accounting Standards Board (CASB) was established as an agency of Congress in accordance with the provisions of Public Law 91-379 to promulgate uniform and consistent cost accounting standards and cost accounting processes used by defense contractors and subcontractors as a pre-condition of conducting business with the government. PL 100-679 reinforced that legislation and continued in effect all existing standards, waivers, exemptions, interpretations, modifications, rules and regulations issued by the original CASB. This legislation expanded the applicability of CAS to executive agencies and their contractors and subcontractors. The CASB is located in the Office of Federal Procurement Policy (OFPP), which is a part of the Office of Management and Budget (OMB). (DoD website www.deskbook.osd.mil and www.acq.osd.mil)

Regulations implementing the CAS appear in FAR Part 30. The official rules, regulations, and standards issued by the CASB are binding on executive agencies, their contractors, and subcontractors. Therefore, in pricing, administering, and settling

contracts covered by this legislation, CASB must be used to estimate, accumulate, and report the associated costs. The CASB is responsible for determining specific cost accounting standards that are designed to achieve uniformity and consistency in cost accounting reporting. Those standards were then codified in Public Law 100-679. The law requires defense contractors and subcontractors performing under Federal contract to disclose their cost accounting practices, to follow the disclosed practices consistently, and to comply with duly promulgated cost accounting standards.

The CASB has issued 19 cost accounting standards that have the full effect of law and can be found in FAR Part 30. The official rules, regulations, and standards issued by the CASB are binding on executive agencies, their contractors, and subcontractors. Therefore, in pricing, administering, and settling contracts covered by this legislation, CASB must be used to estimate, accumulate, and report the associated costs. The cost accounting standards can be found either in the FAR Part 30 or by reviewing the public law. It is important that prospective defense contractors understand the accounting standards and reporting requirements are different when a company is engaged in business operations with the government.

The Defense Contract Audit Agency (DCAA) is the DoD parallel to the IRS and is charged with audit and approval of company accounting and labor charging systems including operating expenses and profit margins. However, unlike commercial business enterprises, the DCAA must approve the company accounting system, the operating expenses allowed, and the profit margin the company is permitted before a business is awarded a binding contract. To qualify for contract award, the DCAA will conduct an

audit or pre-award survey to approve the accounting system, determine limits for operating expenses and establish profit margins. Any business entity that intends to conduct business operations with the Department of Defense must meet certain and very specific accounting and financial conditions and the government will have complete insight into the company accounting processes.

A key source document is a pamphlet published by the Defense Contract Audit Agency for contractors seeking contracts with the Department of Defense. DCAAP 7641.90 presents information to assist contractors in understanding applicable requirements and to help ease the contract audit process. The major difficulty with this publication is that it presumes the reader fully understands the complexity of the financial and accounting requirements and is very difficult to comprehend if one is not conversant with the specific nuances of government accounting standards.

Clearly, the Federal Acquisition Regulation is the primary regulation for use by all Federal agencies in their acquisition of supplies and services; however, the FAR together with department specific supplemental regulations such as the Defense Federal Acquisition Supplement (DFARS). Of interest to prospective contractors are the sections pertaining to pre-award surveys and audits, the specific requirements needed in a contractors cost proposal, contract billing and financing methods, incurred cost proposals, and a description of the various contract types.

DoD Circular 4205.1 is another document, which describes how prospective contractors can be considered for contracts with the Department of Defense. Though not as specific as the DCAA pamphlet, this document addresses the DoD contracting

principles and practices and a fairly complete section on special help for small businesses. Once again the document addresses the important topic of pre-award surveys and audits as instrumental in the government's determination as to qualification of the company to be awarded a contract with the government. A new section found in this publication and not in the DCAA pamphlet describes the DoD system of specifications and standards. This information is important to prospective contractors because of the differences in the manner in which the DoD asks contractors to respond to specifications and standards in their technical proposals. Another significant section describes the Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR). Both of these programs, which are specifically intended for small business participation describe avenues for small businesses to be awarded contracts with the Department of Defense for tasking that falls under these programs.

A book by Lawrence Gitman, Foundations of Managerial Finance, (1995) closely describes the unique accounting and financial standards used by the DoD. However, it still does not address the specific differences from finance and accounting requirements imposed by the DoD and those found in commercial practices. It remains however an interesting and fairly complete description of finance and accounting requirements, some of which can apply to this study. Gitman's work presents a perspective relative to perturbations of the normal accounting standards for specialized purposes that comes close to describing the unique finance and accounting standards and practices imposed by the DoD through the DCAA.

The Government Solicitation Process/The Government Proposal Evaluation Process

Publications such as the Federal Acquisition Regulation and the Defense Supplements are official documents describing the Government solicitation process. Subpart 15.2 of the FAR and the corresponding section of the DFARS provides basic guidance and instruction on how the government prepares the solicitation as well as sets forth the pertinent data on the policies and procedures for exchanging information with industry prior to receipt of proposals. The FAR and DFARS also provide information on the process used to prepare government solicitations as well as the procedures for receiving proposals and information.

To broaden the knowledge base relative to the solicitation process, the Request for Proposal (RFP) document is important to prospective contractors. The RFP contains detailed instructions relative to preparation of the proposal, the technical statement of work (SOW) and the management statement and sufficient detail to permit contractor insight into the source selection and evaluation process. Several RFPs were reviewed and each contains remarkable similarities. Other than obvious differences in the type of work to be performed, the instructions pertaining to source selection and proposal evaluation are similar. In all cases, the requirement called for contractor submission in the form of technical and management proposals in addition to a cost proposal. Source selection also was very similar except for the scoring applied to each evaluation area. Together these works provide detailed data for this study.

There is limited reference to evaluation criteria in the DCAA Pamphlet 7641 and DoD Circular 4201. Therefore, to gather additional information pertaining to the

evaluation process used by the government in determining the winning proposal, specific documents extracted from several proposals were also reviewed. It would appear that information pertaining to evaluation criteria is particularly sensitive to government sources since there is no official publication describing the specifics of the evaluation criteria. FAR Part 6 and Part 9 and DFARS Part 204 and Part 209 contain a limited amount of information pertaining to source selection and proposal evaluation. A review of the Proposal Evaluation Plan for NRL solicitation N00173-99-R-RS03 provides the following information and criteria for evaluation. Typically, proposals are evaluated using the following general criteria: 1) work force qualifications and experience; 2) technical approach to the statement of work; 3) managerial approach; 4) corporate resources and capabilities; 5) corporate past performance on other government contracts; and 6) realism of the cost proposal. Each of the sections is scored based on whether the proposal exceeds, meets or fails to meet the minimum requirements. Each of the documents reviewed provided specific information that enabled the reviewer to synthesize the data and extract pertinent legal requirements imposed on prospective contractors.

The Proposal Process/Business Development Activities

Selected literature that provided data pertinent to the proposal process used by industry to respond to government solicitations were reviewed. Significantly, proposals submitted by industry are extremely proprietary and, due to the competitive nature of the government contracting solicitations, are not readily available for review by other competitors. Many of these proposals are available under the Freedom of Information

Act and can be requested from the sponsoring agency. Source material reviewed to gather information originated from over ten proposals submitted by the case study units over the past five years.

There are a significant number of publications regarding marketing and business development activities ranging from undergraduate textbooks to sophisticated books on developing marketing strategy and marketing analysis. However, searches of the library resources such as Amazon.com and others failed to produce a commercial publication that specifically addressed the unique nature of business development and marketing to the Department of Defense. Potential contractors must fully understand that there are different requirements to govern marketing and business development activities targeted for the DoD. These restrictions are not clearly enumerated in any one publication but are inferred to in many different sections of the FAR and DFARS.

From personal experience and observation working with eight companies over a twenty year span is that every company utilizes some form of decision process at the beginning to focus their business development activities. Marketing and Business Development to the DoD is no different. However, the unique restrictions that govern these activities can be complex and difficult to fully understand. Personal experiences reinforce the process used by many contractors to structure company marketing and business development activities in the DoD marketplace.

The literature also describes business development and marketing activities that may take place prior to publication of the solicitation as well as after the RFP has been issued. Part of the process leading to the preparation and submission of technical and

cost proposals in response to government solicitations is the area of business development activities. Indeed an integral part of the response process is the preliminary activities that take place that set the stage for a company to respond to the solicitation. For the small business, it is important to understand that marketing to the DoD is unique, however, there is very limited literature published that addresses approved marketing and business development activities permitted under current statutes. Indeed the FAR/DFARS only mention this very briefly. Information pertaining to business development activities permitted under current law is passed on from person to person and only published in company proprietary documents. My experience in this area covers over twenty years of marketing activities to the DoD and has been captured in a handbook published by American Military University Press, Government Solicitations and Industry Responses, 2000. This handbook is used as text material and describes in some detail the business development activities that are permitted prior to the government solicitation being issued. Once the solicitation has been distributed and is available for formal response in the form of proposals, no further business development or marketing activities are permitted to take place with the solicitation sponsor.

Preliminary business development activities should also include the Small Business Administration and several documents published by the SBA were reviewed. The Small Business Administration is an excellent source of information for small businesses interested in seeking business opportunities with the DoD because it clearly describes some of the evaluation criteria, which will be used to measure and evaluate the company prior to executing a contract with the DoD for goods and services.

The Small Business Administration has been instrumental in the increase of business opportunities for the small business. One of the excellent tracking sources to verify if the administration has indeed identified a percentage of the federal procurement budget to the private sector is the data published by the Small Business Administration. There are many sources of information that are pertinent to this study, however, the articles selected for review were found on the SBA website. The following articles were selected, largely in part, because they focused on recommendations by the Small Business Administration for start-up business enterprises:

1. A report to the Congress by the Administrator of the Small Business Administration, Ms. Aida Alvarez.
2. Statistical Information extracted from the Small Business Administration website.
3. Small Business Size Standards Matched to Standard Industrial Classification Codes. This document serves to categorize the small business to the standard industrial class based on the type of work that the business is in or the product they produce. The standard industrial classification codes are important because government solicitations are issued using the codes to define the type of work to be accomplished. Companies seeking those business opportunities must already be classified with the appropriate code in order to bid or submit proposals for that solicitation. This publication identifies all the business industrial codes, which assist the small business to select the business area that they intend to pursue.

4. Economic Report of the President to the Congress, "Chapter 1 – The State of Small Business", by the Small Business Administration, 1998. The statistical data are presented in several ways, but the important information is that a record 842,000 new small business nationwide were established and new incorporations hit a record high for the third straight year. This data is significant for this study because it demonstrates the commitment by the government to increase privatization of government functions to the private sector and the volume of contractual arrangements going to small businesses. Appendix B of the report presents data pertaining to growth of small businesses as a result of the increase in Federal procurements and once again demonstrates the commitment by the federal government to outsource many of the technical and administrative functions previously performed by the federal workforce.

Data from the SBA provide small business owners with information compiled by the SBA relative to: 1) giving the business a head start, including ten steps to starting up a new business; 2) how to identify and finance business cycles; 3) important legal considerations when you start up a company; 4) development of a sound business plan that describes where you're going and how you'll get there, which includes venture capital financing; 5) winning strategies for launching your business, including the five crucial loan criteria; and 6) the keys to success include responsiveness to customer demands. Nearly 14 million new jobs were created by small businesses during the last five years.

The Small Business Administration present another perspective on the acquisition reform movement by contrasting what is being presented in the media and by the government publications with a contrasting view. The SBA reports that the reduction of the government workforce has not been equally distributed across all levels of the workforce. In effect the typical pyramid organization with a large base supporting a much smaller top management has been transformed to an oval. Reductions at the top and bottom of the federal workforce without a corresponding reduction in middle management created an oval or ellipsoid force structure.

Lastly, DoD 4201 Circular, *Selling to the Military*, published by the Government Printing Office in March 1998 presents an introduction to the broad subject of contracting with agencies of the Defense Department. The significance of this literature to this study is in the basic information presented to prospective entrepreneurs who have not had previous Government contracts. The handbook contains general information about contracting and lists products, services and specific advice regarding the DoD Central Contractor Registration process as well as the procedures for listing a company on the DoD Solicitation Mailing List.

The final element in the pursuit of a contract from the Department of Defense is the preparation and submission of the Technical and Cost Proposal in response to the government solicitation in the form of a Request for Proposals. Documents describing the preparation of technical and cost proposals are particularly absent from bookstore shelves. Proposal preparation techniques and procedures are a very sensitive and very proprietary issue with most companies since each company depends on their unique form

of proposal preparation for survival. In most companies, proposals (and the proposal development process) are safeguarded almost as carefully as classified documents. There is simply not much published regarding preparation of technical and cost proposals. Some very basic and general information is available from the Small Business Administration and other non-government publications, however the data lacks specificity. Once again, two handbooks, Government Solicitations and Industry Responses, 2000 and Marketing/Business Development and Proposal Preparation for the Department of Defense, 2000 capture my twenty years of experience in this field and describe proposal preparation used by eight companies during the twenty year span. These two documents contain specific information pertaining to preparation of technical and cost proposals, including formation of the proposal preparation team and the bid/no-bid decision process.

From the reading, and from personal experience, it is important for prospective contractors to understand that many times federal contracts are awarded to the company who produced the best proposal, and not necessarily to the company who may be best qualified for the project. Proposal writing skills and a good proposal team are often more important in winning a contract than are the actual capabilities to perform on the contract.

Sections of the FAR and DFARS as well as DoD Circular 4205.1 and DCAA Pamphlet 7641.90 were also reviewed. While these documents contain only limited and very general information regarding the submission of proposals, there is virtually nothing specific that addresses format, content, or qualifications of the respondent. The literature review failed to find any published information that describes the required format or

content of technical and cost proposals. The process used by prospective contractors in responding to government solicitations as well as the format for technical and cost proposals are extremely proprietary in nature and permission to use them is not easily obtained. Fortunately, I have been directly involved in preparation of numerous proposals over nearly 20 years as a government contractor and have proprietary rights to the completed documents. For this review, ten proposals from 1981 – 2000 were reviewed. The proposals were from a variety of companies who provide contractual services to the Department of Defense. The following companies were represented: Raven, Incorporated; COMARCO, Incorporated; CACI-Federal Systems Group; SYSCON Incorporated; Harnisfeger, Incorporated; AIL Laboratories; and Tekla Research Incorporated. The review of the proposals reveals that except for content differences to address the different statements of work, the proposals are very similar in basic design and format. Each company developed the proposal somewhat the same and presented their technical approach to address the solicitation requirements. The readings reinforce the concept that a winning proposal does not happen by accident; it takes a dedicated, step by step formal process with the focused diligence of many minds to develop and publish a successful proposal. Proposals are not difficult to write, but, because of severe time and resource constraints that are imposed, writing a winning proposal takes corporate discipline and intense focus.

Entrepreneurship And The Formation Of Entrepreneurial Small Businesses

“Perhaps the two hottest topics for discussion in the fields of government and economics are privatization and entrepreneurship,” is the lead-in sentence from a book by

Calvin Kent, Entrepreneurship and the Privatizing of Government. This renewed interest in Entrepreneurship results from the downsizing in American giant industries, the downsizing of the federal government and the availability of talented resources, both financial and personnel. It is important to this study to examine entrepreneurs and entrepreneurship because many of the opportunities created by the outsourcing of government functions to the private sector are ideal targets for the entrepreneur and are truly entrepreneurial ventures.

This new wave of entrepreneurship owes its existence to the marketplace tumult of the previous decades and the decision by the government to privatize many of its functions and outsource that work to the private sector, opening the door for entrepreneurs to fill those opportunities. Within the past several years, large business giants, facing stiff competition from both domestic as well as foreign sources, restructured their operations, eliminated layers of middle management, closed internal supply and logistic operations, and relied more on small suppliers. Some companies retrenched rather than expand, others expanded through acquisitions of other companies. These acquisitions, more often than not, were then restructured and downsized to rid the company of duplicative management, marketing and supply levels creating an opportunity for entrepreneurial ventures to fill the void. The more successful organizations were sophisticated, growth-oriented new companies, both high and low tech. (Case 1992)

Any new company needs both an expanding and willing marketplace to give the new products/services/skills a new beginning. The entrepreneurial venture is no

different. As long as Fortune 500 companies dominated the business marketplace, prospective entrepreneurs faced a bleak prospect. Large companies swooped into new and growing markets, gobbled up the best people, brought with them the necessary capital facilities and resources to succeed, and generally kept the entrepreneur from gaining a foothold. They had all the required tools, seats on the stock exchange, capital to invest huge lines of credit, and entire divisions of marketing personnel to convince the buying public to buy their products and services. However, once the giants' fortunes turned, and competition became fierce, the companies began to downsize, curtailing their expansion mentality and hunkered down for a long siege. This provided the opportunity for the entrepreneur -- and they were ready to fill the needs.

Chapter 8 of Wilken's book, Entrepreneurship - A Comparative and Historical Study presents a detailed description of the various conditions and events leading up to evolution of entrepreneurship in the United States. Wilken presents the case for the rapid evolution of entrepreneurship reacting to the changes in domestic economic conditions together with increased market demands that paved the way for entrepreneurs to fill the gap. Significant events include the beginning of the railroad expansion in the 1850s, the Civil War in the 1860s and the discovery of gold in California that dramatically increased the availability of venture capital. The new nation was blessed with an abundance of natural resources that led to the cotton and textile industry, the mining industry, and the manufacturing industry -- and American entrepreneurs were able to draw upon a large supply of technologies imported from European countries. (Wilken, 1979).

Research by Robert D. Hisrich in his book, Entrepreneurship, Intrapreneurship and Venture Capital picks up the historical tracing from a more modern perspective. Hisrich contends that entrepreneurship was the buzzword of the 1970s' -- an equivalent of the terms "management professionalism" and that companies passed through entrepreneurship on their way to good management and success. From Hisrich's perspective there is an on-going revolution in entrepreneurship and offers the following evidence. Journalistic evidence abounds in weekly, monthly and quarterly business trade publications featuring profiles of entrepreneurs and entrepreneurial companies. Steve Jobs, Bill Gates, Mitch Kapor (Lotus Corp), Don Burr (People Express), led the way. Publications such as INC, Venture, InBusiness and Entrepreneur focused on entrepreneurs, and entrepreneurial ventures. Business giants such as GE, EXXON, IBM, and others have all started entrepreneurial enterprises and are striving to incorporate entrepreneurial philosophy into their multi-billion dollar companies. (Hisrich, 1995)

It is difficult to define the origins of Entrepreneurship. Unlike historic events where there always seems to be a beginning and an end, entrepreneurship seems to mean different things to different people. Since J. B. Say, a French economist around the 1800s, initially defined an entrepreneur as "someone who shifts economic resources from an area of lower and into an area of higher productivity and greater yield", there has been total confusion over the definitions of entrepreneurs and entrepreneurship.

Wilkins indicates there is almost complete disagreement among researchers and authors as to what exactly is an "Entrepreneur", but does make an interesting point. Although there is disagreement concerning the definition, there is almost complete

agreement relative to the importance and significance of the entrepreneur, and the contributions to society made by entrepreneurs in terms of major economic growth and productivity as well as societal growth and change. (Wilken, 1979).

Research done by Hisrich (1995) indicates there are several schools of thought regarding the definition of entrepreneurship. There are those who identify entrepreneurship with an economic function, those who identify it with an individual capability or characteristic, and those who define it in behavioral terms. The behavioral/psychological terms are described by McClelland's need achievement theory where entrepreneurship becomes the link between an individual's need for achievement and the economic growth requirement. Several other characteristics are in general accord with McClelland's description of need achievement. These include the setting of definite and realistic goals and the ability to defer gratification, the willingness to take risks and a tendency to see self-induced changes as possible. It would seem that when there is an economic need, the entrepreneur is there to satisfy that need. (Wilken, 1979)

Peter Drucker states that entrepreneurship is often defined as one who starts his/her own new, small business. However, not every new small business is entrepreneurial or represents entrepreneurship. The couple, who opens a small business or delicatessen in the neighborhood, surely takes risks associated with entrepreneurship but are not true entrepreneurs in terms of creating something new, something different, or change/transmute values. (Drucker, 1985). Drucker writes that entrepreneurship rests on a theory of economy and society. The true entrepreneur sees change as normal and indeed healthy, and sees the major task in society -- and especially in the economy - as

doing something different rather than doing better what is already being done. Drucker's clarification of this goes back to what Say meant two hundred years earlier. Drucker indicates that although the true entrepreneur sees change as the norm and healthy, they do not bring about the change themselves. The true entrepreneur always searches for change, responds to it, and exploits it as an opportunity." (Drucker, 1985).

While both Wilken and Drucker tie entrepreneurship to changes in economic conditions that seem to foster increased interest in entrepreneurial enterprises,

Baumback and Mancuso contend that there is no universally accepted definition with respect to the meaning of entrepreneurship and entrepreneurism. Academicians and practitioners have suggested a plethora of skills and abilities for successful entrepreneurship and all have noted with certainty that the nature of entrepreneurship is indeed complex. (Baumback & Mancuso, 1975).

Wilken indicates there are six *economic* factors that significantly contribute to the growth of entrepreneurship: 1) an abundance of capital resources to invest in innovative, entrepreneurial opportunities; 2) an abundance of labor resources at competitive costs to staff and operate the business; 3) the development and availability of raw materials (although in some cases, technology could substitute for raw materials; 4) an adequate supply of both technologists as well as technology to foster development of innovative products and services; 5) a sufficiently and expanding market potential to create the demand for new and innovative goods and services; and 6) the willingness of potential entrepreneurs to take risks. (Wilken, 1979).

Wilken also presents five *non-economic* factors that affect the emergence of entrepreneurship: 1) government acceptance and tolerance of entrepreneurship and the extent to which entrepreneurship emerged is a part of routine business ventures; 2) a high degree of social mobility wherein entrepreneurship is a means of upward mobility; 3) as security for business and business enterprises increase, conditions favoring entrepreneurship also increases; 4) in societies where there is an undefined ideology towards entrepreneurship and entrepreneurs; 5) when there is motivational force as a condition for the emergence of entrepreneurial ventures. (Wilken, 1979).

This would set the stage for the increase in business opportunities and expansion of the marketplace created by the privatization of government functions and regulated by OMB A-76 Directive that requires a percentage of that work to be outsourced to the private sector.

Lloyd Shefsky, in his book, *Entrepreneurs are made not born*, defines entrepreneurs by taking the three parts of the word: *entre*, *pre*, and *neur*, and tracing them to their Latin roots. *Entre* means enter; *pre* means before; and *neur* means nerve center, leading way to his definition of entrepreneur as someone who enters a business in time to form or change substantially that business's nerve center. Shefsky's definition isn't concerned with whether people start the business, buy it, inherit it, or gain control in a proxy fight; all that matters is that the individuals develop or change the nerve center of the business. Shefsky goes on to say however, that entrepreneurship is not about courage or risks, it's about dreams, and that seems to be a unified position by all the authors --

entrepreneurs have a dream or a vision that propels them toward achievement of a specific goal. (Shefsky, 1994).

Shefsky's also contends that one of the major characteristics of an entrepreneur is the unique ability to dream about what can be and have the vision to make it achievable. He presents some of the best material on dreaming and visions, and its relationship to the entrepreneur/entrepreneurial venture. Some of the most dramatic events in world history were motivated by dreams. Shefsky insists entrepreneurs must have a dream -- different from dreams of other people. Entrepreneurs dream about how to do something, to build the product, to design the item, and to get it to the people who want it. Entrepreneurs know how to gather the resources to transform the dream into reality. Prospectuses, business plans, yearly reports describe business opportunities, but they cannot describe the dream. An entrepreneur's dream of a business opportunity is like a painting; no one can discern a painting's quality or value in the dark. Similarly, a business opportunity is lifeless and invisible until the entrepreneur's dream sheds light on the opportunity and illuminates its possibilities. If the dream is bright enough, then the opportunity can become a reality. Shefsky presents some qualifiers for entrepreneurs and entrepreneurial dreams: 1) the entrepreneur must believe in the dream itself; and 2) the entrepreneur must believe they are capable of pulling it off.

The absolute best source of information I found in my research was the book by Eric Flamholtz. (Flamholtz, 1990). Flamholtz observes that entrepreneurship is a driving force in today's economy. Unfortunately, too many entrepreneurial companies flounder after promising or even brilliant beginnings. Flamholtz cites the examples of People

Express, Maxicare, Osborne Computer, and Victor Technologies -- technologies that were all once cited as great entrepreneurial successes, yet all have failed. Flamholtz reflects that small businesses do very little long range planning for what happens next. Most continue on a reaction, rather than an active mode and every business will succeed or fail depending on a limited and variable number of strategic factors.

Case Study Methodology

Several publications served to broaden the knowledge base relative to case study methodology and design. Two particular publications (Merriam, 1995; Trochim, 1997) provided descriptive information to structure this research study.

Merriam describes case study as an intensive description and analysis of phenomenon such as the interplay of significant factors or variables that are characteristic of the phenomenon. Further, the book indicates that one of the defining characteristics of a case study is the examination of many variables in a single subject rather than few variables in many subjects. Further, case studies are used in a number of disciplines and different research studies and topics. Merriam goes so far as to proclaim that case studies provide a basic design that can accommodate a variety of research topics and can be adapted to different research problems in many fields of study. Moreover, case study methodology appears to accommodate a variety of disciplinary perspectives, can cover a wide range of subject material, and is adaptable to different research problems in many fields of study. An interesting point relative to case study research is the process for conducting case studies:

1. Selection of the case to be studied could be a program, a situation, or a particular question that was of interest to the researcher.
2. The collection of raw data was determined by the researcher and seemed more flexible than other methodologies and could be limited to the case in point.
3. Writing the case study narrative in a highly readable, descriptive format fit the style of writing some researchers are accustomed to.

One of the most desirable features of case study research is the fact that the researcher is also the prime data collector and reporter in addition to a particularly useful methodology for exploring areas of research not well researched or conceptualized. Additionally, case study research can provide large amounts of detailed information about the subject matter, as well as provide a venue for discussions pertaining to the variables affecting the subject matter.

A publication by William M.K. Trochim, Cornell University, 1997, describes case study as the systematic evaluation of the worth or merit of information to provide useful feedback about some topic. Trochim describes the use of questionnaires and interviews as a tool to gather evidence in a case study and is appropriate for this study. The use of interviews and questionnaires and the formation of the documents as tools for this data gathering formed a significant aspect of this study. Trochim presents in-depth guidance on preparation and construction of the interview document and the survey to preclude interviewer bias from the basic questions. The publication also addresses the issues of types of surveys, selection of the survey method, the advantages and disadvantages of

survey methods, the type of questions and question content, and the responses received. (Trochim, 1997). All pertain specifically to this study.

A study conducted by Winston Tellis and reported in The Qualitative Report: 1) Volume 3, Number 2, July 1997, Introduction to Case Study; 2) Volume 3, Number 3, September 1997, Application of a Case Study Methodology was also reviewed. These two publications reinforced the decision to use case study as the appropriate methodology for this research project. Once again the flexibility of the case study format and process was suitable for this research project.

An article extracted from the Case Study website (Case Study Research.HTML) provides excellent references on Conducting Case Studies: Collecting the Evidence. The document discusses six sources of evidence presented in tabular format, which are directly applicable to this research project. Presented in tabular format are the six sources of evidence.

Table 1 - Six Sources of Evidence

Sources of Evidence	Strengths	Weaknesses
Documentation	<p>Stable – can be reviewed repeatedly</p> <p>Unobtrusive – not created as a result of the case study</p> <p>Exact – contains exact names, references, and details of an event</p> <p>Broad coverage – long span of time, many events, and many settings</p>	<p>Retrievability – can be low</p> <p>Biased selectivity if collection is incomplete, reporting bias reflects bias of author</p> <p>Access – may be deliberately blocked</p>
Archival Records	<p>1-4 Same as above for documentation</p> <p>5. Precise and quantitative</p>	<p>Same as above for documentation</p> <p>4. Accessibility due to privacy reasons</p>

<p>Interviews</p>	<p>Targeted – focuses directly on case study topic</p> <p>Insightful – provides perceived causal influences</p>	<p>Bias due to poorly constructed questions</p> <p>Response bias</p> <p>Inaccuracies due to poor recall</p> <p>Reflexivity – interviewee gives what interviewer wants to hear</p>
<p>Direct Observation</p>	<p>Reality – covers events in real time</p> <p>Contextual – covers context of event</p>	<p>Time consuming</p> <p>Selectivity – unless broad coverage</p> <p>Reflexivity – event may proceed differently because it is being observed</p> <p>Cost – hours needed by human observers</p>
<p>Participant Observation</p>	<p>Same as above for Direct Observation</p> <p>3. Insightful into interpersonal behavior and motives</p>	<p>1-4 Same as above for Direct Observation</p> <p>5. Bias due to investigator’s manipulation of events</p>
<p>Physical Artifacts</p>	<p>Insightful into cultural features</p> <p>Insightful for technical operations</p>	<p>Selectivity</p> <p>Availability</p>

Lastly, a publication by researcher Robert K. Yin, (1984), presents further evidence of the case study as a research method. This document furthers the understanding of case study research as a methodology used for study of complex issues such as these study objectives. Yin presents a step by step process to structure the case study as served as an excellent model for use in this study. There was an excellent section in the publication pertaining to evaluating and analyzing the data and preparing findings and conclusions.

Business Process Models

Finding literature pertaining to business process models was more difficult than expected. Historically, many of the current process models have their origins in the computer software industry and were not pertinent to this research project. The following literature was reviewed to describe the business process model and to determine the specific format and applicability for this study:

Dating back to the 1970's computer based systems, specifically the software for those systems presented problems, which were not prevalent in manufactured products. As computer systems became more complex and more pervasive, the contrast between computer based products and manufactured products grew increasingly apart. Various process models came into existence to assist software developers with configuring specific software to fit each process modeled for computer applications. (Bajaj, 2000). Bajaj comments on the fact that research into Business Process Modeling significantly varies from case to case and no one single format applies. His research indicates that most Business Process Models evolve from a comprehensive content specification of what is intended by the model and is used as a framework to analyze and compare existing processes. The content specification is used to design a business process model that can represent many aspects of a business process. (Bajaj, 2000).

Several works pertaining to Business Process Models were extracted from research websites that were not only interesting but also appropriate for this project. It appears that business process models are particularly ill defined since many models have been overtaken by a business phenomenon called re-engineering. For the purposes of this

study, a characteristic of business process models can be particularly adapted to explain the dynamic behavior and relationship of an undetermined number of independent processes and how they impact on an inter-related process. For this project the process model will be used to study and understand interrelated systems or factors as they relate to an overall process. Further, a descriptive business process model will be used instead of an active process model.

Research by R.A. Snowden (2000) describes several variants of business process models: 1) A Business Interaction Model or Relationship Map; 2) A Workflow Model or Process Map; 3) A Use Case Model which partitions the business into portions which service these interactions; 4) A Goal Model; 5) A Location Model; 6) A Systems Model; and 7) A Process Model. For this study, the Process Model will be used. Snowden comments that the term process modeling is associated with a number of ideas, all concerned with the dynamic behavior of organizations, businesses or systems and to study and understand these systems, one constructs process models according to a particular viewpoint. Snowden also points out that process modeling originated at business schools such as MIT and Harvard in an attempt to understand businesses in terms of key processes and to offer principles for business organization which maximize the effectiveness of these key processes. Relationships are drawn between business organization and the process itself. (Snowden, 2000)

A publication by Professor Peter Henderson and Geetha Abeysinghe of the University of Southampton, UK (2001) presents the most appropriate document for this study. The publication presents Business Process Models using Process Oriented

Systems Descriptions (POSD) as the format to develop the model. This publication is the closest to describing the development of the business process model used in this study. Henderson presents a step by step process to develop a business process model using the process itself as the input for the model. It is an excellent publication that clearly describes process modeling.

Several other works include a publication by Business Pro an internet work site by Proforma Corporation. (2001). This publication describes the development of business process models using Relationship Maps to structure the process model. While this publication was interesting it did not seem appropriate for this study. It did however synopsis several of the best models for business applications and was an aid to further understanding the wide difference between various business process models and modeling development.

A book by Magnus Penker (2001), Business Modeling with UML: Business Patterns at Work, presented another perspective on development of business process models. Penker uses UML – Unified Modeling Language – as the basis for structuring the process models and provides in-depth guidance on how to pattern business systems and turn them into processes to be modeled. UML is the tool used to create the blueprint to object oriented systems and develop the process model. Again, while this was an interesting perspective relative to development of business process models, it did not seem appropriate for this study.

Lastly, a book by Geoffrey Darnton, Business Process Analyses, published in 1997 is an attempt to make operational and measurable techniques for business process

engineering. The Chapter of Simple Process Models is especially valid for first time students in understanding business process relationships. Information from that chapter was directly translatable to the flow chart for this study.

CHAPTER 3 - METHODOLOGY

Background

The purpose of this research project was to develop a business process model that could be used by prospective defense contractors. Several research methodologies were examined and eventually discarded for a variety of reasons. A case study methodology that included extensive document analysis, in-depth questionnaires together with interviews with key persons was ultimately selected. By using a case study to examine similar companies and their proprietary processes to overcome the stringent requirements, the results could be integrated into a business process model. The subject matter for this research was unique in that a correlation was attempted between two companies currently under contract with the DoD and both with successful track records of contractual performance. The methodology selected needed to be flexible enough to accommodate the purpose and objectives of the study.

The final model would provide prospective contractors with information that clarified the complex government contracting process. The completed process model would then serve as a roadmap to assist them in understanding these requirements and as a guide to pursue these new business opportunities by providing detailed and specific information to overcome the rigorous administrative, financial and legal restrictions imposed by the Department of Defense.

The specific objectives of the study were intended to answer each Research Question. The objectives were:

1. To examine the legal, financial and accounting requirements imposed on small businesses prior to, during and following completion of the contract, and investigate how the two case study units of analysis (Tekla Research Incorporated and Platform Systems Incorporated) found solutions to these problems.

This objective addressed Research Question #1. Do the complex legal, financial and accounting requirements imposed on entrepreneurial small businesses seeking to enter into contractual arrangements lend themselves to modeling?

2. To examine the process used by the government to solicit industry responses to satisfy its contractual requirements as well as the means by which industry proposals are evaluated including the evaluation criteria, and to examine the proposal process used by the two case study units to respond to government solicitations including the requirements needed in technical/management and cost proposals. As part of this objective, it was necessary to examine the business development and marketing activities that take place prior to the government solicitation being issued and the proposal effort beginning.

This objective addressed Research Question #2. Can a standard process be developed for small business evaluation of government solicitations, and can

such a process accommodate the idiosyncrasies by which the government evaluates proposals and selects the winning bids?

3. From the above, to design a business process model that describes the most effective process for small businesses to follow in order to increase their probability of success in responding to Department of Defense solicitations.

This objective addressed Research Question #3. Can a model be created for entrepreneurs to respond to these solicitations, to include the necessary business development activities that take place prior to development and submission of the proposal?

Methodology Used for the Study

A Case Study methodology was used for this research, which included a combination of document analysis, model construction, evaluation of data gathered from the units of analysis and subject matter experts, and formative evaluation. The case study methodology was selected because of one particular significant characteristic – it is a useful methodology for exploring subject matter not well researched or conceptualized. (Merriam, 108). The basic characteristics for conducting case studies fit almost exactly the process needed to complete this research project, for example, selection of the subject matter of interest to the researcher, collection of the raw data deemed relevant by the researcher, the ease that the case study could be tailored to meet the research objectives.

The case study format and design includes an intensive description and analysis of phenomenon such as the interplay of significant factors or variables that are characteristic of the phenomenon. This characteristic describes the format and design of this study. One of the defining characteristics of a case study is the examination of many variables in a single subject rather than few variables in many subjects. (Merriam, 1995, Soy, 1997, and Tellis, 1997)

The limitations of the case study methodology were also reviewed. The limitations considered for this project included, the expense of conducting case studies, the excessive time to adequately conduct the case study, the need for specialized training in observation and interviewing techniques by the researcher, the length of case study narratives, and the inability to generalize findings from small sample case studies to global findings. Indeed each of these limitations surfaced during the course of this project. However, it was determined these limitations would not affect the quality of the research or the products derived from the project. Each of the limitations are discussed below:

1. **Expense.** The cost to conduct research in this study proved to be negligible because the participants were all employed in work situations that correlated to the subject matter of the research. For example, the Department of Defense government already employs the government contracting officials and the government is paying them. Therefore, interviews and responding to questionnaires relative to contracting issues did not require additional cost by the researcher.

The only extra cost resulted from the time by the researcher. Since the researcher is also under contract to the DoD, vacation time or annual leave had to be taken in order to avoid a conflict of interest in that the researcher would be paid by the government while conducting personal business. To avoid this, the researcher used annual leave and did not receive compensation for his time.

2. **Excessive Time.** The time to conduct the case study was not deemed to be excessive in that all the participants were interested in the results of the study and made themselves available to answer the questionnaire and submitted to the interview within a reasonable time. Analysis of that data and development of the process model also was completed in a timely manner.
3. **Specialized Training.** This was not an issue based on the researcher's prior experience and training.
4. **Length.** It is true that many of the documents analyzed were lengthy and difficult to understand, however, the totality of the material was not deemed excessive. The questionnaires were for the most part were less than 10 pages each and the material gathered from personal interviews were only a few pages since most of the comments provided by the subject matter experts were in the questionnaire.
5. **Inability to generalize.** A frequent criticism of case study methodology is that its dependence on a single case study renders it incapable of providing a

generalizing conclusion because it lacks a sufficient number of cases. (Tellis, 1997). In this case the objectives of the study established parameters that were applied to all of the research. Templates were developed and used throughout the research process to ensure similarity and consistency throughout. Tellis relates that the relative size of the sample does not transform a multiple case into a macroscopic study. More importantly the transformation from the local to the global results from the set of methodological qualities of the case, and the rigor with which the case is constructed. (Merriam, 1995 and Tellis, 1997).

Description of the Instruments Used

The primary instruments used in this study were, an extensive document analysis, detailed questionnaires, face-to-face interviews, observation and personal experience. The questionnaire and the face-to-face interview were intended to permit subject matter experts and government contracting officials an opportunity to verify and validate the data gathered during the document analysis. Through the detailed questions formed for the questionnaire, respondents were able to provide additional data or expand on data presented as a result of the document analysis.

The Document Analysis

Government and related non-government documents were reviewed and analyzed to gather data pertinent to the research questions. Data gathered was presented in tabular

format for ease of review. As the legal, financial/accounting, and administrative requirements were discovered, the information was posted exactly as found in the literature. No interpretation of the information took place at that time. The data was segregated into topic specific categories depending on the purpose for which the information was intended. As the matrix was filled with pertinent data, the completed tables were then subjected to analysis and interpretation. At this point the information was shortened to fit the matrix/table format. The data was logged in, checked for accuracy and transformed into meaningful recorded data, then entered into report format. Data gathered was summarized for meaningful interpretation. Table 2 depicts the type of data that was collected and presented for review and analysis.

Table 2 - Sample Tabular Format For Data Gathering And Analysis

Legal Requirement	Reference/Source
1. Legal Requirement #1	FAR, Part ____ DFARS, Part _____
2. Legal Requirement #2	FAR, Part ____ DFARS, Part ____
3. Finance and Accounting Requirement #1	FAR, Part ____ DFARS, Part ____
4. Finance and Accounting Requirement #2	FAR Part ____ DFARS Part _____

Data gathered in the questionnaire/interview phases was also recorded exactly as provided by the respondents. Again, no interpretation was made to simplify or shorten the response. Additional questions not reflected on the questionnaires that were asked during the interviews were intended only to clarify information or expand on brief

answers. This was to preclude bias on the part of the researcher to interpret the data erroneously in some manner. Data gathered from all sources was compiled, and then reduced to meaningful information. The data was then synthesized, summarized, and presented in findings and conclusions with supported recommendations.

Part of the data analysis process included an explanation of how the data were prepared and linked to the specific research study questions. A data base structure was established to segregate the data into usable categories that are linked to the study questions. For ease of review, the database was segregated by data source such as literature review, questionnaires/interviews of Tekla or PSI key principals, questionnaires/interviews of government contracting officials, or questionnaires/interviews of key subject matter experts. A framework or template was generated that described the data, indicated the source of the data, the form received, the date received, how collected and linkage to the specific research question.

The Questionnaire

The questionnaire was developed for subject matter experts and the government contracting officials to verify and validate data obtained during the document analysis. Each contained questions designed to permit the respondent an opportunity to add information or modify their response. The questionnaire was designed to provide answers to the following questions:

1. What is the basis for the DoD acquisition process and how do these changes impact on a small business seeking to win government contract opportunities?

2. What has transpired in the form of acquisition reform that has significantly increased the business opportunities for small business?
3. What business development activities are permitted under the regulations and how is this accomplished?
4. How does the company engage in bid/no-bid decisions?
5. What information is available from the Small Business Administration?
6. How does the government advertise its contractual requirements and what is significant about each section of the Request for Proposal?
7. What are the finance and accounting restrictions (impediments to successful pursuit of the DoD business opportunity) imposed prior to contract award, during execution of the contract and after completion of the contract?
8. How does the company respond to the government solicitation in the form of Technical and Cost Proposals?
9. How does the government evaluate the company's proposal and what are the criteria for selection of the winning proposal?

Data gathered from the questionnaire and obtained during the interview process formed the development of the initial process model:

The Interview

The interview with each person was intended to review the questionnaire and to permit the respondent an opportunity to expand on the answers provided on the questionnaire.

Personal Observation/Personal Experience

The ability to execute the above steps effectively was enhanced by the researcher's experience as an active participant in the DoD contract process for over twenty years.

Biases

There were some concerns regarding the potential for bias in the data collection. This occurred because the researcher and the framer of the questionnaire was also one of the two key principals of one of the units of analysis. As protection against potential bias, the researcher was a source of data for this project. All efforts were made to develop the questionnaire fairly and without bias. No generally accepted interview questionnaire or protocol exists for this type project therefore questions were formulated on the requirement to gather specific information relating to the barriers and only those questions were on the questionnaire. The same questions were asked of all participants in a particular category; i.e., principal from both units of analysis, key subject matter experts or government contracting officials. Lastly, each of the subject matter experts as well as the government contracting officials were asked to add, delete, or modify any of the their

answers. This provided them an opportunity to structure the interview to fit their particular expertise. There were a total of six persons interviewed for this study.

Participants in the Research Project

Units of Analysis

The units of analysis selected for this case study are two small companies currently under contract to the Department of Defense to provide Professional Support Services (PSS) resulting from the privatization of government functions. Each of the companies has been in existence for more than five years and has shown a steady growth in sales and personnel over the past five years, reflecting success in contract awards. The companies are excellent examples of business enterprises that have taken advantage of the opportunities presented by the acquisition reform. By modeling the process used by them to increase their probability of success in pursuing contracts and overcoming the barriers imposed by the DoD, the resulting model can be useful to prospective contract seekers. Each of the companies is described below.

Tekla Research Incorporated

Tekla Research Incorporated is a small business incorporated in 1995 to take advantage of the new business opportunities created as a result of the philosophical change by the Department of Defense to privatize many of its functions and outsource them to the private sector. Tekla is contracted to provide scientific, technical and engineering support for several Navy Research Laboratory advanced technology projects.

They currently have a full time staff of 21 with 4 full time consultants. Tekla Research Incorporated is incorporated in Virginia as a "C" corporation with a 4 person Board of Directors. The co-owners each have 50% of the stock.

In 2000, Tekla had sales of nearly \$3.0M with profit margins exceeding 10%. In the six years of their existence Tekla has won two major competitive contracts (\$12 million dollar value) from the Department of Defense, eight competitive subcontracts from major vendors (\$4 million dollar value), and a five year unlimited ceiling contract from the General Services Administration valued at over \$15M.

The company has successfully passed several pre-contract audits and has recently been determined to be a low-risk company for incurred cost audits. Tekla was selected for this study because of their track record of success in bidding and winning Department of Defense contracts.

In a relatively short period of time (6 years), they have a remarkably high ratio of success in proposals submitted versus contracts awarded. They provide an excellent example of a small business that has developed a process to meet or exceed contractual barriers imposed on them. Mr. Peter Johnson one of the co-owners of Tekla Research completed a questionnaire and participated in an interview. That data can be found in Appendix 6.

Platform Systems Incorporated

Platform Systems Incorporated provides another perspective to this study.

Platform Systems Incorporated is a small company providing prototype aircraft

modification and design services for unique test, measurement and evaluation of advanced technology demonstrations. Platform Systems Incorporated is a solely owned company with approximately \$800K in annual sales and 6 employees. PSI is also an excellent example of an entrepreneurial venture performing a unique, very specialized task in this marketplace.

Founded in 1993, Platform Systems is a small; woman owned, business, whose personnel are recognized leaders in their fields. The company provides Structural Mechanical Design Engineering and modifications to Special Projects for government and commercial agencies. PSI has also been successful in several pre-contract audits as well as incurred cost audits during the course of the contractual obligations and has been selected for this study because of the high volume of contract business awarded to them in a short period of time. They are also representative of a small business that has successfully overcome the government barriers imposed by the government prior to entering into contractual arrangements. Ms. Debbie Fluker, President of PSI completed a questionnaire and participated in an interview. That data is also be found in Appendix 6.

Key Subject Matter Experts

Mr. Mike Fitzwater

Mr. Mike Fitzwater is the majority owner of Fitzwater and Dean, a certified public accounting company. As part of their business practice, Mr. Fitzwater has been performing finance and accounting services for contractors complying with Defense Contract Audit Agency (DCAA) accounting requirements for well over 10 years. Mr. Fitzwater's expertise in the area has been well documented through audits of his clients.

Mr. Fitzwater has participated in preparation of cost proposals for delivery to the government and is an expert on the provisions of the FAR as well as DCAA Pamphlet 7641.90, Information to Contractors. Mr. Fitzwater has attended numerous government financial planning and accounting courses and is well qualified as a subject matter expert.

Mr. Rich Pelletier

Mr. Rich Pelletier is a contract attorney for the Department of Defense and has over 20 years experience working with and interpreting government contracting legal issues. He is familiar with the terms and conditions of the Federal and Defense Acquisition Regulations and other agency acquisition regulations and directives. Mr. Pelletier has been called upon to interpret the list of FARs, DFARS and other legal directives as part of the government solicitation. He is well qualified as a subject matter expert and can provide insight to the legal requirements for participation in the acquisition process. Mr. Pelletier has frequently participated in the government source selection and evaluation process.

Key Government Contracting Officials

Both individuals selected as the government representative to provide expert data relative to the government solicitation process, proposal evaluations, source selection and contract award are extremely qualified. Each individual provides a different perspective on the subject matter because they are at different levels within the government and with different contract approval authority. Their names have been withheld by request.

Government Contract Officer Representative "A"

Government Contracting Officer Representative "A" is a senior level branch chief in a Department of Navy activity and has been a Contracting Officer Representative (COR) for more than two decades. His branch conducts both basic research and applied research for advanced technology projects and awards nearly \$20 Million in contracts annually to small entrepreneurial companies. As a Contracting Officers Representative, he is responsible for developing the statement of work for the solicitation as well as selecting the source selection committee who will evaluate the technical proposals. He is particularly suited to serve as government contracting expert as he is currently managing projects with a value over \$40 Million.

Government Contract Officer Representative "B"

Government Contract Officer Representative "B" is a lead engineer on a major U.S. Navy advanced technology program. He is responsible for management of nearly \$10 Million in annual contract funding for research, development, test, measurement, and evaluation activities of advanced technology projects.

Design of the Study and Development of the Process Model

Document Analysis and Initial Model Development

An extensive document analysis of government and related non-government documents as well as any commercial publications was conducted in order to extract information pertaining to the barriers imposed by the Department of Defense.

Questions addressed in this step

1. What are the legal requirements imposed by the government and from where do they emanate?
2. What are the financial/accounting requirements imposed by the government and from where do they emanate?

Data gathered in this step formed the initial draft of the business process model.

Development included an intensive review and document analysis of the source material and synthesis of the data into meaningful information. To focus collection of the data, the following guidelines in the form of questions were used and served to frame the process:

1. How does the DoD Acquisition process work and what information does a prospective company need to know to participate?
2. What are the new business opportunities created by the acquisition reform movement and are they the type of business opportunities that the company is interested in?
3. What are the roadblocks and bureaucratic impediments that may reduce the company's probability for success in winning DoD contracts?
4. How does the government advertise its requirements, what are the key elements of the Request for Proposal document and how does a prospective DoD contractor respond to these solicitations?

5. How will the company's proposal be evaluated and what are the key elements of the government review and evaluation process?

Figure 1 below graphically depicts the Document Analysis and Initial Model Design Process.

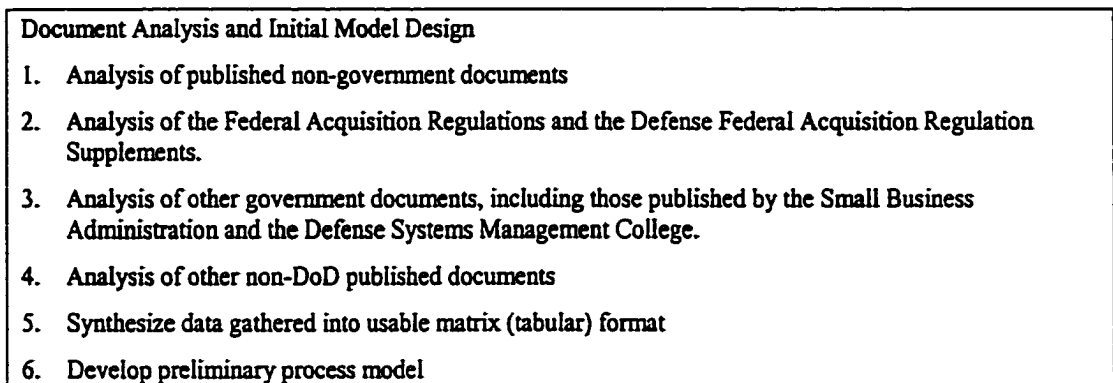


Figure 1 – Document Analysis and Initial Model Design Process

Questionnaire and First Model Refinement

A questionnaire was developed for the two key subject matter experts and the two government-contracting officials to verify and validate the data gathered during the document analysis as well as to solicit additional information. The questionnaire was followed by an interview to clarify answers and to permit each respondent an opportunity to modify their response.

Data gathered as a result of the questionnaire was then used to revise the process model. The revision process included feedback interviews with the key subject matter experts who provided information to refine the draft model and incorporate specific subject matter information relative to its design. A complete list of questions together

with their responses is included in Appendix 1. Figure 2 below graphically depicts the Questionnaire, Interview and Model Refinement Process.

- | |
|---|
| <p>Questionnaire and First Model Refinement</p> <ol style="list-style-type: none">1. Provide the questionnaire to the subject matter experts and solicit their comments and recommendations.2. Conduct follow-on interviews to clarify the information.3. Incorporate their comments into the model4. Formatively refine model from recommendations of subject matter experts |
|---|

Figure 2 – First Model Refinement

Model Review and Refinement

Two contracting officials from the government reviewed the previous findings, critiqued the model and provided additional information to verify and validate the findings.

The model was once again revised to incorporate their recommendations. Once the government officials validated the initial draft of the model, the model was again refined a second time. Publication of the final model was the last step to be accomplished. Figure 3 below graphically depicts this refinement process.

- | |
|--|
| <p>Model Refinement and Review</p> <ol style="list-style-type: none">1. Provide the questionnaire together to the government contracting officials.2. Conduct a follow-on interview to clarify information.3. Incorporate their comments into the model and revise the model accordingly. |
|--|

Figure 3 –Model Refinement and Review

Case Study Analysis

A questionnaire was then developed to solicit detailed information relevant to their procedures from key principals from the units of analysis. As before, the questionnaire was followed by an interview to clarify the information and expand on some areas not clearly defined.

The model was again revised to incorporate the information gained from the subject companies. Steps in this phase focused on a case study analysis of Tekla and PSI. Data was obtained through a detailed questionnaire and personal interview of the key principals from both companies. A list of questions addressing the same subject areas reflected above was sent to each participant prior to the interview. The list of questions and responses for each respondent can be found in Appendices 2, 3, 5 and 10.

Case Study Analysis

1. Provide the questionnaire to the key principals from case study participants.
2. Conduct follow-on interviews to clarify information.
3. Modify the model based on case study results

Figure 4 – Case Study Analysis

Final Review

The last step will be to have the final business process model reviewed by the Government Contract Officer Representatives to verify and validate the findings and the final model.

Design and Development Summary

The methodology of the study resulted in facilitated the development of a conceptual model that will benefit prospective small companies interested in business opportunities with the Department of Defense. The model was refined through case studies of the means used by two small companies who successfully navigated the complexities of the proposal response process. The model was then further refined through review and critique by non-DoD subject matter experts as well as DoD contracting officials. Finally, the model was formulated as a set of guidelines for prospective companies to respond to DoD solicitations.

Data Statistics

Descriptive statistical data was used whenever possible to analyze the basic information of the study. Data gathered was presented as statistical information whenever possible. Presentation of the data was segregated by category such as, data gathered during the document review process, data gathered in the questionnaires, and data gathered in the interviews.

CHAPTER 4 – FINDINGS AND DEVELOPMENT OF THE PROCESS MODEL

Summary of Results

General Findings

The legal basis for the Department of Defense to enter into contractual arrangements with the private sector emanates from Title 10 of the US Code and is embodied in various implementing directives. Those documents include: Office of Management and Budget Regulation A-109, Federal Acquisition Regulations (FAR), Defense Federal Acquisition Regulation Supplements (DFARS), the DoD series 5000 Directives.

Acquisition Reform is an on-going phenomenon with the Defense Department in an attempt to streamline the acquisition process and create more opportunities for small businesses to participate in providing necessary supplies, services, and equipment to the military services. More business and contractual opportunities will be forthcoming as the defense workforce continues to shrink and work is outsourced to the private sector. Through mathematical based mandatory goals, the Small Business Administration ensures small businesses have a proportional number of contract opportunities and provides guidance and direction to assist small businesses to seek these opportunities.

In spite of the massive acquisition reform measures enacted over the past decade, the Defense Acquisition Process is still an enormous topic to try to understand, let alone try to describe to persons outside the defense establishment. No industry comes close to the bureaucratic checks and balances imposed by law, regulations, directives and other

forms of organizational control. Entering into contractual arrangements with the DoD remains a complex maze of mandatory requirements, unlike those found in the private sector. The Case Study Units have developed processes to overcome these barriers and by modeling these processes, a roadmap has been achieved that will be of benefit to other entrepreneurial small businesses seeking new business opportunities with the DoD.

Findings Pertaining to the Research Questions

Research Question 1

The complex legal, financial and accounting requirements imposed on entrepreneurial small businesses lend themselves to modeling.

Legal Requirements

Mandatory legal requirements imposed by the government on contractors fall into two main categories: Pre-award requirements and post award requirements. Pre-award legal requirements extracted from Part 9 of FAR and Part 219 of the DFARS are:

1. The company must have adequate financial resources to perform the contract; or the ability to obtain them.
2. The company must be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments.
3. The company must have a satisfactory performance record on previous government contract work.

4. The company must have a satisfactory record of integrity and business ethics.
5. The company must have the necessary organization, experience, accounting and operational controls, and technical skills; or the ability to obtain them.
6. The company must have the necessary production, construction, and technical equipment and facilities; or the ability to obtain them.
7. The company must be otherwise qualified and eligible to receive a binding contract award under applicable laws and regulations.

To verify this information, DCAA Pamphlet 7641.90 (Defense Contract Audit Agency Pamphlet 7641.90, Information for Contractors, Ft. Belvoir, Virginia, August 1996) prescribes a pre-award survey to assess the company's technical and financial capability, including an audit of the company's accounting system. In this audit, DCAA will examine the company's accounting system to ensure it can accumulate and segregate the type of cost information required by the contract, and review the company financial statements including reports to stockholders, cash flow forecasts, loan agreements, bank statements, accounts receivable, accounts payable and the company financial history. Unfortunately, for many prospective DoD contractors, the evaluation criteria are very subjective and open to interpretation by individual evaluators.

The Legal Subject Matter Expert (LSME) confirmed that the legal requirements imposed on prospective government contractors emanate from Part 9 of the FAR and Part 209 of the DFARS. Specifically those sections require that companies demonstrate that they are in compliance with the requirements reflected in Table 2 below. The LSME

confirmed that the pre-contract audit conducted by representatives of the Defense Contract Audit Agency verifies that the company has complied with those provisions. The LSME also points out that other parts of the FAR contain less specific legal requirements for prospective contractors and each company should become familiar with all the requirements in both the FAR and DFARS. Part 52 of the FAR is important because that is the section that imposes legal restrictions on employers regarding Department of Labor laws such as the requirement that contractor track labor hours on each contract and governs the payment of overtime. The LSME points out another example; each solicitation (Request for Proposals) published by the government lists the appropriate FAR/DFARS parts pertinent for that solicitation. Once the company is awarded the contract, those FAR/DFARS provisions are legally binding on the contractor; it is essential therefore those prospective contractors have a clear understanding of the legal requirements, or seek the assistance of an attorney familiar with the FAR/DFARS. The completed questionnaire for Mr. Pelletier can be found in Appendix 1.

The two Government Contract Officer Representatives (CORs) also reviewed the data pertaining to the legal requirements and confirmed that the FAR/DFARS contain most of the pertinent legal requirements. Questions and answers for both can be found in Appendix 2.

Both Case Study Units have successfully overcome these requirements but have found it essential to use the services of an attorney with extensive background and

experience in government contracting. Table 3 below shows pre-contract award legal requirements and the source of those requirements.

Table 3 – Pre Contract Award Legal Requirements

Legal Requirement	Reference/Source
1. The company must be organized using a recognized formal business entity such as an S or C Corporation, Partnership, or other structured organizational format.	FAR, Part 9 DFARS, Part 219
2. The company must be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments.	"
3. The company must have adequate financial resources to perform the contract, or the ability to obtain them.	"
4. The company must have a satisfactory performance record on previous government contract work.	"
5. The company must have a satisfactory record of integrity and business ethics.	"
6. The company must have the necessary organization, experience, accounting and operational controls, and technical skills; or the ability to obtain them (including, as appropriate, such elements as production control procedures, property control systems, quality assurance measures, and safety programs applicable to materials to be produced or services to be performed by the prospective contractor and subcontractors).	"
7. The company must have the necessary production, construction, and technical equipment and facilities; or the ability to obtain them.	"
8. The company must be otherwise qualified and eligible to receive a binding contract award under applicable laws and regulations.	"

Some legal requirements continue after the contract is awarded. As indicated in the table, the source of those requirements can also be found in the FAR and DFARS.

Table 4 summarizes those requirements.

Table 4 – Post Contract Award Legal Requirements

Legal Requirement	Reference/Source
1. The company must comply with requirements and standards for Small Business size.	FAR, Part 19 DFARS, Part 219
2. The company must comply with Department of Labor laws affecting Government contractors.	FAR, Part 22 DFARS, Part 222
3. The company must comply with Government Environmental, Conservation, Occupational Safety Requirements	FAR, Part 23 DFARS, Part 223
4. The company must comply with protection of privacy and Freedom of Information Requirements	FAR, Part 24 DFARS, Part 224
5. If the company intends to participate with a foreign government they must comply with legal requirements to participate in Foreign Acquisitions	FAR, Part 25 DFARS, Part 225
6. The company must comply with specific Standards for Patents, Data and Copyright Laws	FAR, Part 27 DFARS, Part 227
7. The company must have adequate Bond and Insurance.	FAR, Part 28 DFARS, Part 228
8. The company must agree to specific subcontracting policies and procedures imposed by the contract.	FAR, Part 44 DFARS, Part 244
9. The company must agree to legal requirements that govern the use of Government sources by contractors.	FAR, Part 51 DFARS, Part 251
10. The company must agree to comply with legal requirements pertaining to Department of Labor Laws in any arrangements with Foreign Government Sales/Purchases.	FAR, Part 52 DFARS, Part 252

Finance and Accounting Requirements

Finance and accounting requirements that differ from commercial business practices emanate from Public Law 100-679 and are described in Part 30 of the FAR and Part 230 of the DFARS. Because of these unique accounting standards and practices, the Defense Contract Audit Agency conducts pre-contract surveys and audits, which serve as the gateway for contractors to pass prior to being awarded a government contract.

DCAA Pamphlet 7641.90 is published by the DCAA to assist contractors in understanding applicable requirements and to help ease the contract audit process. Clearly, the Federal Acquisition Regulation is the primary regulation for use by all Federal agencies in their acquisition of supplies and services and the Defense Federal Acquisition Supplement is the directive for DoD acquisitions. The sections of DCAA Pamphlet 7641.90 pertaining to pre-award surveys and audits, the specific requirements for contractor's cost proposals, contract billing and financing methods, incurred cost proposals, and a description of the various contract types provide a better insight into the procurement process. The Pamphlet can be obtained through the Government Printing Office.

DoD Handbook 4205.1 (Selling to the Military) describes how prospective contractors can be considered for contracts with the Department of Defense. Though not as specific as the DCAA pamphlet, this document addresses the DoD contracting principles and includes a fairly complete section on special help for small businesses. The publication also addresses pre-award surveys and audits as instrumental in the government's determination as to qualification of the company to be awarded a contract with the government. A section found in this publication and not in the DCAA pamphlet describes the DoD system of specifications and standards. This information is important to prospective contractors because of the differences in the manner in which the DoD asks contractors to respond to specifications and standards in their technical proposals. Another significant section describes the Small Business Innovation Research Program (SBIR) and the Small Business Technology Transfer Program (STTR). Both of these

programs are specifically intended for small business participation and describe avenues for small businesses to be awarded contracts with the Department of Defense for tasking that falls under these programs.

The Financial Subject Matter Expert (FSME) reviewed the data collected and confirmed that the DoD accounting requirements are different and more stringent than those accounting standards in the non-DoD marketplace. The accounting requirements are more stringent for government contracts to permit the government in-depth insight to company operations. However, once a contractor fully understands the necessity for those requirements and makes the appropriate changes, the barriers can be overcome. The completed questionnaire for Mr. Fitzwater can be found in Appendix 3.

The two government CORs also reviewed the data gathered relative to the finance and accounting requirements and confirmed the validity of the information. Both CORs explain that while seemingly complex, the requirements are necessary to maintain oversight of company operations and ensure/maintain public trust relative to the expenditure of public funds. The government, as custodian of the public funds, is chartered by public law to ensure disbursement of public funds wisely and fairly, and these regulations were developed and implemented to that end.

Both Case Study Units have found it necessary to employ professional accounting services to set up and administer the accounting procedures within the company. Table 5 depicts the accounting requirements and their source.

Table 5 – Pre and Post Contract Award Financial/Accounting Requirements

Finance and Accounting Requirement	Reference/Source
1. Prior to award of any DoD contract, the prospective contractor must meet all DCAA and CASB accounting standards pertaining to segregation of cost data into direct expenses and indirect expenses, approved labor rates, Overhead and General and Administration (G&A) expenses.	DCAA Pamphlet 7641.90 FAR Part 30, 31, 32 DFARS Part 230, 231, 242
2. The company must prove to DCAA that there are internal control systems and management policies in place to assure accuracy and reasonableness of cost data, and the adequacy and reliability of financial records and accounting data.	"
3. The company will be required to prove it has the financial reserves to accomplish the tasks and comply with other imposed contractual requirements.	"
4. The company will be audited periodically to review the company accounting system to determine if cost data is segregated into direct costs and indirect costs.	"
5. The company must demonstrate that the company accounting system provides a logical and consistent method for the allocation of indirect costs to various contracts in the company.	"
6. The company must have in place a timekeeping system that provides a time tracking system for employees' labor by task or job number that must be linked to the accounting system.	"
7. The company must have a labor distribution and tracking system that addresses: segregation of responsibilities for labor-related activities, procedures that are evident, clear-cut, and reasonable so there is no confusion concerning the reason for controls or misunderstanding as to what is and is not permissible on time sheets, verification of controls and remediation of violation through prompt and effective action which serves as a deterrent to prospective violations, and employee awareness of controls that act can as an effective deterrent against violations.	"
8. The company will be required to submit a proposed budget for each new year. The budget must reflect the previous year Overhead and G&A rate and project rates for the new year based on direct labor projections. The budget must also include anticipated consultant/sub-contractor costs, projections for reimbursable travel and material costs, as well as other direct and indirect costs.	"
9. The company will be required to submit an incurred cost report with all supporting data within 90 days after the end of the business year. This report includes all cost items and revenue, and is audited to determine if expenses are approved and accepted.	"
10. The company will be required to submit copies of the executive compensation plan, minutes of the corporation meetings, and other proprietary documents.	"

Research Question 2

A standard process can be developed for small business evaluation of government solicitations, and the process can accommodate the idiosyncrasies by which the government evaluates proposals and selects winning bids.

The Solicitation Process

The government has a formal process in place to advertise its requirements for products, services, systems and end items. That process includes announcement of the requirement both as hard copy and electronically on the Internet in the Commerce Business Daily (CBD), a government publication. Once the announcement is made, a document called the Request for Proposal (RFP) is issued to interested contractors. The RFP is the official communication between government and industry in the contracting process and spells out the detailed statement of work that describes the tasking to be accomplished, specific instructions on preparation of proposals, and the evaluation criteria used to rate proposals and select winners. When the government issues an RFP, it is soliciting proposals from industry to fill those needs. Details relative to the content and importance of each section of the RFP can be found in Appendix 4.

There are several other publications that describe the government solicitation process. The most significant of these are the FAR, DFARS, and DoD 4205.1. These publications describe the process by which the government issues a solicitation to the private sector. While the acquisition reform movement is slowly making inroads to

streamlining the acquisition process, including electronic business transactions, the RFP continues as the most common means to solicit business from industry.

Table 6 depicts the government solicitation process as well as the source for those requirements.

Table 6 – Government Solicitation Process

Government Solicitation	Reference/Source
1. The government sponsoring organization conducts an internal review to determine the need for the private sector to provide services such as research and development or testing, supplies, equipment, systems or end items. Outsourcing to the Private Sector comes as a result of a decision to privatize what in house resources once accomplished.	FAR Part 4, 6, and 19. DFARS Part 204, 206 and 219.
2. The government begins preparation of a solicitation package, which consists of a detailed statement of work, an evaluation plan, and other terms and conditions. At this point, the government ensures that sufficient funds are available to execute the contract.	"
3. After internal reviews by the contracting office and the legal department, an advance notice is published in the Commerce Business Daily (CBD. This notice is also published on DoD websites.	"
4. Once the solicitation is published, interested industry companies then respond to the solicitation in the form of a proposal citing their capabilities and their proposed solution to meet the government's requirement. Industry proposals usually contain a Technical Volume, a Management Volume and a Cost Volume.	"
5. The Technical and Management Volume is separated from the Cost Volume. The Technical and Management Volume is reviewed by a source selection committee composed of technical or subject matter experts from the sponsoring office and the Cost Volume is reviewed by a members of the contracting office with assistance from DCAA.	"
6. The government then conducts a source selection process by reviewing each of the proposals and scoring or grading based on the adequacy of the proposal. The Technical and Management Volumes are scored with the use of a proposal evaluation plan, which is part of the Government preparatory work prior to publication of the solicitation	"
7. After the winning proposal is selected, that selection is reviewed by the contracting office and the legal department, the contracting officer signs a binding contract.	"
8. The losers are notified and negotiations are conducted with the winner and a contract is awarded.	"

The Government CORs reviewed and verified the data pertaining to the government solicitation process and development of the Request for Proposal. Since development and issuance of a Request for Proposal is dependent on the nature of the work to be performed, the services or support sought, or the products expected, they cautioned that each RFP would be slightly different in appearance and content. Prospective contractors should attempt to meet with government customers early in order to understand the exact requirements of the work and specific deliverables to the government. Questions and answers from both CORs can be found in Appendix 2.

The Proposal Evaluation Process and Criteria

The Solicitation Package prepared by the government includes an evaluation plan with details relative to the source selection committee's plan for evaluation of proposals submitted by industry. Each solicitation is structured differently depending on the nature of the government requirement and contains a slightly different evaluation criteria. For example, if the work to be accomplished is very technical, the weight applied to technical scores would be higher than the weight applied to management scores. If the work requires top-level management skills and consultant services, the weight applied to management scores would be higher than technical scores.

The evaluation process is kept strictly confidential within the government and there is very little published for contractors that describe the proposal evaluation process or the evaluation criteria. The most detailed information is found in Section M of the RFP. Section M sets forth the evaluation criteria used for that particular proposal and provides respondents some idea how their proposal is to be evaluated. The information

presented below has been derived from the case study units of analysis and the data extracted from the questionnaires/interviews.

1. The evaluation process as well as the evaluation criteria itself are somewhat vague. The process as well as the criteria used by the government to evaluate proposals is modified for each different solicitation due to the differing technical and managerial requirements contained in each solicitation.
2. Generally, categories to be evaluated remain the same for each evaluation. The weight attached to each differs depending on the nature of the work or product solicited.

Selection of representatives for the source selection committee is also considered very confidential and names of members are normally not released to contractors. The source selection committee will form the evaluation team for the government and score the proposals based on the published evaluation plan, which is part of the solicitation package.

Both Government CORs reviewed the data pertaining to the government proposal evaluation process and evaluation criteria. Since proposal evaluation is dependent on the nature of the work to be performed, the services or support sought, or the products expected, they cautioned that each source selection would be slightly different in terms of the weight of each evaluation area. Prospective contractors should fully understand the provisions of Section M of the RFP and how their proposals will be evaluated. Source Selection Team members are typically selected because of their particular area of

expertise and are responsible for evaluation of that portion of the proposal. An example of a government proposal evaluation plan can be found in Appendix 5.

Table 7 depicts a generic proposal evaluation criteria used by the government for most technical support contracts.

Table 7 –Proposal Evaluation Criteria

Proposal Evaluation Criteria	Reference/Source
1. Workforce qualifications and experience	Proposal Evaluation Form and Section M of the RFP document
2. Technical Approach	Weight varies from solicitation to solicitation.
3. Managerial Approach	“
4. Corporate Resources	“
5. Organizational Capability	“
6. Corporate Past Performance	“

Research Question 3

A model can be created for entrepreneurs to respond to these solicitations. This model includes the necessary business development activities that take place prior to development and submission of the proposal.

The Proposal Process

The government expects that responses to solicitations will be presented in the form of a Technical Proposal with detailed technical and management volumes and a supporting Cost or Business Proposal. In order to comply with this requirement, the two

Case Study Units conduct pre-proposal activities that include a structured bid/no-bid decision process to determine whether to pursue the business opportunity.

Pre-Proposal Business Development Activities

Business development and marketing activities by contractors are regulated by the FAR/DFARS and tend to coincide with release of the solicitation by the government. For example, prior to the release of the solicitation for publication in the CBD, the government encourages prospective contractors to visit the organization, discuss the pending solicitation, present briefings on company capabilities and qualifications, and explore specifics such as anticipated period of performance and potential contract funding. Once the solicitation is submitted for publication in the CBD however, all discussions between contractors and the government cease. At that point, the government will only respond to written questions from contractors and all questions and answers are shared with all prospective contractors.

There are few publications specifically aimed at marketing and business development to governmental agencies and very little written relative to bidding and winning contracts from the Department of Defense. Most information is published in proprietary company policy and procedure manuals and not shared outside the company.

For the small business, it is important to understand that marketing to the DoD is unique. To reinforce the major differences, the example of DoD airplane production can be enlightening. Long before a contract is awarded to produce fighter aircraft for the military, each of the competitors have probably participated in the research, development

and testing of their candidate platforms, and in fact, probably have worked with the DoD to develop their prototypes in preparation for a flight demonstration to compare the two aircraft. In effect, the customer in collaboration with the government is participating in the development of the final product. In the commercial or civilian market, the consumer does not participate with Boeing, or Lockheed to develop their products. The users of those products did not give the aircraft manufacturer design specifications to build their products; nor have they participated in the detailed testing of the product before they build the final version. There obviously have been market surveys to determine what the aircraft companies want, but not to the extent engaged by the DoD. For the small business to succeed in today's competitive environment, they must totally and completely understand their customers' requirements, provide quality products/services/supplies, and participate in the process early. Defense contractors, like their civilian counterparts, seek to fulfill contractual requirements, stay in business, and make a profit.

Both Case Study Units have in place a structured process to respond to government solicitations. Stated by one of the principles from the case study units,

“One of the biggest problems with small companies is the propensity to market all things to all sources. Small companies often dilute their efforts by chasing opportunities that are actually outside of their mainline business. In particular, companies must focus their efforts (and bid and proposal funding) in a concentrated effort, to maximize the possibility of a contract win. In the DoD Aerospace Industry, the win ratio for most companies is somewhere around 30-35% of the total proposals submitted. In fact, a company considers themselves pretty successful with those numbers. Using the 30-35% number, if a company wanted to increase their sales for the year by \$1M, and if each proposal was worth \$1M, they would have to submit 3 or more for each one they won. Emerging companies will have to put up with a much lower percentage than that, and those numbers could be as low as 10% win ratio. Certainly then, a clear definition of the marketplace is required”.

The Bid/No-Bid Decision

Companies typically decide to pursue a particular business opportunity and submit a proposal through a formal (and sometimes rigorous) bid/no-bid decision process. While each company may use a slightly different version of the bid/no-bid process, every company, large or small, conducts some sort of formal, structured procedure to determine whether or not to pursue a specific business opportunity. The process itself usually consists of a series of questions designed to arrive at a bid/no-bid decision.

Proposal Development Process

A suggested proposal preparation process is difficult to formalize due to the proprietary nature of corporate proposals and the stringent competition among companies to submit the most cost effective solution to the government requirements. A typical process can be summarized as follows:

1. The company conducts a formalized Bid/No-Bid Decision.
2. Once the decision is reached to pursue the business opportunity, Proposal and Cost Managers are selected.
3. The company management team then reviews the final published copy of the government solicitation.
4. A second Bid/No-Bid Decision is conducted to ensure the company still intends to commit the necessary personnel and financial resources to preparation and submission of a proposal.

5. The Proposal Manager (with top management approval) appoints members to the Proposal Team.
6. The proposal strategy and theme is developed.
7. The Technical and Management Approach is written using the strategy and theme as guides.
8. After the first drafts are completed, the Technical and Management Volume is reviewed.
9. Once the first drafts are complete, the cost volume team begins to write the Cost Volume/Business Proposal.
10. Several intermediate level reviews are conducted and a formal Final Review or Red Team Review (as some companies call the final review) of the finished proposal is held.
11. Following the Final Review, changes are made, the proposal is published, and delivered to the government.
12. After the government has conducted an evaluation of the proposals during the source selection process, the winning company is invited to enter negotiations with government to finalize cost and expense items and normally set the fee/profit.

Principals from the Case Study Units reviewed the data pertaining to proposal process. The process described in the data is descriptive of the process used by many

companies. It is difficult to describe all the possible forms used by industry to respond to government solicitations since most of the data presented in the technical and management proposal as well as the cost proposal is extremely proprietary in nature. Competition is keen and the solutions presented by different companies represent proprietary interpretations on solving the customer requirement.

Table 8 depicts the proposal preparation process as well as some source references for the data.

Table 8 - Proposal Preparation Process

Proposal Preparation Process	Reference/Source
1. Conduct Bid/No-Bid Decision	Data gained from the questionnaires and Interviews
2. Appoint Technical Proposal Manager and Cost Proposal Manager	“
3. Review final copy of government solicitation	“
4. Second Bid/No-Bid Decision	
5. Appoint Proposal Team Members	“
6. Determine Proposal Strategy and Theme	“
7. Write Technical and Management Approach	“
8. First Review of Technical and Management Volume	Data gained from the questionnaires and Interviews
9. Write Cost Volume/Business Proposal	“
10. Conduct Formal Red Team Review	“
11. Finalize Proposal and Deliver	“
12. Standby for Negotiations with Government	“

Process Used By The Case Study Units To Overcome Each Barrier

The process used by the two companies to overcome the contractual barriers formed the final step in development of the process model. Tables 9-15 describe the

process used by the Case Study Units of Analysis to overcome the stringent contractual requirements. Table 9 depicts each legal requirement and depicts the process each company used to overcome the barrier.

Table 9 – Pre Contract Award Legal Requirements

Legal Requirement	Response by Case Study Units
1. The company must be organized using a formal business entity.	Both companies are incorporated under State of Virginia laws. Tekla is a C Corporation and PSI is an S corp.
2. The company must be able to comply with the required or proposed delivery or performance schedule, taking into consideration all existing commercial and governmental business commitments.	In the pre-contract audit, both companies demonstrated: 1. Both companies had milestone schedule software approved by DCAA during pre-award survey. 2. As demonstrated in pre-award survey both companies had adequate resources to complete the SOW tasking on schedule and within cost.
3. The company must have adequate financial resources to perform the contract; or the ability to obtain them.	Both companies had adequate financial resources on hand plus they both were aware of venture capital financing sources in the event additional resources were needed.
4. The company must have a satisfactory performance record on previous government contract work.	For the first contract award, neither company had previous government work. However, they demonstrated during pre-award survey that the management team could accomplish the SOW tasking, on schedule and within cost.
5. The company must have a satisfactory record of integrity and business ethics.	Both companies had an unblemished record of integrity and ethical performance.
6. The company must have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them (including, as appropriate, such elements as production control procedures, property control systems, quality assurance measures, and safety programs applicable to materials to be produced or services to be performed by the prospective contractor and subcontractors	Both companies utilize the services of an accounting company familiar with the requirements of the FAR/DFARS and DCAA reporting standards. Plus each company has in place policies and procedures that address these issues.

Legal Requirement	Response by Case Study Units
7. The company must have the necessary production, construction, and technical equipment and facilities, or the ability to obtain them.	Tekla does not engage in production, construction or use technical equipment and facilities. PSI had to demonstrate that they had the necessary equipment and facilities to perform aircraft modifications and proto-type construction.
8. The company must be otherwise qualified and eligible to receive a binding contract award under applicable laws and regulations.	Both companies successfully passed the pre-award survey and were deemed qualified to perform on the contract. However both companies were put on probationary status and would be monitored closely during the first months of the contract.

Note to Table 9. The pre-contract award legal requirement for this table can be found in Part 9 of the FAR and Part 209 of the DFARS.

Table 10 reflects the post award legal requirements and follows the same format as the previous table. Both companies were expected to comply with post award legal requirements throughout the life of the contract and DCAA has periodically audited each company for compliance.

Table 10 – Post Contract Award Legal Requirements

Legal Requirement	Response by Case Study Units
1.Small Business Requirements. The companies must comply with FAR Part 19 and DFARS Part 219	1. Both companies are familiar with the provisions of the FAR and DFARS. 2. Both companies have met with the Small Business Representative at the Government Facility
2. Department of Labor Laws affecting Government Acquisitions. The companies must comply with provisions of FAR Part 22 and DFARS Part 222.	1. Both companies initially were too small to be affected by DOL labor laws. However each company has grown in size and employee strength and is now subject to some DOL labor laws. 2. Tekla has recently scheduled a review of the DOL labor law requirements with an attorney familiar with DOL laws.
3. Environmental, Conservation, Occupational Safety. If the company reaches the appropriate size, it must comply with certain FAR and DFARS requirements.	The companies were not subject to environmental or conservation laws because of their size. PSI must comply with Occupational Safety and Health Act (OSHA)

Legal Requirement	Response by Case Study Units
4. Protection of Privacy and Freedom of Information	The provisions of the FAR/DFARS have affected both companies and they have communicated their concern to the Small Business Representative at the government installation.
5. Foreign Acquisitions	Did not apply
6. Patents, Data and Copyright	Contracts awarded to both companies have provisions for compliance with these parts of the FAR/DFARS. Both companies have sought advice from their respective attorneys.
7. Bonds and Insurance Requirements	The companies were required to obtain insurance and bonds.
8. Subcontracting Policy and Procedures	Only Tekla engages in subcontracting with other companies and have had to comply with these sections of the FAR/DFARS. In addition to advice from the contract office Small Business Representative, an attorney also provided guidance.
9. Use of Government Sources by Contractors	Only Tekla engages in use of government sources and has had to comply with this requirement.
10. Compliance with Department of Labor Laws and Foreign Government Sales/Purchases	Neither company engages in foreign government sales or purchases.

Note to Table 10. Data for this table can be found in Part 19, Part 22, Part 23, Part 24, Part 25, Part 27, Part 28, Part 44, Part 51 and Part 52 of the FAR and Part 219, Part 222, Part 223, Part 224, Part 225, Part 227, Part 228, Part 244, Part 251, and Part 252 of the DFARS.

Table 11 presents the finance and accounting requirements imposed as prerequisite requirements prior to the award of a contract. DCAA has verified the information in pre-award surveys of each company.

Table 11 - Financial/Accounting Requirements (pre-award)

Finance/Accounting Requirement	Responses by Case Study Units
<p>1. Prior to award of any DoD contract, the prospective contractor must meet all DCAA and CASB accounting standards pertaining to, segregation of cost data into direct expenses and indirect expenses, approved labor rates, overhead expenses and General and Administration (G&A) expenses.</p>	<p>Both companies comply with the DCAA and CASB accounting standards through the use of an accounting firm that was familiar with the DCAA requirements to set up the accounting system to comply with the FAR and DFARS. The accounting system has successfully passed 5 annual DCAA audits.</p> <p>Since PSI is mostly a subcontractor on various government contracts they do not have to fully comply with the FAR/DFARS requirements.</p>
<p>2. The company must prove to DCAA that there are internal control systems and management policies in place to assure accuracy and reasonableness of cost data, and the adequacy and reliability of financial records and accounting data.</p>	<p>During the pre-award survey, Tekla anticipated the DCAA requirement and had engaged the services of an accounting firm that was familiar with the unique accounting standards necessary to comply with DCAA restrictions. Subsequently the accounting system has met or exceeded annual audits.</p>
<p>3. The company will be required to prove it has the financial reserves to accomplish the tasks and comply with other imposed contractual requirements.</p>	<p>Both companies had sufficient capital resources. Prior to the award of the first government contract the companies had to demonstrate they had sufficient capital resources for daily operations as well as sufficient reserve funds to continue operation in the event the government delayed payment of invoices. Typically DCAA will require at least 90 days funding in reserve. In addition, Tekla was aware of other venture capital finance avenues in event addition funding was required.</p>
<p>4. The company must demonstrate that the company accounting system provides a logical and consistent method for the allocation of indirect costs to various contracts in the company.</p>	<p>An accounting system that met DCAA requirements was set up from the beginning. This precluded changing accounting systems once government contracts were awarded.</p>
<p>5. The company must have in place a timekeeping system that provides a time tracking system for employees' labor by task or job number that must be linked to the accounting system.</p>	<p>Again, a time tracking system that recorded time worked on specific tasking was established from the onset.</p>

Finance/Accounting Requirement	Responses by Case Study Units
<p>6. The company must have a labor distribution and tracking system that addresses: 1) segregation of responsibilities for labor-related activities; 2) internal procedures must be evident, clear-cut, and reasonable so there is no confusion concerning the reason for controls or misunderstanding as to what is and what is not permissible on time sheets; 3) controls must be continually verified and violations must be remedied through prompt and effective action which serves as a deterrent to prospective violations; and 4) employees must be made aware of controls that act as an effective deterrent against violations.</p>	<p>Both companies fully comply with the DCAA requirements and have a system in place.</p>

Note to Table 11. Data for this table can be found in DCAA Pamphlet 7641.90, Parts 30, 31, and 32 of the FAR and Parts 230, 231 and 232 of the DFARS.

Table 12 depicts the finance and accounting requirement during the period of performance for the contract. Both companies were expected to comply with these requirements and have been inspected/audited periodically to ensure compliance.

Table 12 – Post Contract Award Finance and Accounting Requirements

Finance/Accounting Requirement	Responses by Case Study Units
<p>1. The company will be audited periodically to review the company accounting system to determine if cost data is segregated into direct costs and indirect costs.</p>	<p>The companies are audited annually. The company has successfully passed 5 annual audits and was recently rated as a low risk company by DCAA.</p>
<p>2. The company will be required to submit to DCAA a proposed budget for each new year. The budget submission must reflect the previous year overhead and G&A rate and project the rates for the new year based on direct labor projected for the new year. The budget submission also includes anticipated consultant/sub-contractor costs, projections for reimbursable travel and material costs, as well as other direct and indirect costs.</p>	<p>Both companies prepare and submit an annual budget based on actual sales and expense for the previous business year. The budget is a projection of sales and expenses for the new business year and forms the basis for the DCAA approved overhead and General and Administrative rates for the year. The budget format follows closely the Profit and Loss statement.</p>

Finance/Accounting Requirement	Responses by Case Study Units
3. The company will be required to submit an incurred cost report with all supporting data within 90 days after the end of the business year. This extensive report includes all cost items and revenue, and is audited to determine if expenses are approved and accepted by the DCAA	Tekla has submitted an incurred cost report in compliance with the DCAA requirement. The incurred cost report includes a break out of all cost items and revenue. The reports include the allocation of office space to contract performance as well as corporate administration. Executive compensation and minutes of Board meetings are also included.
4. DCAA will also require the company to submit copies of the executive compensation plan, minutes of the corporation meetings and other proprietary documents	Copies of executive compensation plan are submitted with the incurred cost report.

Note to Table 12. Data for this table can be found in DCAA Pamphlet 7641.90, Part 30, 31 and 32 of the FAR and Part 230, 231 and 232 of the DFARS.

Table 13 depicts the process utilized by the government to advertise its requirements and to solicit proposal responses from the private sector. The government continues to use a step-by-step formal process to set the baseline for companies to conduct business development activities as well as proposal preparation.

Table 13 - Government Solicitation Process

Government Solicitation	Responses by Case Study Units
1. The government sponsoring organization conducts an internal decision to determine the need for participation by the private sector to provide services such as research and development or testing, supplies, equipment, systems or end items. This decision may come as a result of a decision to outsource tasking that was once accomplished by in house resources.	Both companies conduct extensive business development activities and must be aware of the government's intent to issue a solicitation well before the actual solicitation is announced in the Commerce Business Daily.

Government Solicitation	Responses by Case Study Units
<p>2. Once a decision is reached to pursue outsourcing the need to the private sector, the government begins preparation of a solicitation package, which consists of a detailed statement of work, an evaluation plan, and other terms and conditions. At this point, the government must also ensure that sufficient funds are available to execute the contract.</p>	<p>Close coordination and communication with the sponsoring government is necessary to fully understand the specifics of the government requirement. Communication with the government is authorized until the solicitation is announced in the CBD. Once the solicitation is announced in the CBD, communication with companies cease and all communication is then conducted in writing and sent to all companies that have expressed an interest in the procurement.</p>
<p>3. After internal reviews by the contracting office and the legal department, an advance notice that the government is about to issue an RFP is published in the Commerce Business Daily (CBD), which is a publication by the government printing office announcing potential business opportunities for industry participation. As a result of the reform movement and an integral part of the acquisition streamlining initiatives, this notice now is published on various DoD internet websites.</p>	<p>Each company monitors the CBD both electronically as well as hard copy to ensure they are aware of the solicitation as soon as it is published.</p>
<p>4. Once the solicitation is published in the CBD, interested industry companies then respond to the solicitation in the form of a proposal reiterating their capabilities and their proposed solution to meet the government's requirement. Industry proposals usually contain a Technical Volume, a Management Volume and a Cost Volume.</p>	<p>Both companies conduct a very detailed and extensive bid/no-bid decision process prior to making a decision to submit a proposal response. This decision includes the teaming with other companies. Both companies utilize similar criteria for selection of proposal teams. They have a standard format for preparation of technical, management and cost volumes in response to government solicitations.</p>
<p>5. The proposals are separated into Technical and Management Volumes and the Cost Volume. The Technical and Management Volume is reviewed by a source selection committee composed of technical or subject matter experts from the sponsoring office and the Cost Volume is reviewed by a members of the contracting office with assistance from DCAA.</p>	<p>Source selection process as well as source selection team members are kept in close hold by the government. However, each company must be award of the initial step in the evaluation/source selection process used by the government.</p>
<p>6. The government then conducts a source selection process by reviewing each of the proposals and scoring or grading based on the adequacy of the proposal (selection of the winning proposal). The Technical and Management Volumes are scored with the use of a proposal evaluation plan, which is part of the Government preparatory work prior to publication of the solicitation</p>	<p>No action by the company, however the company must fully understand the evaluation process, specifically the evaluation criteria and scoring of each category.</p>

Government Solicitation	Responses by Case Study Units
7. After the winning proposal is selected, that selection is reviewed by the contracting office and the legal department, the contracting officer signs a binding contract.	The company is notified that their proposal has won the competition. Often the company is asked for additional information to clarify some part of the proposal, however this has no bearing to the award.
8. The losers are notified and negotiations are conducted with the apparent winner and a contract is awarded.	See response above.

Note to Table 13. Data that describe the Government solicitation process can be found in Parts 4, 6, and 19 of the FAR and Parts 204, 206, and 219 of the DFARS.

Table 14 depicts a standard proposal evaluation process and criteria. Each proposal has different evaluation criteria. Both Tekla and PSI have overcome these barriers through close and continuous coordination with their sponsors.

Table 14 - Proposal Evaluation Criteria

Proposal Evaluation Criteria	Responses by Case Study Units
1. Workforce qualifications and experience	Both companies pay particular attention to Section L and Section M. Tekla has developed a Solicitation Requirement Compliance Matrix that the company uses to ensure each and every requirement in the solicitation is addressed by their proposal.
2. Technical Approach	By early communication with the sponsoring agency, Tekla and PSI feels they have a complete understanding of the customer requirement. The technical proposal is then structured to respond to the technical requirements of the SOW.
3. Managerial Approach	With experience, Tekla and PSI know the government is seeking qualified companies, with experienced management teams that fully understand the government requirements. Further they look for streamlined teams that respond directly to company management so that if problems arise, the government has a direct link to top management

Proposal Evaluation Criteria	Responses by Case Study Units
4. Corporate Resources	The government evaluation/source selection team relies on DCAA to conduct a pre-award audit to ensure the company has adequate financial, personal, and facility resources on hand to initiate and complete the tasking.
5. Organizational Capability	The government looks for some form of formal organization structure. Both Tekla and PSI have been incorporated in the State of Virginia.
6. Corporate Past Performance	Performance on previous contracts demonstrates to the government that the company has the ability to complete tasking on time, within the proposed schedule and at the proposed cost.

Note to Table 14. Requirements that describe the criteria used by the government to evaluate proposals come from Section M of the Request for Proposal document as well as the proposal evaluation plan from a number of proposals responded to by Tekla Research Incorporated.

Table 15 depicts the proposal preparation process used by both Case Study Units. Proposal activities are extremely proprietary due to the competitive nature of government solicitations. Certainly it is not the only proposal process used to respond to government solicitations; each company has their favorite and keeps the specifics of that process extremely proprietary. Data reflected below has been gathered over 20 years of marketing and business development activities culminating in over 30 proposals written in response to government solicitations

Table 15 - Proposal Preparation Process

Proposal Preparation Process	Responses by Case Study Units
1. Conduct Bid/No-Bid Decision	In order to stay focused on what the company does best, a detailed bid/no-bid decision process is used to determine if the work is suitable for the company to pursue. Pursuit of work requires an investment of time and resources to adequately bid and win the contract.
2. Appoint Proposal and Cost Manager	Skilled proposal managers are a premium commodity for small companies. Each company utilizes a select number of employees to serve as proposal managers and in most cases since each proposal is so significant, proposal writing and managing is left to the top management.
3. Review final copy of government solicitation	Again, since the stakes are extremely high, top management must ensure it has a full understanding of the tasking, the review process, and the evaluation criteria.
4. Conduct final Bid/No-Bid Decision	An important consideration at this point is the record of performance of the incumbent if there is one.
5. Appoint Proposal Team Members	Team members are those employees most familiar with the work to be accomplished. However, not all employees have the same proposal writing skills and this requires constant monitoring.
6. Determine Proposal Strategy and Theme	This decision is left to top management and the proposal manager.
7. Write Technical and Management Approach	Employees most familiar with the tasking in the SOW are appointed as members of the technical volume proposal team. To ensure continuity of information and a smooth flow of data in the proposal, a storyboard approach is normally used.
8. First Review of Technical and Management Volume	The first review is normally left to the proposal manager and several of the top management team.
9. Write Cost Volume/Business Proposal	Both companies have been very successful at pricing the work to be performed within the government estimate of "best value". Without a competitively priced cost proposal, the government cannot award a contract, since typically contracts are awarded to the low bidder or the best value bidder.
10. Conduct Formal Red Team Review	The formal red team is normally comprised of individuals that have not been part of the proposal effort. Often times outside consultants are used as members of the Red Team.

Proposal Preparation Process	Responses by Case Study Units
11. Finalize Proposal and Deliver	Once the proposal is written, considerable effort is made to presentation of the proposal in a form that the government is used to seeing.
12. Standby for Negotiations with Government	Before the government makes a formal award, all questions are answered, discrepancies are resolved, costs are updated, and a final version is prepared and submitted upon request by the government. Negotiations consist of an agreement between the government negotiator and the company as to the DCAA rates, the tasking of the contract, the period of performance and any other issues that need to be resolved before a contract is formally awarded.

Development of The Business Process Model

General Information

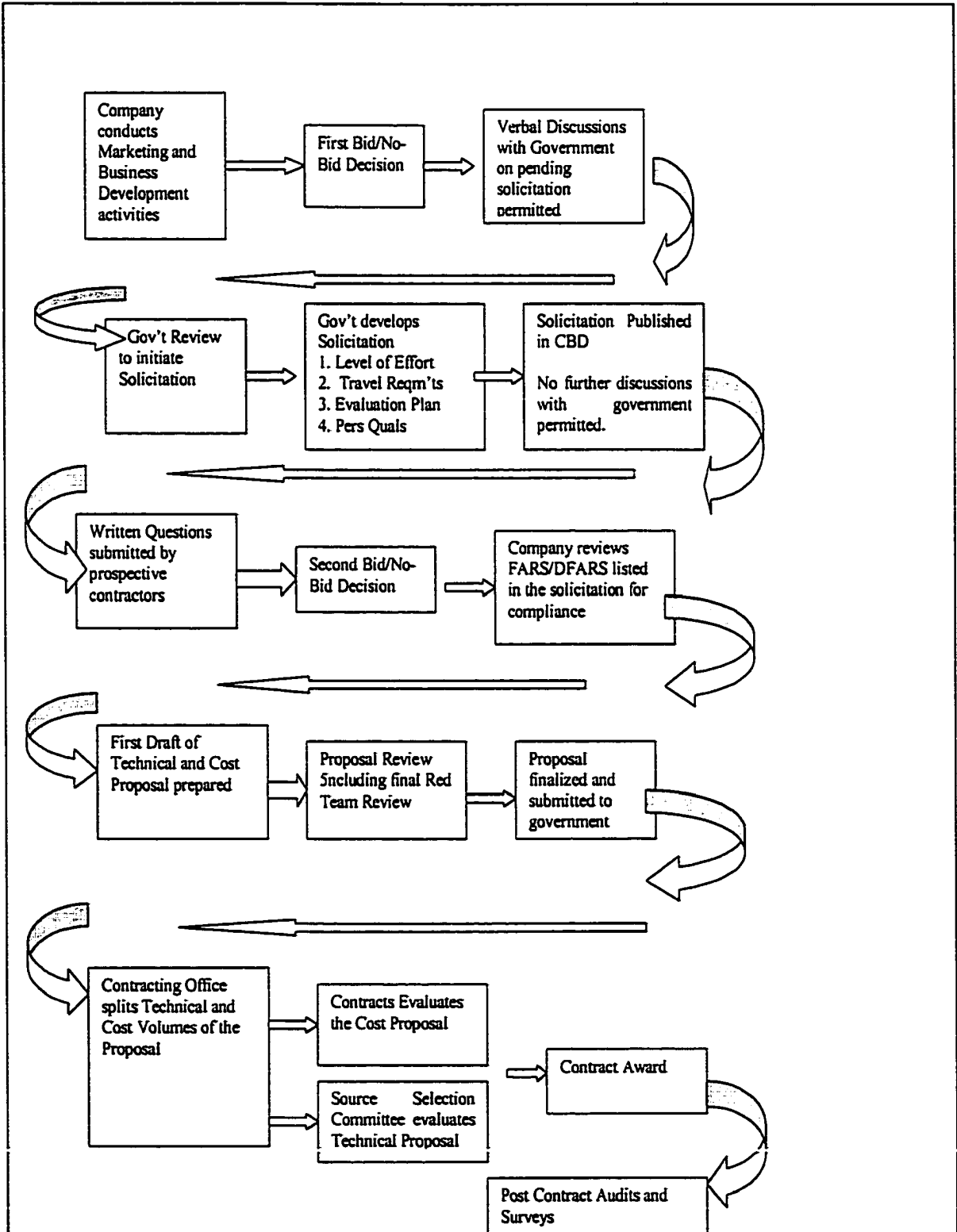
Business process models are particularly ill defined since many models have been overtaken by a business phenomenon called re-engineering. The business process models developed for this study were designed to explain the dynamic behavior and relationship of an undetermined number of independent processes and how they impact on an integrated process. The final process model in the form of a dynamic flowchart depicted interrelated systems or factors as they relate to an overall process and can be characterized as a descriptive business process model. (Snowden, 2000).

To develop the final Business Process Model, data gathered during the previous phases were collected and synthesized. The data were then inserted in tabular format for ease of review. The difficult part was taking all the data gathered and forming it into a process model depicting the flow of the data, the time continuum involved and the expected results. This format presented a dynamic as well as structural view of the

business process. For that reason, it was decided to develop the Business Process Model as a flow chart depicting how the parts interrelated and the time schedule for each.

Further, a flowchart is more user friendly than formal process models and can be readily understood by a wider audience base. (Abeyasinghe et al, 2001).

Process Model Flowchart



CHAPTER 5 – SUMMARY

Summary

This study focused on the problems in overcoming the legal, financial and accounting barriers for small entrepreneurial businesses to seek and win new contracts from the DoD. These new contractual opportunities result from the acquisition reform movement and the increased emphasis by the DoD to outsource or privatize many functions. However, because of these barriers, there are three main roadblocks to successfully bidding and winning contracts. The three main concerns are:

1. Complex legal, financial, and accounting requirements are imposed by the government on prospective government contractors.
2. The process to respond to government solicitations as well as bidding and winning DoD contracts remains complex and difficult to understand.
3. The process to evaluate technical and cost proposals submitted in response to government solicitations is difficult to understand and the evaluation criteria are very subjective.

This study was important because the complex process to seek and win contracts contains very little guidance or direction published outside of government or government trade publications. The findings and conclusions, and the business process model will benefit companies as they seek out and enter these contracts.

The purpose of this research project was to provide prospective government contractors with information that clarified the complex government contracting process

and to show examples of the process to overcome these barriers as implemented by the two units of analysis. With this as the underlying purpose, the specific objectives were:

1. To examine the legal, financial and accounting requirements imposed on small businesses prior to, during and following completion of the contract, and investigate how the two case study units of analysis (Tekla Research Incorporated and Platform Systems Incorporated) found solutions to these problems.
2. To examine the process used by the government to advertise and solicit its requirements as well as the source selection and evaluation process including the evaluation criterion.
3. To examine the proposal process used by the two case study units to respond to government solicitations including the requirements needed in technical/management and cost proposals. As part of this objective it was necessary to examine the business development and marketing activities that take place prior to the government solicitation being issued and the proposal effort beginning.
4. To design a business process model that describes the most effective process for small businesses to follow to increase their probability of success in responding to Department of Defense solicitations.

For this research study, the literature review consisted of mainly government publications and both official and semi-official documents that served to broaden the

knowledge base in the major areas of this research study. Many of the publications describing the acquisition process originate either from governmental agencies in the form of regulations, legal documents and directives, or in trade journals published by organizations that support the government. In selection of the literature, it was also necessary to use the government Internet website extensively in order to extract the most current publication pertaining to the research project.

A review of the available literature served to reinforce an underlying premise of this study – there is simply not much published outside of government or trade publications that clearly and concisely describe the process to be used by prospective government contractors. The pathway for prospective contractors lies in the many volumes of regulations, directives, circulars, and pamphlets published by the government to explain and simplify the process. When one does find the appropriate literature it still remains unclear as to the exact process to be followed and exactly what legal, financial and administrative requirements impact on each prospective contractor. The Small Business Administration publications also provide some clear guidance, however, it is lacking in prescribing the exact requirement imposed by the government as well as the solution to address that requirement. What is published is very general in nature and intended to cover a wide range of material for interested business owners/managers.

Recommendations

The study accomplished its goals and objectives. Prospective DoD contractors can use the data gathered as a roadmap to follow in the pursuit of the new business opportunities. Specific recommendations follow:

1. The data gathered should be published for the broadest audience as a roadmap to ensure a better understanding of the DoD procurement and acquisition process.
2. It would benefit the findings of the study if a company not currently engaged in DoD contracts were to test the model in an effort to seek a DoD contract award.
3. The study utilized two successful small businesses as the basis for development of the process model. However, a much larger base with a variety of companies would be beneficial in order to analyze and review the procedures used by a larger number of companies. Studying additional companies with different perspectives on overcoming the legal and financial/accounting requirements would provide a larger sample and a better process model with more information could be attained.
4. As the acquisition process evolves and new streamlining measures are introduced, that data should be reviewed and updated within 2-3 years and the study should be revisited at that time.

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Appendix A

Attorney Pelletier – Questionnaire

Questions And Answers For Attorney Rich Pelletier

Subject Matter Expert – Legal Requirements

Attorney Rich Pelletier is a lawyer for the Department of Defense and has over 20 years experience as a government contract attorney working with and interpreting government contracting legal issues.

Mr. Pelletier, please review the data extracted from the document analysis relative to the legal requirements prior to entering into contractual arrangements with the government. That information can be found in pages 9-13 of Chapter IV. The questions reflected below are intended to validate data gathered during that analysis and to ensure that I have reviewed the appropriate documents. Information provided by you, together with the data gathered as part of the literature search, will then be presented to the key government contracting officials to further verify and validate the data.

After you have had sufficient time to prepare answers to these questions, we will schedule an interview to review your answers and explore any additional information you can provide that will be of assistance to prospective entrepreneurs seeking to enter into contractual arrangements with the DoD.

Mr. Pelletier, the legal requirements imposed by the Department of Defense seem very stringent and may be difficult for prospective contractors to fully understand how and why the government imposes these legal restrictions on companies seeking to enter into binding contractual arrangements with the government. There is very little information published that describes to potential contractors in plain simple terms - how

to do business with the Department of Defense and what legal requirements will the government impose on small businesses. The questions below are intended to provide information from your perspective as to the legal restrictions imposed on companies seeking to do business with the government.

1. Question:

In conducting the document analysis, I reviewed several government publications that set forth the legal requirements. In your opinion, were these the appropriate documents to review and was the basic data gathered the official source material for this information?

Answer:

There are five principle sources that provide direction and regulatory guidance to prospective businesses seeking to enter into contractual obligations with the DoD. It is important that companies seeking to do business with the government fully understand the form, process and implications of the Government's acquisition system. I have summarized the five primary regulatory documents:

1. Title 10 of the US Code. The legal authorization for agencies of the federal government to enter contractual arrangements with industry to procure products, supplies and services is embodied in the United States Code. Specifically, Title 10 of the United States Code empowers the Secretary of Defense to establish policies and procedures for the effective management of acquisitions within the Department of Defense. Incorporated in the law is the provision for the Secretary of Defense to approve or define

the cost, performance, schedule requirements, and to establish each phase of the acquisition process. Title 10 also empowers other officials within the DoD to participate in the acquisition of defense products. For example, the Comptroller of the Department of Defense is empowered by law to evaluate cost proposals for each major acquisition program and grants the authority to continue or cancel a particular program. Prospective entrepreneurs should review Title 10 to gain a perspective on how the system works and who within the system has the authority to contractually obligate the government. The flow down of this source document can be found in the Federal Acquisition Regulations (FAR), the Defense Federal Acquisition Regulation Supplements (DFARS), and Department of Defense implementing directives and regulations such as the DoD 5000 series directives.

Prospective government contractors, indeed anyone interested in conducting business with the Government should fully understand the legal implications of entering into binding contractual arrangements with the Government – and the impact of not fulfilling their contractual obligations. The penalties can be quite severe both financially and legally.

2. OMB Circular A-109: The legal foundations set forth in Title 10 of the United States Code are embodied into the Office of Management and Budget Circular A-109 which is the broad implementing directive translating the US Code into specific guidance. This document defines the system acquisition process as a “sequence of acquisition activities starting from the agency’s mission needs, with its capabilities, priorities, and resources (dollars), extending through introduction into use or successful

achievement of program objectives.” It establishes the basic acquisition policy for all federal agencies, particularly for major programs, and is the document used by the DoD (and other agencies) as source material for departmental acquisition regulations and directives.

3. Federal Acquisition Regulation (FAR): The FAR takes the broad language from OMB A-109 and serves as the primary regulation for use by all federal agencies for the acquisition of supplies and services. This document, published in 1984, serves to codify and publish uniform policies and procedures for system acquisition, by all executive agencies and consolidates the major procurement regulations of the various departments and agencies. The FAR guides and directs contract award procedures, acquisition planning, warranties, and establishing guidelines for competition. Besides the FAR, each federal agency has a supplement to describe its own particular ways of doing business.

4. Defense Federal Acquisition Regulation Supplements. Using the guidance provided in the FAR, DoD publishes the Defense Federal Acquisition Regulation Supplements (DFARS), which contain specific direction for the DoD acquisition process.

5. Department of Defense Regulation/Directives. Based on the FAR and DFARS, the Department of Defense series 5000 directives provide the implementing guidance and regulatory direction for management of a DoD acquisition program. These directives apply except when statutory requirements contained in Federal Acquisition Regulations (FAR) override them. The DoD regulations and directives describe three major principles that guide all defense acquisition programs: 1) Translating operational

needs into stable, affordable programs; 2) Acquiring Quality Products; 3) Organizing for Efficiency and Effectiveness.

Most of the legal requirements pertaining to the requirements for contractors are contained in these documents. It is impossible for me to summarize the contents of these large legal documents in this questionnaire. Contractors interested in seeking government contracts should go to the DoD or any government agency website and get information from the Internet version of the FAR or DFARS. For the DoD, the FAR and DFARS can be found at the following websites: www.deskbook.osd.mil or www.acq.osd.mil/dau. It is important for prospective contractors to be aware as to the source of information pertaining to the Department of Defense acquisition system because often times there is conflicting information and one can always go to the source of the information to find the correct answer.

2. Question:

Before signing a binding contract with the government, it would appear that prospective contractors should understand the various types of contracts that are awarded by the Department of Defense and the peculiar characteristics of each type. Can you describe the various contracts and some of the unique characteristics of each?

Answer:

It is very important that individuals seeking to do business with the government fully understand the differences in contract types and what is expected from the contractor for each type. Many of the contract types require specific cost, schedule and

performance criteria from the company. Failure to comply with these requirements can be costly in terms of legal and administrative repercussions. I have identified many of the contract types below together with the characteristics peculiar to each one.

Firm Fixed Price. Firm Fixed Price (FFP) Contracts call for delivery of supplies or services at a specified firm fixed price, including a fixed profit margin. FFP contracts are typically used when reasonable pricing can be established at the outset and the contract involves purchase of "Off the Shelf" items, modified commercial items or military items for which sound prices can be developed. The Firm Fixed contract is the easiest and least costly contract to administer and encourage contractor efficiency and economy. The main disadvantage is the lack of flexibility in changing the terms and conditions of the contract once the contract has been signed by all parties.

Firm Fixed Price - Level Of Effort Contract. Firm Fixed Price – Level of Effort contracts are used when a specific number of hours (level of effort) are known and the cost for that service does not vary. The FFP-LOE contract describes the scope of work in general terms, usually calling for an investigation or study to be delivered with a set number of hours. It normally requires submission of status reports by the contractor that show the results achieved through application of a specified level of effort; however, payment is based on effort expended rather than on results achieved. The FFP - LOE is particularly useful in the research and exploratory development categories when the work cannot be clearly defined and the level of effort desired can be identified and agreed upon in advance.

Cost Type Contracts. Cost contracts provide for payment to a contractor of allowable costs only and *no fee* is assigned. These contracts are established for fund obligations and limitation of reimbursable cost that are incurred by the contractor when the magnitude of performance cost uncertainties preclude the use of FP contract. Typically, these type contracts are used primarily for Research and Development work with nonprofit educational institutions or other nonprofit organizations.

Cost Plus Incentive Contracts. Cost Plus Incentive Fee (CPIF) contracts provide a target cost, a target fee, a minimum and maximum fee, and a fee adjustment formula, all established during initial negotiations. Upon contract completion, the formula is applied and, subject to the minimum and maximum fee limits, the fee is adjusted. Cost Plus Incentive Contracts are used for development and test of major systems when the operational success of the development effort is highly probable. The features of this type of contract include an incentive formula that will provide positive incentive for effective management over the entire range of variations that may reasonably be expected. This type of contract encourages economical, efficient and effective contractor performance and is mutually beneficial for both the Government and contractor.

Cost Plus Award Fee Contracts. Cost Plus Award Fee (CPAF) contracts combine the characteristics of both the CPFF and CPIF contract, and include a scope of work statement. These type contract features specific criteria against which the contractor's performance will be evaluated, an estimated total cost, a CPFF type minimum fee and a bonus of reward-only fee. The quality of the contractor's performance is usually evaluated quarterly by the Government with written reports furnished the contractor for

calling attention to both meritorious work and to any deficiencies, offering opportunity for corrective action to improve subsequent evaluations. The contracting officer and a Government Evaluation Board determine the contractor's final fee subjectively. Final fee is determined unilaterally by the contracting officer and is not subject to appeal under the "Disputes" clause of the contract.

Cost Plus Fixed Fee Contracts. Cost Plus Fixed Fee (CPFF) contracts provide for negotiated estimate of costs and payment of a fixed fee to the contractor to include direct reimbursable costs and all indirect costs subject to the limits of DCAA approved estimated cost amount. Contracts of this type are used primarily in R&D work where development efforts are vague and there are indefinite specifications for end items. They provide minimum incentive to the contractor to control costs, are expensive to administer and guarantee the contractor profit w/o risk. However, the contractor must have a DCAA approved accounting system to track cost and labor time.

Time And Materials Contracts. Time and Material (T&M) contracts provide for payment of direct labor hours at fixed hourly rates, including direct and indirect labor, overhead, general and administrative, and profit. This type contract requires a price ceiling which the contractor may not exceed except at risk. The contractor must document the contract file and substantiate any change to the price ceiling and to the impact of such changes. These contracts are used when the nature of the work is known in advance, but not the extent, or duration of the work and when it is not possible at the outset to anticipate costs with any degree of confidence. T&M contracts require appropriate surveillance by the Government during performance to preclude inefficiency

or waste by contractor and they are expensive to administer. Again, the contractor must have an approved accounting system to record total time accountability. There is little positive profit incentive to the contractor to control costs or to manage labor force efficiently.

Letter Contract. Letter contracts are used very infrequently, however in times of emergency, they become a legal and binding negotiated contract that authorizes commencement of work pending negotiation of a definitized contract. It stipulates the maximum liability of the Government on expenditures; the type of contract anticipated and as many definitive contract provisions as possible. Letter Contracts are used when the interests of National Defense or other public need require immediate binding agreement so contractor can commence work and timely negotiation of a definitive contract not possible at the outset.

Indefinite Delivery - Definite Quantity Contracts. Indefinite Delivery – Definite Quantity (IDDQ) contracts provides for delivery of a definite quantity of supplies or services to designated locations, within a specified period, and upon issuance of orders. IDDQ contracts are used when the recurring quantity is known in advance but the time is not fixed. It saves administrative time and expense of repeated negotiations and awards.

Indefinite Delivery - Indefinite Quantity Contracts. Indefinite Delivery – Indefinite Quantity (IDIQ) contracts provide for the purchase of an indefinite quantity of supplies or services during an indefinite period. The contract may specify maximum and minimum quantities allowable per individual order when actual quantity needs cannot be established in advance beyond a reasonable minimum quantity.

3. Question:

The acquisition reform movement in the Department of Defense is only one part of the overall reform movement in the Federal Government and has come primarily in the form of streamlining the acquisition process. As a government contract attorney, you must be familiar with some of the changes taking place that lead to privatization of various government functions through the process called "outsourcing". Can you summarize those changes and how they impact on entrepreneurs seeking to engage the DoD in contractual arrangements to pursue these opportunities?

Answer:

The acquisition reform movement has significantly changed the philosophy in the DoD regarding outsourcing of work that was previously done in house with the federal workforce. As the federal workforce decreases in size, a limit has been placed on filling the personnel vacancies, which of course, leaves a shrinking workforce. However, the current administration has increased the operational commitments for the military services and there is still an urgent need for much of the highly specialized work to be accomplished. Studies by the government show that is economically feasible to outsource the work to civilian contractors rather than retain the federal workforce. Plus, theoretically, once the job is completed, the civilian contractor is paid and goes away; future employment of the individual becomes the problem for that particular contractor and not the federal government.

Another philosophical change regarding privatization of government functions is the reliance on more and more commercial off the shelf items instead of developing new items. This opens the door for prospective contractors to provide their products instead of the government building/manufacturing/producing supplies and equipment they have been developed in house. Another key development for prospective contractors is the situation wherein procurements will be bundled together in Multiple Award Task Order Contracts. This permits prospective small businesses to team with larger companies to pursue larger procurements than their size or technical capabilities would dictate.

4. Question:

Can you describe some of the other legal pitfalls or traps that prospective entrepreneurs face when seeking business opportunities from the DoD?

Answer:

In the move to reform the acquisition process and streamline government, some of the initiatives have adversely impacted on the small to medium sized companies doing business with the Department of Defense. Some of the new initiatives created to improve competition and open the door for small businesses may have in fact resulted in less competition than before.

The five areas that are at the center of the controversy are: 1) Bundling of Procurements to minimize the number of contract awards; 2) Efficient Competition Definition; 3) Competitive range Assessments; 4) Limitation on Pre-Award Briefings; and the Realignment of Task Order Competition.

First, many of the procurements are being bundled into large dollar procurements that may have resulted in elimination of some small to medium sized company simply because they do not have the resources to adequately prepare for and compete against the large companies. Even though teaming is strongly encouraged, the larger companies with tremendous technical capabilities really don't need the small company because they already have all the technical skills necessary to bid, win and perform on the contract. Dragging along a small business is considered high risk and the companies are shunning the small contractors. As a result many of the small to medium sized companies are being locked out of fully participating in the competitive process. One of the solutions to this potential problem has been a multiple contract award to both large companies and small businesses. Of course this action then is in direct conflict of the initiative to reduce the number of contract awards.

The second issue is the definition of efficient competition. The combination of the government's new definition of full and open competition together with bundling of procurements, forces the small to medium sized company with limited resources to compete with large business enterprises that have far more financial and personnel resources at their disposal. In the past, competition for procurements was generally between companies of equal size and resources. In the near term, the government will have to monitor this issue and insure fair and open competition between companies of similar size and capabilities.

The third issue deals with the assessment by a procurement official who makes a subjective determination that a particular company is within the competitive cost range of

a particular procurement. This inadvertently may limit the number of companies available for the procurement. This limiting process clearly results in creating significant barriers as an impediment to entry into the procurement process.

Fourth, the pre-award briefings by companies may in some cases turn into very formal briefings with glossy vu-graphs and paid presenters instead of discussions on the nature of the procurement and the qualifications of the companies. Obviously, those companies with large financial resources create the most attractive briefings and present the best resources and capabilities even though they may not have as good technical and management approaches as the small to medium size company.

Fifth, many of the large bundled procurements are task-oriented procurements that may be awarded to several companies. Then each task order is competed between all the companies that submitted a bid for the contract. This in effect multiplies dramatically the amount of proposal work required by the small to medium sized company to win any work under the contract. The small company finds themselves competing multiple times – once to win the contract in the first place, second to submit their proposals to compete for each task order, and possibly a third time best and final selections.

5. Question:

What can a small business with very little historical business records do to overcome the past performance evaluation criteria and convince the DoD that the new start-up business is worthy of a government contract even though they have no prior government contract experience?

Answer:

The government has a natural reluctance to award contracts to start-up companies because they simply don't have the track record of success in terms of cost and schedule performance. When compared to established companies during the evaluation process, start-up companies lack the previous government contractual experience that established companies have. In addition, start-up companies often have not been organized or formalized through some recognizable business entity such as incorporation (S Corp or C Corp) and lack the formal organizational structure that the DoD desires. However, start-up companies can win government contracts to provide services, supplies and products. But it requires the company to document fully its capability, its financial and personnel resources and its organizational structure. They must give the government some assurance that it will complete the contract at the proposed cost, on time and within established specifications.

In other words the government must be convinced that the company will exist at the time of award, be able to accomplish the required tasking, and still be in business when the contract is completed. If the company is a new start up business, the government will conduct a pre-award survey to evaluate the organization structure and the business entity. Obviously a start up business that has gone through the formal procedures to be incorporated is a lower risk than a single owner business or partnership. Further, a business that has a formal, recognizable organization structure that conveys stability to the government is a lower risk than a single owner business without a formal organizational structure. The bottom line is the new or start-up company will have to

convince the government that in spite of a lack of an historical past performance, that the company has the resources and capability to perform the tasking and complete the contract.

6. Question:

What are some of the other legal requirements contained in the FAR that prospective contractors should be aware of?

Answer:

The FAR contains many legal requirements that originate from public law or emanate from the law. Depending on the type business activity, the company may be affected by legal restrictions contained in Part 23 of the FAR relative to environmental regulations and restrictions. Most companies should also be aware of the legal restrictions contained in Part 22 of the FAR pertaining to the application of labor laws. Again, depending on the capability and interest of the company, other parts of the FAR deal with foreign acquisitions (FAR Part 25), patents, data and copyright provisions (FAR Part 27), small business programs (FAR Part 19), contract financing (FAR Part 32), protests, disputes and appeals (FAR Part 33) or contract administration and audit services (FAR Part 42). The FAR/DFARS are far reaching and virtually every legal requirement is defined in some part of the FAR/DFARS. Potential contractors should avail themselves of these regulations and review sections of interest to them.

7. Question:

There are some restrictions on the type and timing of business development activities that companies can engage in with the government prior to the solicitation being published? Can any marketing or business development activities take place with the government once the solicitation is published?

Answer:

Before the solicitation is published, the government encourages competition in pursuit of procurement/acquisition programs. Any company is welcome to come in to a government contracting office or submit an information packet or brochure describing their company's capabilities and qualifications. In addition, companies are encouraged to meet with the program sponsor to discuss the technical requirements of the intended solicitation. However, once the solicitation has been published all contact with the sponsoring department/office by companies competing for the contract are prohibited. Companies may continue to submit their capability/qualification packets to the contracting office, but may not be automatically placed on the list to receive the published solicitation.

8. Please review the information in Table 1 for accuracy and provide any additional comments in the space provided.

Appendix B

Government Contracting Officer Representatives Questionnaire

Questions And Answers

for

Government Contract Officer Representative "A"

Government Contract Officer Representative "A" is a branch chief for a Department of Navy field activity and has been a Contract Officer Representative (COR) for over two decades. His branch conducts both basic research and applied research for advanced technology projects and awards nearly \$20 Million in contracts annually to small entrepreneurial companies. As the Contracting Officers Representative, he normally serves as the chairman of the source selection committee for procurements from his branch and selects other government employees who form the source selection committee.

This particular COR has over 30 years of government service and is extremely qualified to verify and validate information from the government perspective on both the solicitation process as well as the source selection process. He is also well qualified to discuss the request for proposal format used by the government to advertise its contracting requirements. COR "A" has also provided information from his perspective to assist prospective contractors as to the overall components for successful technical proposals and the criteria used to evaluate proposals submitted in response to the government solicitations.

COR "A", this research project is intended to provide information to prospective government contractors that will assist them in understanding the legal, financial and

accounting requirements imposed by the Department of Defense prior to awarding the company a binding contract. The complex legal, administrative and financial requirements imposed by the Department of Defense are somewhat different than those found in non-DoD business enterprises. Further, other than government publications, there is very little information in the commercial marketplace that informs potential contractors in plain simple terms - how to do business with the Department of Defense and what legal, financial and accounting requirements are prerequisite to being awarded a contract.

As the initial step in development of a business process model, I conducted a literature review and document analysis of pertinent government publications to extract data, which identifies these requirements. That data is reflected in pages 9- 31 of Chapter IV. Further, I have interviewed subject matter experts to gain additional information regarding these requirements. That information has now been reduced to the tables attached to this questionnaire (Table 1-5). The questions below are intended to provide validate/verify the information already gathered and to provide additional information from your perspective on doing business with the government. That information together with the other data gathered will then be reduced into tabular format and used to modify/update the business process model. The complete data gathered will then be analyzed and presented as findings and conclusions. Those findings and conclusions will then be presented to you once again to verify and validate the data.

After you have had sufficient time to prepare answers to these questions, we will schedule an interview to review your answers and explore any additional information you

can provide that will be of assistance to prospective entrepreneurs seeking to enter into contractual arrangements with the DoD.

1. Question:

After reviewing the legal requirements imposed by the FAR/DFARS can you add any additional information or clarify the information relative to the government acquisition process specifically the information presented in Table 1?

Answer:

The information you have gathered appears to be complete and includes most of the legal requirements contained in the FAR or DFARS. As you have indicated the FAR and DFARS contain numerous parts, sections, clauses and legal restrictions. I rely on experts in the contracting office and the legal office to ensure the legal requirements of the solicitation are addressed correctly and legally.

2. Question:

After reviewing the financial and accounting requirements imposed by the FAR/DFARS can you add any additional information or clarify the information presented in Table 2?

Answer:

Again, I am not in a position to provide any further information relative to accounting or financial requirements contained in the FAR or DFARS. The data you have collected appears complete. One other note, prospective contractors should obtain

DoD Pamphlet 4205.1, *Selling to the Military* as well as the many publications from the Small Business Administration for additional information regarding business opportunities with the government.

The government requires stringent legal and accounting requirements from contractors in order to somewhat guarantee that public funds are spent wisely and not subject to fraud, waste and abuse. We as contracting officials must take every precaution to ensure insight into company financial situations.

3. Question:

Can you describe the Request for Proposal and its significance to prospective contractors?

Answer:

The Request for Proposal is a formal, official communication between government and industry in the contracting process. When the government issues an RFP, it is describing its needs for particular goods or services, and is soliciting from industry proposals to fulfill those needs. Competitors (or offerors) submit proposals in response. Subsequently, the government conducts a source selection by designating a committee of several technical personnel to review the technical proposal and several persons from the contracting office to review the cost proposal. Once the winning proposal is selected, the contracting officer signs or accepts the proposal and a binding contract is issued. The RFP has particular significance in this process in that the clarity and coherence with which it is constructed can dramatically affect the events that follow-

-favorably or unfavorably. How well the government clearly communicates its needs in the RFP, for instance, will almost certainly influence the quality of proposals received, ease of difficulty of conducting source selection and negotiation and, ultimately, relative success or failure of contract performance.

The interesting point that prospective DoD contractors should understand is that the notice to industry is the published in the Commerce Business Daily, or more recently electronically through a medium called Electronic Commerce. In either method, the government formalizes its requirements and advertises them to industry. Interested industry companies then respond to the solicitation in the form of a proposal reiterating their capabilities and their proposed solution to meet the government's requirement. In an evolutionary process, most RFPs are now published on the net by the local government installation contracting office. Prospective contractors should become familiar with the local government installation contracting office and request they provide them the web site address.

There are several sections that are of particular interest to prospective contractors because they contain legal or financial/accounting requirements or they are the sections that prescribe the evaluation criteria that will be used by the government to evaluate the proposals. The specific sections are as follows:

Section G, which describes the required accounting and appropriation data and contract administration information in addition to the names of Federal points of contact and billing instructions.

Section H, which contains customized clauses that may provide the terms for options, economic price adjustment provisions, a listing of equipment that will be provided by the Government to the contractor, or any other special, miscellaneous clause that will govern contract performance.

Section I, which includes all the clauses required by law or regulation (i.e., FAR, Defense FAR Supplement, etc.)

Part IV of the RFP, which is the section called Representations and Certifications and must be returned back to the government as an enclosure to the company proposal.

Section K, which is the section where the company provides information about the company and certifies they are in compliance with all applicable laws and regulations.

Section L, which describes in great detail how the proposal is to be prepared and other details regarding proposal submission information.

Section M explains the proposal evaluation criteria and the evaluation process.

4. Question:

After reviewing the data that I have gathered relative to the government solicitation process, can you add any additional information or clarify the information presented on pages 17-20 and Tables 3 and 4.

Answer:

Briefly, as you have stated, the government has many requirements for services, technical and professional support, equipment, products, supplies, systems, and end

items. Those requirements are announced to the public in a government publication called the Commerce Business Daily. Under the new Electronic Commerce initiative as part of the reform movement in government, the CBD is available electronically through the Internet. Once announced in the Commerce Business Daily, the requirement is then published as a formal solicitation and generally takes one of two major forms:

If sealed bids are used, the solicitation is called the "invitation for bids" (IFB). This form is more often used when the requirement is well defined and the government as well as industry is familiar with the product to be provided. For example; if aircraft fuel is the government requirement, they will ask for sealed bids on providing the aircraft fuel from a number of vendors.

The more prevalent method however, is the Request for Proposals (RFP). An RFP is used when the government wishes to obtain responses from industry in the form of competitive proposals for subsequent contract evaluations, discussions and negotiation. This solicitation is government's way of expressing its needs to industry and fully expects industry to respond to those needs in the form of a technical and cost proposal.

5. Question:

After reviewing the information pertaining to the proposal evaluation process and the generic evaluation criteria, can you add any information that would be of interest to prospective contractors?

Answer:

The data gathered pretty well describes the important information prospective contractors should be aware of. The process as well as the criteria used to evaluate proposals is truly dependent on the type of solicitation the government has issued. If the solicitation is for advanced state of the art hardware or hardware systems, those proposals will be evaluated differently than a solicitation requesting industry provide the government research engineers. There are several key elements the government will look for when reviewing industry proposals:

First and foremost, the government will look to see that the company has an in-depth understanding of the problem and the customer requirement.

The proposed technical solution must thoroughly and clearly address and provide a solution for each government requirement. Technical solutions should be succinct and to the point and clearly indicate how the company intends to accomplish the task.

The proposed technical solution must be feasible, cost effective, reasonable, and should convey that it can be implemented by the company with existing resources or resources that it can obtain in a short amount of time. A detailed milestone schedule should accompany each task so the government can review whether the company schedule meets the government requirement.

The cost proposal must be reasonable, reinforced by backup data and can be by implemented by the contractor using a DCAA approved accounting system.

The entire proposal must convince the evaluation team that the company has the specific technical resources and personnel to complete the tasking reflected in the RFP Statement of Work.

Lastly, the proposal must be written in such detail that it can be used as the device to manage the program once the contract has been won. The idea is that the proposal should be detailed enough to guide actions from the very outset of a new contract.

Typically a proposal will not be read by a single individual, but by many evaluators. Each level of review will have unique issues to evaluate. The individual at each evaluator level will be concerned about the details of your solution to their particular problem. Many of the same people who developed the RFP become members of the Source Selection and Evaluation Board (SSEB) and actually do the "nitty-gritty" work of evaluating proposals. Usually a proposal evaluation team consists of individuals from both the "acquiring organization" and the "using organization". These people are chosen for their expert knowledge of the acquisition process or their technical knowledge and experience with the government's requirement.

6. Question:

After reviewing the data gathered relative to development and submission of proposals in response to government solicitations as well as that data gathered pertaining to business development/marketing activities can you add any additional information or clarify the information presented on pages 20-31 and Table 5?

Answer:

I can't comment further on development of the proposals from industry because I have no experience in that area. I can describe typically what we look for when evaluating proposals. Prospective contractors should develop their proposals to answer or address the following evaluation criteria:

Most importantly, the proposal must address all requirements of the solicitation. Resumes for proposed personnel must meet all technical requirements of the RFP labor qualifications. Technical write-ups must address every single technical requirement and the proposal must be in full compliance with, and respond to every requirement of the RFP. Benefits to the customer must be explicit and a single consistent theme must be evident in every paragraph. Technical claims made by prospective bidders must be valid and substantiated. The technical proposal must tell the government what you are going to do to solve the requirements, and exactly how the company is going to do it. Strong supporting arguments for the company solution can be found throughout the proposal. The proposal must convince the government that it is the best solution to the technical requirements, and offers the best personnel to meet the requirements, as well as the most favorable cost. The proposal must be "reader friendly", convincing the government you can successfully satisfy the government's requirements --- on time, at cost. The easiest proposals to review are well written with action verbs and highly visible titles.

One word about the cost volume. Normally, I don't see the cost volume until the evaluation process is complete. However, the very best technical proposal cannot win a single contract without a very competitive cost proposal that is within the funding range

of the procuring agency. One of the essential ingredients in a competitive cost proposal is the factual data, which has been audited by the Defense Contract Audit Agency. The proposal review by the government will attempt to verify that the cost data in the proposal is reasonable and can be verified through well-documented cost estimates. So, to be competitive, the company must be scrupulously accurate and have detailed back up for each element of cost proposed.

DCAA plays an important role in proposal evaluation by providing the evaluators with information obtained during on-site audits and inspections.

Questions And Answers

For

Government Contract Officer Representative "B"

Government Contract Officer Representative "B" has recently been selected and trained as a Contracting Officer Representative (COR) and is the lead engineer on a U.S. Navy Advanced Technology program. COR B is responsible for management of nearly \$10 Million in annual funding, most of which is awarded to the private sector to provide research, development, test and measurement and evaluation activities for advanced technology projects.

He is extremely qualified to provide information relative to the government perspective on the solicitation process and the request for proposal format used by the government to advertise its contracting requirements. Additionally, COR B can provide information that will assist prospective contractors as to the overall components for successful proposals and the criteria used to evaluate proposals in response to the government solicitations.

COR B, this research project is intended to provide information to prospective government contractors that will assist them in understanding the legal, financial and accounting requirements imposed by the Department of Defense prior to awarding the company a binding contract. The complex legal, administrative and financial requirements imposed by the Department of Defense are somewhat different than those found in non-DoD business enterprises. Further, other than government publications,

there is very little information in the commercial marketplace that informs potential contractors in plain simple terms - how to do business with the Department of Defense and what legal, financial and accounting requirements are prerequisite to being awarded a contract.

As the initial step in development of a business process model, I conducted a literature review and document analysis of pertinent government publications to extract data, which identifies these requirements. That data is reflected in page 9- 31 of Chapter IV. Further, I have interviewed subject matter experts to gain additional information regarding these requirements. That information has now been reduced to the tables attached to this questionnaire (Table 1-5). The questions below are intended to provide validate/verify the information already gathered and to provide additional information from your perspective on doing business with the government. That information together with the other data gathered will then be reduced into tabular format and used to modify/update the business process model. The complete data gathered will then be analyzed and presented as findings and conclusions. Those findings and conclusions will then be presented to you once again to verify and validate the data.

After you have had sufficient time to prepare answers to these questions, we will schedule an interview to review your answers and explore any additional information you can provide that will be of assistance to prospective entrepreneurs seeking to enter into contractual arrangements with the DoD.

1. Question:

After reviewing the legal requirements imposed by the FAR/DFARS can you add any additional information or clarify the information presented on pages 9-13 and Table 1?

Answer:

The information you have gathered appears to be complete and includes most of the legal requirements contained in the FAR or DFARS. As you have indicated the FAR and DFARS contain numerous parts, sections, clauses and legal restrictions. I rely on experts in the contracting office and the legal office to ensure the legal requirements of the solicitation are addressed correctly and legally.

2. Question:

After reviewing the accounting requirements imposed by the FAR/DFARS can you add any additional information or clarify the information presented on pages 13-17 and Table 2?

Answer:

Again, I am not in a position to provide any further information relative to accounting or financial requirements contained in the FAR or DFARS. The data you have collected appears complete. One other note, prospective contractors should obtain DoD Pamphlet 4205.1, Selling to the Military as well as the many publications from the

Small Business Administration for additional information regarding business opportunities with the government.

3. Question:

After reviewing the data that I have gathered relative to the government solicitation process and proposal evaluation/source selection can you add any additional information or clarify the information presented on pages 17-20 and Tables 3 and 4.

Answer:

Briefly, as you have stated, the government has many requirements for services, technical and professional support, equipment, products, supplies, systems, and end items. Those requirements are announced to the public in a government publication called the Commerce Business Daily. Under the new Electronic Commerce initiative as part of the reform movement in government, the CBD is available electronically through the Internet. Once announced in the Commerce Business Daily, the requirement is then published as a formal solicitation and generally takes one of two major forms:

If sealed bids are used, the solicitation is called the "invitation for bids" (IFB). This form is more often used when the requirement is well defined and the government as well as industry is familiar with the product to be provided. For example; if aircraft fuel is the government requirement, they will ask for sealed bids on providing the aircraft fuel from a number of vendors.

The more prevalent method however, is the Request for Proposals (RFP). An RFP is used when the government wishes to obtain responses from industry in the form

of competitive proposals for subsequent contract evaluations, discussions and negotiation. This solicitation is government's way of expressing its needs to industry and fully expects industry to respond to those needs in the form of a technical and cost proposal.

The Request for Proposal is a formal, official communication between government and industry in the contracting process. When the government issues an RFP, it is describing its needs for particular goods or services, and is soliciting from industry proposals to fulfill those needs. Competitors (or offerors) submit proposals in response. Subsequently, the government conducts a source selection by designating a committee of several technical personnel to review the technical proposal and several persons from the contracting office to review the cost proposal. Once the winning proposal is selected, the contracting officer signs or accepts the proposal and a binding contract is issued. The RFP has particular significance in this process in that the clarity and coherence with which it is constructed can dramatically affect the events that follow—favorably or unfavorably. How well the government clearly communicates its needs in the RFP, for instance, will almost certainly influence the quality of proposals received, ease of difficulty of conducting source selection and negotiation and, ultimately, relative success or failure of contract performance.

The interesting point that prospective DoD contractors should understand is that the notice to industry is published in the Commerce Business Daily, or more recently electronically through a medium called Electronic Commerce. In either method, the government formalizes its requirements and advertises them to industry. Interested

industry companies then respond to the solicitation in the form of a proposal reiterating their capabilities and their proposed solution to meet the government's requirement. In an evolutionary process, most RFPs are now published on the net by the local government installation contracting office. Prospective contractors should become familiar with the local government installation contracting office and request they provide them the web site address.

As far as the proposal evaluation process, the data gathered accurately describes the important information prospective contractors should be aware of. The process as well as the criteria used to evaluate proposals is truly dependent on the type of solicitation the government has issued. If the solicitation is for advanced state of the art hardware or hardware systems, those proposals will be evaluated differently than a solicitation requesting industry provide the government research engineers. There are several key elements the government will look for when reviewing industry proposals:

The primary concern in proposal evaluation is the ability of the proposal to describe accurately the detailed solution to the government requirement. When I review proposals, I focus on the company's ability to execute the contract and that there is traceability in terms of the labor mix, milestone schedules, deliverables and the final product. I'm looking for assurance that the company has an in-depth understanding of the government requirement and they respond to each and every detail in the Statement of Work. In the cases I'm familiar with, the government looks for the technical approach to be execute-able and is the best value for the government.

The technical proposal must thoroughly and clearly address and provide a solution for each government requirement. The proposal must clearly delineate a clear understanding of the government requirement as reflected in the RFP, then demonstrate as a function of technical solutions and deliverables a response to each requirement.

The proposed technical response must be feasible, cost effective, reasonable, and should convey that it can be implemented by the company with existing resources or resources that it can obtain in a short amount of time. The company must clearly demonstrate that it can produce the appropriate labor mix to accomplish the tasking and can call on the appropriate subject matter experts that the government is looking for.

The cost proposal must be reasonable, reinforced by backup data and can be implemented by the contractor using a DCAA approved accounting system. The cost proposal must clearly present that the proposed solution provides a "best value" for the government.

The entire proposal must convince the evaluation team that the company has the specific technical resources and personnel to complete the tasking reflected in the RFP Statement of Work. The company must also identify the risk areas and mitigation plans in order for the government to accurately evaluate the proposed solution.

Lastly, the proposal must be written in such detail that it can be used as the device to manage the program once the contract has been won. The idea is that the proposal should be detailed enough to guide actions from the very outset of a new contract. It

should contain milestone schedules, decision points with exit criteria for each phase of the work to be performed.

Typically a proposal will not be read by a single individual, but by many evaluators. Each level of review will have unique issues to evaluate. The individual at each evaluator level will be concerned about the details of your solution to their particular problem. Many of the same people who developed the RFP become members of the Source Selection and Evaluation Board (SSEB) and actually do the "nitty-gritty" work of evaluating proposals. Usually a proposal evaluation team consists of individuals from both the "acquiring organization" and the "using organization". These people are chosen for their expert knowledge of the acquisition process or their technical knowledge and experience with the government's requirement.

4. Question:

After reviewing the data gathered relative to development and submission of proposals in response to government solicitations as well as that data gathered pertaining to business development/marketing activities can you add any additional information or clarify the information presented on pages 20-31 and Table 5?

Answer:

I can't comment further on development of the proposals from industry because I have no experience in that area. I can describe typically what we look for when evaluating proposals. Prospective contractors should develop their proposals to answer or address the all the requirements in the Solicitation. In the evaluations that I have

participated in, the proposals are reviewed to see if the contractor's technical approach was clearly presented and left no doubt as to what they were proposing to accomplish. I always used the questions as a template – "What are they going to do and how are they going to do it"?

My only comment about the cost volume is that the government typically looks to the lowest price or the best value. Either one, dictates that the contractor should propose the lowest price to accomplish the work. A best and final offer is not always offered.

Appendix C

Mr. Fitzwater - Questionnaire

Questions And Answers For Mr. Fitzwater

Subject Matter Expert – Finance/Accounting Requirements

Mr. Michael Fitzwater is the owner and the managing principle at Fitzwater and Dean, P.L.C. a certified public accounting company. As part of their business practice, Mr. Fitzwater has been performing finance and accounting services for contractors complying with Cost Accounting Standards and subject to Defense Contract Audit Agency (DCAA) accounting requirements for over 20 years. Mr. Fitzwater's expertise in the area has been well documented through successful DCAA audits of his clients accounting procedures and processes.

Mr. Fitzwater, please review the data extracted from the document analysis relative to the finance and accounting requirements imposed by the Department of Defense on companies prior to entering into contractual arrangements with the government as well as during contract operations. That information can be found in pages 13-17 of Chapter IV. The questions reflected below are intended to validate data gathered during that analysis and to ensure that I have reviewed the appropriate documents. Information provided by you, together with the data gathered as part of the literature search, will then be presented to the key government contracting officials to further verify and validate the data. I have summarized the finance and accounting requirements which emanate from the FAR and DFARS and presented the data in tabular format as Table 2.

After you have had sufficient time to prepare answers to these questions, we will schedule an interview to review your answers and explore any additional information you can provide that will be of assistance to prospective entrepreneurs seeking to enter into contractual arrangements with the DoD.

Mike, the finance and accounting requirements imposed by the Department of Defense are somewhat different than those accounting practices found in non-DoD business enterprises. There is very little information published that educates potential entrepreneurs in plain simple terms - how to do business with the Department of Defense and what financial and accounting requirements will the Defense Contract Audit Agency impose on small businesses. The questions below are intended to provide information from your perspective as to the finance and accounting restrictions imposed on companies seeking to do business with the government.

1. Question:

In conducting the document analysis, I reviewed several government publications that set forth the financial and accounting requirements. In your opinion, were these the appropriate documents to review and was the basic data gathered the official source material for this information?

Answer:

Yes, the accounting standards are identified in Public Law 91-379 and the basic documents that prescribe the finance and accounting requirements for companies to conduct business operations with the Department of Defense are contained in the Federal

Acquisition Regulations (FAR), specifically Part 30. Also the Defense Federal Acquisition Regulation Supplements (DFARS) and the Defense Contract Audit Agency Pamphlet 7641.90 are important documents.

2. Question:

I would like for you to provide some background on the legal basis for the government to require certain, and very specific accounting systems to be used by companies in the private sector that are seeking to do business with the DoD?

Answer:

As you have indicated, the requirement for unique accounting standards originates in public law and is contained in the Federal Acquisition Regulations and the Defense Federal Acquisition Regulation Supplements. The pertinent public law is Public Law 100-679 (Cost Accounting Standards). The Cost Accounting Standards Board (CASB) was established as an agency of Congress under Public Law 91-379 and provides guiding principles for defense contractors to follow.

These standards require Defense Contractors to have accounting systems and processes that can track cost, schedule and performance on contracts.

3. Question:

Can you describe the Defense Contract Audit Agency and its importance in the acquisition process?

Answer:

The Defense Contracting Audit Agency is an agency under the Department of Defense and is responsible for implementing the finance and accounting requirements identified in the FAR and DFARS. In addition, they are chartered to conduct audits or pre-award surveys of company operations prior to contract award to ensure compliance with the requirements before a contract can be awarded. They also conduct performance audits during the contract period to ensure compliance with the requirements.

The DCAA will review the company's business operations and approve the direct and indirect expenses as well as monitor the company profit margins. Large businesses under contract with the government have entire departments of accountants, lawyers and analysts to interpret and comply with the requirements imposed by the DCAA prior to contract award, during execution of the contract, and following completion of the contract in what is called contract close-out. The small business owner unfortunately doesn't have that luxury, however the regulations/directives in most cases pertain to both large and small businesses. The regulations/directives contain very little difference between what is required of large businesses compared to what is required of small businesses. The DCAA publishes a pamphlet (DCAAP 7641.90) which is available through the Government Printing Office that sets forth most of the finance and accounting requirements.

4. Question:

Mike, before entering into binding contracts with companies in the private sector, the government requires a pre-contract audit of the company. What are the pre-contract award accounting requirements imposed by the DoD that prospective entrepreneurs should be aware of?

Answer:

Prior to award of any DoD contract, the small business owner must meet all DCAA prerequisites pertaining to labor rates, Overhead rates and General and Administration (G&A) rates. Nowhere in commercial (private sector) business operations must the company undergo an audit *before* a contract is awarded. As part of the pre-contract audit, a company must get approval of both their operating expenses and their profit margins before invoices are paid. Any entity that intends to conduct business operations with the Department of Defense must meet certain and very specific accounting and financial conditions.

Unlike most civilian business operations, the government will have complete insight into the company accounting processes, must approve the company's operating expenses, and may very well set the company's allowable profit margins. Additionally, the company must demonstrate that it has in place a cost and schedule tracking system to permit the government insight into the company's plan for trace-ability and accountability for time and job assignments. The company must prove to DCAA that there are internal control systems and management policies in place to assure accuracy

and reasonableness of cost data, and the adequacy and reliability of financial records and accounting data. The company will also be required to prove it has the financial reserves to accomplish the tasks and comply with other imposed contractual requirements. To verify this information, DCAA conducts a pre-award survey to assess the technical and financial capability, adequacy of the company accounting system to accumulate and segregate the type of cost information required by the contract. Further, the survey will review the company financial statements including reports to stockholders, cash flow forecasts, loan agreements, bank statements, accounts receivable, accounts payable and the company financial history.

5. Question:

What is meant by the requirement for “an approved accounting system prior to engaging in contractual arrangements to provide services, supplies or equipment to the government?”

Answer:

Prior to doing business with the DoD, and before any contract can be awarded, there are several immediate concerns regarding the internal company accounting systems that must meet certain standards required by the government. Companies doing business with the government for the first time must understand – The Government will have insight into your entire business operations. Prior to entering into contractual arrangements, the company must prove to DCAA that there are internal accounting control systems and financial management policies in place to assure accuracy and

reasonableness of cost data, and the ability to replicate accounting data in the same manner over a period of time. In other words, the accounting system must be able to generate the financial tracking and reporting requirements to ensure the government has insight into your operations. The company will also be required to prove it has the financial resources to accomplish the tasks and comply with other contractual provisions. The DCAA will examine bank statements, lines of credit and other documents to verify that the company can meet its contractual obligations.

To verify this information, DCAA will conduct a pre-award survey to assess the company's financial capability and evaluate the adequacy of the company accounting system to accumulate and segregate the type of cost information required by the contract. Further, the survey will review the company financial statements including reports to stockholders, cash flow forecasts, loan agreements and evidence showing compliance, accounts receivable and accounts payable, and company financial history. In short, the business must prove to the DCAA that they can and will be able to generate this information from their accounting system.

6. Question:

The DCAA imposes a variety of accounting requirements on DoD contractors that are not normal practice for companies in the commercial sector. A term called "segregation of cost data" may be foreign to prospective companies. Can you describe this DCAA requirement?

Answer:

Segregation of cost data means the company accounting system must have a way of keeping separate and distinct categories of expenses called direct and indirect expenses or costs. One significant aspect of segregation of cost data is the term “allowable”. Unlike non-DoD business operations, the DCAA will audit the records and determine whether a cost/expense is allowable under the contract. This is different than normal business practices where an expense in doing business is not reviewed by anyone other than the IRS. Therefore, the *total cost* of a contract is the sum of *allowable* direct and indirect costs, which can be allocated to that particular contract. A *direct cost* is any expense that is incurred specifically for a particular contract objective. An *indirect cost* is any expense not directly identified with the specific contract but is incurred simply by conducting business operations.

Direct costs are defined in FAR 31.202 as any cost that can be identified specifically with a particular contract. An example would be labor performed by employees directly identified with a specific contract, or materials purchased specifically for that contract. Direct costs are often referred to as “billable” expenses. Depending of the type of contract with the government, certain expenses such as labor, material, travel are directly billable to the government and entered as accounts receivable and eventually reimbursed by the government. Such items as employee labor working on a specific contract, material purchased to support contract tasking, and travel by employees in direct support of the contract tasking can be billed as direct costs and reimbursed by the government.

Indirect costs are defined in FAR 31.203 as any expense not incurred in support of a single contract but incurred as a cost of doing business. *Indirect costs* are sometimes called “overhead” expenses. These business expenses are not incurred in support of, or allocated to, any single contract. Indirect costs represent expenses incurred and allocated to the main business of the company and are simply the cost of doing business. An example of an indirect cost would be the lighting in a manufacturing area that houses the work of several contracts. The lighting benefits all contracts but cannot practically be identified to a specific contract. Other examples of indirect expenses include: accounting expenses, legal expenses, licenses, insurance costs, administrative costs, and any other expense not attributed to a single contract.

DCAA will require that the cost accounting system be able to identify what costs are considered direct and what costs are considered indirect. Prior to any contract award by the government, DCAA will determine if the accounting system can accumulate costs in these categories. Prior to contract award, as well as during the execution of the contract, DCAA will review the company accounting system to determine if direct costs are segregated from indirect costs. The company must also prove to DCAA that the accounting system provides a logical and consistent method for accumulation of costs under general ledger control.

7. Question:

Mike, another requirement imposed by the DCAA that may be foreign to prospective companies is the Labor Charging System. Can you describe what is meant by a “labor charging system”?

Answer:

In addition to an approved financial accounting system, a timekeeping system that identifies employees' labor by specific contract number must be linked to the accounting system. Once again, DCAA will determine whether a contractor's timekeeping system has the ability to track employees' time spent on each work activity. The labor distribution system must also provide for direct and indirect labor charges to the appropriate cost objectives. Once an employee's time is segregated, the costs must be allocated to the appropriate contract tasking number. Timekeeping procedures and controls on labor charges are areas of utmost concern to the government. The key link in any sound labor time-charging system is the individual employee. It is critical to labor charging internal control systems that management indoctrinate employees on their independent responsibility for accurately recording time charges. This is the single most important feature management can emphasize in recognizing its responsibility to owners, creditors, and customers to guard against fraud and waste in the labor-charging function. To be effective, the internal controls over labor charging should meet the following criteria:

1. There must be a segregation of responsibilities for labor-related activities; for example, the responsibility for timekeeping and payroll accounting should be separated. In addition, supervisors who are accountable for meeting contract budgets should not have the opportunity to initiate employee time charges. It is recognized that, for a very small company, this type of segregation may not be possible, whereas for a larger

company, this type of segregation would be required in order to have good internal controls over labor costs.

2. Procedures must be evident, clear-cut, and reasonable so there is no confusion concerning the reason for controls or misunderstanding as to what is and what is not permissible. Maintenance of controls must be continually verified and violations must be remedied through prompt and effective action, which serves as a deterrent to prospective violations. Individual employees must be constantly, although unobtrusively, made aware of controls that act as an effective deterrent against violations. Many businesses accomplish this by emphasizing the importance of timecard preparation in staff meetings, employee orientation, and through posting of signs throughout the workplace that remind employees of the importance of accurate and current timecards.

8. Question:

What are some of the other unique requirements imposed by DCAA on business enterprises seeking contracts with the DoD that are different from normal accounting practices?

Answer:

Most of the requirements are basically the same as any business accounting operations. The differences lie in the type of information the accounting system must provide to comply with DCAA requirements for unique data. Briefly, the DCAA will

require a detailed Chart of Accounts and a General Ledger to be maintained in accordance with their accounting system requirements.

The Chart of Accounts is a complete list of the company's business accounts and includes the checking and savings accounts as well as the expense and income accounts. Expense accounts are accounts in the general ledger that track what the company is spending and will reflect all the expenditures made in direct and indirect costs. The list of the expenses owed by the company is known as the Accounts Payable and is the record of all outstanding bills.

Income accounts are the accounts that track the source of the company income and reflect the income derived from invoices, interest-bearing accounts, and other sources. The list of income due to the company is known as Accounts Receivable and is the record of money owed to the company.

Both direct and indirect costs are accumulated by logical cost groupings or pools with due consideration of the reasons for incurring the costs. Overhead and general and administrative (G&A) expenses are commonly grouped separately. It also is common to find separate overhead pools for material, tooling, selling, and off-site labor. Overhead pools may be set up on a company-wide basis or may be accumulated by specific tasks, division, plant, department, or cost center. Practical considerations should govern the number and composition of the groupings.

General Ledgers are the complete set of records for the company business ~~accounts and are the repository for these cost groupings or pools.~~ The General Ledger is

the basis for the balance sheet, income and expense accounts, and become the historical record of all business transactions for the company. The accounting system must be capable of providing the segregation of income and expense accounts so that the DCAA can review your records during on-site audits.

9. Question:

One of the most difficult requirements for prospective companies to comprehend is the concept of segregating expenses into direct expenses and indirect expenses. Can you explain the differences between the two expense categories?

Answer:

Direct expenses are those cost expenses that can be directly traced to a particular contract with the government. For example if the contract with the government requires the contractor to purchase special test equipment as part of the statement of work, then the test equipment can be considered a "direct" expense. Conversely if the contract does not address a particular piece of equipment needed to complete the job, such as desktop or laptop computers, and a contractor purchases that equipment, the expense can be considered as an indirect expense, and included as part of the overhead or General and Administrative expenses. Either way the contractor can recover the cost of the equipment.

10. Question:

In most non-government commercial companies, the breakout is usually – sales, expenses, and profit. However, the government requires the further segregation of

indirect expenses into categories called – overhead expenses and general and administrative expenses. What are the differences and how do prospective entrepreneurs set up their accounting system to account for these categories?

Answer:

Overhead costs are those costs that can be directly attributed to a particular operation or task. For example if all the employees working on a particular task are located in one office complex, rent for that complex is considered overhead for that cost center. Likewise, offices rented for support of that work, telephone cost, computer, furniture and other equipment leases are also considered overhead. Overhead includes the cost of directing and supporting the activities of that particular department or tasks. When there is separate identification of tasks, the efforts charged to support of those tasks are considered overhead. There may also be a certain of indirect labor to supervise this particular task as well as other tasks.

The opposite of Overhead expenses is G&A expenses. G&A includes the cost of a company's general and executive offices, the cost of such staff services as legal, accounting, public relations, marketing, financial, and similar functions, and other miscellaneous activities related to the overall business. G&A expenses typically are not departmentalized to the same degree that overhead expenses are. G&A expense does, however, include several component elements requiring analysis and special consideration.

For example, the reasonableness of total executive compensation may be a critical area. Compensation for personal services includes all remuneration paid currently or accrued, in whatever form and whether paid immediately or deferred, for services rendered by employees during the period of contract performance. Included are salaries, wages, directors' and executive committee members' fees, bonuses (including stock bonuses), incentive awards, employee stock options, employee insurance, fringe benefits, and contribution to pension, annuity, and management incentive compensation plans. These costs may be allowable if total compensation of individual employees is reasonable for the services rendered and does not exceed the costs allowable by the Internal Revenue Code and regulations. Compensation is considered reasonable if the total amount paid or accrued is commensurate with compensation paid by other firms of the same size, in the same industry, or in the same geographical area for similar services. Special consideration and possible limitation may be required for:

Compensation to owners of closely held corporations, partners, sole proprietors, or members of immediate families; A change in a contractor's compensation policy that causes substantial increase in levels of compensation; or businesses in which compensation levels are not subject to the normal restraints of competitive business.

Because G&A expense is for the business as a whole, the G&A expense pool must be allocated on the basis of a measure of the overall business activity. In principle, the allocation usually should be a measure of cost input or a measure of value added. Under some circumstances, other allocation bases such as direct labor dollars or cost of

goods sold may be used. Company G&A cost are typically overall corporate costs associated with running the business and are not charged to any one contract.

11. Question:

One of the unique requirements imposed by DCAA that is not normal practice in the non-DoD marketplace is the requirement for a private sector contractor to submit for approval, a proposed budget identifying all anticipated expenses and projected income for the next year. Can you explain how and why this requirement is executed?

Answer:

The basis for this requirement comes from the need by the government to ensure contractors are performing on contracts at some expected level of performance. The term used is "Budgeting versus Controlling Costs". As we stated earlier, indirect costs are, by definition, related to more than the proposed contract. Determining a fair and reasonable contract price requires you to consider the contractor's company wide management of indirect costs. It is especially important to consider the budget and control situation if the contractor has, or is likely to have, other Government contracts.

The desire for profit motivates companies to control costs, including overhead. This motivation is much weaker when the company's selling prices are based to a significant extent on actual or expected costs, without concern for the prices of competing products. Thus, when you negotiate prices based on cost, much of the cost risk is borne by the Government and the contractor has only limited incentive to control indirect costs.

To manage its indirect costs, a company must first determine what the costs should be and then hold actual costs to the plan or justify all significant variances. Most companies exercise management responsibility through budget planning and control systems. Planned costs become the basis for overhead rates used in forward pricing. The Government has a similar interest in the resulting actual costs because they pay or share in those costs in final settlements of cost-reimbursement and incentive-type arrangements. In addition, actual costs tend to become the patterns or “bogies” for future years.

Budget planning and control systems can be expected to vary among contractors and, to some extent, among profit centers (divisions or plants) within a company. The general requirements of such systems are stated broadly, so that they apply to all major companies regardless of their differences in missions, organizations, and accounting methods.

12. Question:

What are the key financial documents and reports expected by the DCAA when reviewing the prospective DoD contractor’s operations?

Answer:

In my experience, the following documents are used by the DCAA when reviewing a company’s operation or when conducting either a pre or post contract audit:

A Profit and Loss Statement. The Profit and Loss Statement covers a specified period and reflects the company income, expenses, and net profit or loss (equal to income

minus expenses). The statement begins with sales revenues or income to the company. In some cases, this is revenue derived from direct labor performed on the tasking on a particular contract. The next categories reflect the operating expenses and are itemized and categorized for ease of review. Finally, after all the expense accounts are reflected other income such as interest income is reflected. The final numbers are the net income to the company.

A Balance Sheet. The Balance Sheet/Statement presents a summary statement of the company financial position at any given time and lists assets, liabilities, and equity. It incorporates bank balances, accounts receivable, current and fixed assets, accounts payable, credit cards balances, current and long-term liabilities and equity. Balance sheets provide a quick picture of the company overall financial health and are a good place to start the monthly review of the company financial posture.

A General Ledger. General Ledgers are the complete set of records for the company business accounts and is the repository for these cost groupings or pools. General Ledgers is the basis for all the balance sheets, income, and expense accounts and become the historical record of all business transactions for the company.

Statement of Retained Earnings and Statement of Cash Flow. The Statement of Retained Earnings reconciles the net income earned during a given year and any cash dividends paid, with the change in retained earnings between the start and end of the year. The statement of cash flow provides a summary of the cash flow over the period of contracts typically the year just ended. The statement, which is called a source and use statement, provides insight into the company operating, investment, and financing cash

flows. It reconciles them with changes to its cash and marketable securities during the period of concern.

An approved Budget Submission. Each year companies doing business with the DoD are required to submit to DCAA a proposed budget for the new year. The budget submission must reflect the previous year overhead and G&A rate and project the rates for the next year based on direct labor projected for that year. The budget submission also includes anticipated consultant/sub-contractor costs, projections for reimbursable travel and material costs, as well as other direct and indirect costs. The budget is submitted to DCAA for audit and approval. Once approved the overhead and G&A rates are applied by the company for markup of costs and invoicing. The major differences between DCAA required budgets and typical civilian industry budgets are the inclusion of overhead and G&A percentages, which are reviewed, audited and approved by DCAA for use by the company on invoices submitted by the company in the next year. This process then fixes the amount of operating expenses that can be recovered by the company during that year.

Incurred Cost Submission And Audit. DCAA requires that a company submit an incurred cost submission together with all supporting data within 90 days after the end of their business year. This extensive report includes all cost items and revenue, and is audited to determine if expenses are approved and accepted by the DCAA. The following information is required for submission: 1) a summary of claimed indirect rates; 2) overhead expenses incurred during the reporting period; 3) General and Administrative expenses incurred during the reporting period; 4) Occupancy expenses categorized and

allocated to each contract; 5) the facilities capital cost of money calculations; 6) a reconciliation of accounts and claimed direct costs; 7) a listing of direct costs claimed, and not claimed in addition to IR&D direct costs; 8) several listings and reports presenting various categories of expenses and costs claimed.

13. Question:

During the course of the contract, there are many accounting requirements imposed on the company, including something called an incurred cost report. What major reports and audits does the DCAA expect during the course of the contract?

Answer:

During the execution of the contract, DCAA will periodically (usually annually) review the company accounting system to determine if cost data is segregated into direct costs and indirect costs. Direct costs are defined in FAR 31.202 as any cost that can be identified specifically with a particular final cost objective and are directly reimbursable by the government. Examples of direct charges are the labor costs to perform tasks on the contract, travel directly related to performance on the particular contract and material purchased for performance on the contract. Indirect costs are defined in FAR 31.203 as any cost not directly identified with a single contract or tasking, but is a cost of conducting business – in other words corporate level charges such as office rent, telephone service, accounting, legal, personnel, etc. Indirect costs are normally subdivided into two categories, overhead and General and Administrative costs. The cost accounting system must identify what costs are considered direct, and what costs are

considered indirect. Once this criterion is defined, it must be consistently applied.

DCAA will determine if the accounting system can accumulate costs by contract (commonly referred to as a job order cost accounting system). Further, the company must also prove to DCAA that the accounting system provides a logical and consistent method for the allocation of indirect costs to various contracts in the company. DCAA will determine if indirect costs are allocated to appropriate chart of account categories. The company accounting system must also provide for accumulation of costs under an approved general ledger control. DCAA will also determine if the job order cost accounting system can be reconciled with the general ledger, and that the general ledger controls the company accounting system.

DCAA requires that a company submit an incurred cost submission together with all supporting data within 90 days after the end of the year. This extensive report includes all cost items and revenue, and is audited to determine if expenses are approved and accepted by the DCAA. The following information is required for submission: 1) a summary of claimed indirect rates; 2) overhead expenses incurred during the reporting period; 3) General and Administrative expenses incurred during the reporting period; 4) Occupancy expenses categorized and allocated to each contract; 5) the facilities capital cost of money calculations; 6) a reconciliation of accounts and claimed direct costs; 7) a listing of direct costs claimed, and not claimed in addition to IR&D direct costs; 8) several listings and reports presenting various categories of expenses and costs claimed. Strangely, the DCAA also requires submission of the executive compensation plan and minutes of the corporation meetings. DCAA will approve executive compensation for

the next year as well as review any decision/agreements or changes to company operations that affect business operations with the DoD.

14. Question:

One of the little known financial restrictions imposed by the government is the limitation of profit. How is this controlled and what impact does this have on prospective companies?

Answer:

Unlike commercial or civilian business operations, the government will control the profit margins allowed under government contracts. In the non-government sector, market forces often determine profit – in many cases, it is whatever the market will bear. In government contracts, profit margins are proposed as part of the cost proposal submitted in response to a government Request for Proposal. However, in the competitive government marketplace, strong emphasis (and part of the proposal evaluation process) is placed on the lowest bid from a contractor. There is close scrutiny by the government evaluators as to the profit margin bid by one company compared to the profit margin bid by a different company. In my experience, it is very unusual for profit margins to exceed 10% of the total cost except in rare cases or very technically difficult work. This varies drastically from the private sector where profit margins may greatly exceed 10%.

15. Please review Table 2 for accuracy and provide any further comments in the spaces provided.

Appendix D

Sections Of The Request For Proposal Solicitation

Sections Of The Request For Proposal

The Request for Proposal is a formal, official communication between government and industry in the contracting process. When the government issues an RFP, it is describing its needs for particular goods or services, and is soliciting from industry proposals to fulfill those needs. Competitors (or offerors) submit proposals in response. Subsequently, the government conducts a source selection by designating a committee of several technical personnel to review the technical proposal and several persons from the contracting office to review the cost proposal. Once the winning proposal is selected, the contracting officer signs or accepts the proposal and a binding contract is issued. The RFP has particular significance in this process in that the clarity and coherence with which it is constructed can dramatically affect the events that follow—favorably or unfavorably. How well the government clearly communicates its needs in the RFP, for instance, will almost certainly influence the quality of proposals received, ease of difficulty of conducting source selection and negotiation and, ultimately, relative success or failure of contract performance.

The interesting point that prospective DoD contractors should understand is that the notice to industry is published in the Commerce Business Daily, or more recently electronically through a medium called Electronic Commerce. In either method, the government formalizes its requirements and advertises them to industry. Interested industry companies then respond to the solicitation in the form of a proposal reiterating their capabilities and their proposed solution to meet the government's requirement. In an evolutionary process, most RFPs are now published on the net by the local

government installation contracting office. Prospective contractors should become familiar with the local government installation contracting office and request they provide them the web site address.

Major Sections of the RFP

The uniform contract format as prescribed in the FAR, requires the RFP to have 13 sections, divided into four parts:

Part I - The Schedule

Section A - Solicitation/Contract Form

Section B - Supplies or Services and Prices/Costs

Section C - Description/Specifications/Work Statement

Section D - Packaging and Marking

Section E - Inspection and Acceptance

Section F - Deliveries or Performance

Section G - Contract Administration Data

Section H - Special Contract Requirements

Part II - Contract Clauses

Section I - Contract Clauses

Part III - List of Documents, Exhibits, and Other Attachments

Section J - List of Attachments

Part IV - Representations and Instructions

Section K - Representations, Certifications, and Other Statements of Offerors

Section L - Instructions, Conditions, and Notices to Offerors

Section M - Evaluation Factors For Award

Detailed Description Of Each Section

Part I - The Schedule

The Schedule explains what is being bought and delineates the applicable requirements and specifications.

Section A contains the solicitation number, the name and address of the issuing office, the date and time proposals are due, the building and room number where proposals are to be submitted, the name and telephone number of the person to contact for additional information (usually the contract specialist), the table of contents, a block for the name and address of the offeror, and a block for the signature of a representative authorized to enter into contracts on behalf of the offeror.

Section B is where the company enters its price for the work to be performed.

Section C contains more detailed descriptions of the supply or service being purchased.

Section D provides the packaging, packing, preservation, and marking requirements.

Section E has inspection and acceptance instructions as well as quality assurance and reliability requirements. This tells you where inspection and acceptance of your product or service is to take place and specifies any sampling criteria, first article test requirements, special requirements for inspection programs, etc.

Section F specifies the time, place, and method of delivery or performance.

Sometimes this section provides space for the offeror to propose an alternate delivery schedule.

Section G includes required accounting and appropriation data and contract administration information or instructions that are not included in Section A. It frequently contains the names of Federal points of contact and billing instructions.

Section H is where the contracting officer puts customized clauses that do not fit elsewhere in the uniform contract format. Such clauses may provide the terms for options, economic price adjustment provisions, a listing of equipment that will be provided by the Government to the contractor, or any other special, miscellaneous clause that will govern contract performance.

Part II - Contract Clauses

Section I include all the clauses required by law or regulation (i.e., FAR, Defense FAR Supplement, Air Force FAR Supplement, General Services Administration Acquisition Regulation, etc.). As a general rule, only those clauses contained in FAR Part 52 and the corresponding portion of the agency's supplement are included in this section. The type and value of a contract govern which clauses are included. A \$1,000,000 fixed-price solicitation for supplies will have different clauses than a \$50,000 cost-reimbursement solicitation. Many of the clauses in Section I are required to "flow down" to subcontractors; i.e., the same clauses that apply to you as a prime contractor also apply to your subcontractors. For example, FAR 52.222-36, Affirmative Action for

Handicapped workers, is required in all contracts that exceed \$2,500. Paragraph (d) of the clause states "the Contractor shall include the terms of this clause in every subcontract or purchase order in excess of \$2,500..." and the contractor is required to enforce the terms of the clause. Make sure you include all applicable flow-down provisions in subcontracts.

Part III - List Of Documents, Exhibits, And Other Attachments

Section J is an inventory of all the documents that are attached to the RFP and will become part of the resultant contract. For example, a specification that fully describes the item being purchased may be referenced in Section C as "Attachment I" and included in the RFP package. Whenever you receive a RFP, always check Section J to make sure all the referenced documents and attachments are included in the RFP package.

Part IV - Representations And Instructions

Part IV of the RFP is not included in the resultant contract. The representations and certifications made by the winning offeror are referenced in the contract and are kept by the contracting officer in case there are allegations or evidence that any of the representations or certifications was fraudulent.

Section K is where the company provides information about the company and certifies they are in compliance with all applicable laws and regulations. The offeror must answer whether it is a small business, is a minority-owned business, is on the

Environmental Protection Agency's List of Violating Facilities, is a manufacturer or regular dealer, etc. The offeror is asked to provide the location of its facility, the weights and dimensions of a shipment, and other similar factual information the contracting officer needs to evaluate the proposal. If an offeror misrepresents the firm or makes a false certification, the contracting officer can terminate the contract for default and turn the matter over to the Department of Justice for possible fraud prosecution. If you do not understand the meaning of a particular representation or certification, ask the contracting officer to explain.

Section L tells the offerors how the contracting officer wants the proposal prepared and notifies the offerors of conditions and circumstances that may affect their proposals. For instance, Section L will specify how the proposals should be written (i.e., number of copies, size of the type font and spacing, limitation on number of pages). This section is where you will find out whether the RFP is set-aside for small business size standard, any requirements for submission of financial information with the proposal, the type of contract expected to result from the RFP, whether progress payments will be authorized, and any other instructions and notices the contracting officer deems appropriate.

Section M explains how the Federal Government will evaluate the proposals and determine the winning offeror. For example, Section M explains how the fair market rental cost of Government property in the possession of the offeror will be determined and applied to the proposed price. When cost is not the only criteria that will be used to determine who will receive the award, Section M also explains the technical and

managerial factors that will be considered along with cost. Section M provides the relative weights each factor will receive in the evaluation process (e.g., technical excellence will be weighed twice as heavily as managerial considerations). The evaluation factors let you know the Government's main concerns about the procurement so you can address them in your proposal.

Appendix E

Sample Proposal Evaluation Plan

Sample Evaluation Plan

Definition of Evaluation Criteria Adjectives:

Evaluation Component 3: CORPORATE RESOURCES AND ORGANIZATIONAL CAPABILITIES

1. Adjective: EXCEEDS MINIMUM REQUIREMENTS

The Offeror's proposed corporate resources and organizational capabilities are outstanding in all essential respects, and are indicative of a high ability to fully satisfy the requirements stated in the RFP. The Offeror has demonstrated an excellent capability to routinely and rapidly respond to some or all of the general areas required in this solicitation that exceeds minimum requirements. The firm has also exhibited exemplary success in managing and coordinating the design, modification, and construction of airborne installations for testing of EO/IR sensors and systems. The firm has proposed outstanding capital, human and managerial resources to support the requirements of this solicitation and has exhibited an excellent degree of responsiveness in support of required work on previous actions. All necessary information under this sub-category was provided by the Offeror.

2. Adjective: MEETS MINIMUM REQUIREMENTS

The Offeror's proposed corporate resources and organization capabilities are satisfactory, represent the norm for a qualified contractor, and are indicative of an average ability to satisfy the basic requirements of this RFP. The Offeror has demonstrated an average capability to routinely and rapidly respond to the general areas required under this solicitation. The Offeror has also demonstrated capabilities in managing and coordinating the design, modification, and construction of airborne installations for testing of EO/IR sensors and systems, which represent the norm for a qualified contractor. The firm's proposed capital, human and managerial resources which are adequate to support the requirements of this solicitation and have exhibited a degree of responsiveness in support of previous contracts which would indicate the norm for a fully qualified contractor in this technical area. Some additional information may be required.

3. Adjective: UNSATISFACTORY

The Offeror's proposed corporate resources and organizational capabilities are far below the standard for a qualified contractor, and are not indicative of an ability to satisfy the basic requirements of this RFP. The Offeror has failed to demonstrate adequate capabilities to routinely and rapidly respond to some or all of the general areas required under this solicitation. The Offeror has also failed to demonstrate adequate capabilities to manage and coordinate the design, modification, and construction of airborne installations for testing of EO/IR sensors and systems. The Offeror's proposed capital, human and managerial resources do not appear adequate to support the requirements of this solicitation. Much of the information requested in the RFP has not been addressed in the proposal.

Definition of Evaluation Criteria Adjectives:

Evaluation Component 4: CORPORATE PAST PERFORMANCE EXPERIENCE

1. Adjective: EXCEEDS MINIMUM REQUIREMENTS

The Offeror's past performance history is outstanding in all essential respects, and is indicative of a high ability to fully satisfy the requirements stated in the RFP. The Offeror has demonstrated a high degree of reliability and responsiveness on previous contracts in the areas of (a) adherence to delivery schedules, (b) exercising independent initiative in response to performance problems, (c) effective coordination with Government staff toward accomplishment of assigned tasks, (d) submission of reports and proposals in a timely manner, and (e) adherence to original cost estimates and targets. No additional information is required.

2. Adjective: MEETS MINIMUM REQUIREMENTS

The Offeror's past performance history is satisfactory, represent the norm for a qualified contractor, and is indicative of an average ability to satisfy the basic requirements of this RFP. The Offeror has demonstrated a satisfactory degree of reliability and responsiveness in the areas of adherence to delivery schedules, exercising independent initiative, coordinating with Government staff, performing timely submissions, and adhering to original cost estimates and targets which represents the norm for a qualified contractor. Some additional information may be required.

3. Adjective: UNSATISFACTORY

The Offeror's past performance history is far below the standard for a qualified contractor, and is not indicative of an ability to satisfy the basic requirements of this RFP. The Offeror has failed to demonstrate a satisfactory degree of reliability and responsiveness and/or has shown a continuing history of failing to satisfactorily meet some or all of the criteria referenced above. Much of the information requested in the RFP has not been addressed in the proposal.

EVALUATION CRITERIA AND SCORING SHEET

OFFEROR'S NAME: _____

EVALUATOR'S NAME: _____

COMPONENT NUMBER 1 - WORKFORCE QUALIFICATIONS AND EXPERIENCE
 (Reference: Section C and Attachments # 1.1 and 1.2)

Rating Criteria	Possible Points	Points Awarded
(a) The Offeror's proposal demonstrates that some or all of the proposed personnel EXCEED the stated minimum requirements for qualifications and experience as required under this RFP. (EXPLAIN IN DETAIL BELOW)	7 - 10	_____
(b) The Offeror's proposal demonstrates that the proposed personnel MEET the stated minimum requirements for qualifications and experience as required under this RFP. (EXPLAIN IN DETAIL BELOW)	3 - 6	_____
(c) The Offeror's proposal demonstrates that some or all of the proposed personnel DO NOT MEET the stated minimum requirements for qualifications and experience as required under this RFP. (EXPLAIN IN DETAIL BELOW)	1 - 2	_____

SCORE FOR CRITERION _____

NOTES:

COMPONENT NUMBER 2 - TECHNICAL APPROACH
(Reference: Section C and Attachment # 1.1)

Rating Criteria	Possible Points	Points Awarded
(a) The Offeror's proposed Managerial Approach for planning, organizing, managing and controlling operations to meet the Government's requiremen EXCEEDS the norm for a Qualified Contractor. (PLEASE EXPLAIN IN DETAIL)	7 - 10	_____
(b) The Offeror's proposed Managerial Approach for planning, organizing, managing and controlling operations to perform the Government's requirements MEET the norm for a Qualified Contractor. (PLEASE EXPLAIN IN DETAIL)	3 - 6	_____
(c) The Offeror's proposed Managerial Approach for planning, organizing, managing and controlling operations to perform the Government's requirements FAILS to MEET the norm for a Qualified Contractor. (PLEASE EXPLAIN IN DETAIL).	1 - 2	_____
SCORE FOR CRITERION		_____

NOTE:

COMPONENT NUMBER 3 - CORPORATE RESOURCES AND ORGANIZATION CAPABILITIES
(Reference: Section C and Attachment # 1.1)

Rating Criteria	Possible Points	Points Awarded
(a) The Offeror's proposed corporate resources and organizational capabilities EXCEED the minimum requirements necessary for successful completion of the stated requirements. (PLEASE EXPLAIN IN DETAIL).	7 - 10	_____
(b) The Offeror's proposed corporate resources and organizational capabilities MEET the minimum requirements necessary for successful completion of the stated requirements. (PLEASE EXPLAIN IN DETAIL)	3 - 6	_____
(c) The Offeror's proposed corporate resources and organizational capabilities FAILS TO MEET the minimum requirements necessary for successful completion of the stated requirements. (PLEASE EXPLAIN IN DETAIL).	1 - 2	_____

SCORE FOR CRITERION _____

NOTE:

RFP NUMBER: N00173-99-R-RS03

COMPONENT NUMBER 4 - PAST PERFORMANCE INFORMATION
(Reference: Section L.11.B.4)

Rating Criteria	Possible Points	Points Awarded
(a) The Offeror's proposal demonstrates a similarity between its past experience and the work required under the RFP that EXCEEDS the stated minimum requirements. (EXPLAIN IN DETAIL BELOW)	7 - 10	_____
(b) The Offeror's proposal demonstrates a similarity between its past experience and the work required under the RFP that MEETS the stated minimum requirements. (EXPLAIN IN DETAIL BELOW)	3 - 6	_____
(c) The Offeror's proposal demonstrates a similarity between its past experience and the work required under the RFP that DOES NOT MEET the stated minimum requirements. (EXPLAIN IN DETAIL BELOW)	1 - 2	_____

SCORE FOR CRITERION

NOTES:

11

OFFEROR'S NAME: _____

COMPONENT NUMBER 1: WORK FORCE QUALIFICATIONS/EXPERIENCE

	<u>SCORE</u>	<u>WEIGHT</u>	<u>TOTAL SCORE</u>
Component Number: 1.0	_____	50	_____
COMPONENT (1) CUMULATIVE SCORE			_____

COMPONENT NUMBER 2: MANAGERIAL APPROACH

	<u>SCORE</u>	<u>WEIGHT</u>	<u>TOTAL SCORE</u>
Component Number 2.0	_____	15	_____
COMPONENT (2) CUMULATIVE SCORE			_____

COMPONENT NUMBER 3: CORPORATE RESOURCES AND ORGANIZATION CAPABILITIES

	<u>SCORE</u>	<u>WEIGHT</u>	<u>TOTAL SCORE</u>
Component Number 3.0	_____	25	_____
COMPONENT (3) CUMULATIVE SCORE			_____

COMPONENT NUMBER 4: PAST PERFORMANCE INFORMATION

	<u>SCORE</u>	<u>WEIGHT</u>	<u>TOTAL SCORE</u>
Component Number 4.0	_____	10	_____
COMPONENT (4) CUMULATIVE SCORE			_____

TECHNICAL MERIT WEIGHTED SCORE
(SUM COMPONENTS (1) THROUGH (4) SCORES)

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Appendix F

Mr. Johnson And Ms. Fluker - Questionnaire

Questions And Answers For Ms. Debbie Fluker

Subject Matter Expert – Small Business Operations

Incorporated in 1993, Platform Systems Incorporated (PSI) is a Vietnam era-woman owned small business providing unique aircraft modifications to support advanced technology projects. PSI provides high quality, cost effective aircraft design and modification, including unique pods and payloads. The company is owned by Ms. Debbie Fluker who is also the President of the Company and responsible for not only daily operations but all of the administrative activities as well. Ms. Fluker has over 10 years experience working in the Department of Defense environment and is well suited to provide information relative to the legal, financial and accounting restrictions imposed by the Government. PSI's personnel are recognized leaders in their fields and the company provides Structural and Mechanical Design Engineering and modifications to Special Projects for the DoD and commercial agencies.

PSI has been successfully involved with various NRL advanced technology projects such as: the design and installation of the LADS (Laser Bathemetry System) into a P-3 Maritime Patrol Aircraft, an sophisticated electronic sensor mounted on the P-3 Bomb Bay Equipment Platform, several advanced technology projects known only by their acronym (ATARS, RECON, FLY's EYE/TWS, DARKHORSE), and the highly rated F-14 Digital tactical reconnaissance pod project. They have designed and instructed the manufacturing of many advanced technology and very sophisticated

electronic equipment racks for DoD, other government agencies as well as several commercial companies.

Ms Fluker, this research study is intended to provide prospective DoD contractors with information that will assist them in overcoming the legal, financial and accounting requirements imposed by the government on companies seeking to enter into binding contract arrangements. Platform Systems was selected as one of the case study units of analysis because of your success in identifying unique business opportunities in the Department of Defense, overcoming the legal, financial and accounting restrictions imposed by the government through the DCAA, and your success rate in obtaining new work and new customers.

Specific legal, financial and accounting requirements have been identified through an extensive document review and analysis, primarily from government publications such as the FAR, the DFARS, DCAA Pamphlet 7641.90 and others. Those requirements are reflected in Table 1 and Table 2. Table 3 reflects the process used by the government to develop and publish a Request for Proposal. Table 4 reflects the evaluation process generally used by the government to evaluate industry proposals, and Table 5 reflects a suggested proposal preparation process used by many companies to respond to government solicitations. The questions reflected below are intended to gather additional data from your perspective and to clarify or correct any information presented in the tables. Your data will then be correlated and included in the final version of the business process model. As a case study unit of analysis, one of the aspects of this research study is to demonstrate how your company overcame these restrictions. Information provided

by you, together with the data gathered as part of the literature search, will then be presented to several government officials from the contracting offices to verify and validate the data prior to completing the final process model.

After you have had sufficient time to prepare answers to these questions, we will schedule an interview to review your answers and explore any additional information you can provide that will be of assistance to prospective entrepreneurs seeking to enter into contractual arrangements with the DoD.

1. Question:

Is there anything you would like to add or correct from the description of your company in the information to respondent's package?

Answer:

No the description fits our company and the tasks we perform for the government. The work we do is typical of the highly technical work that has been outsourced to private industry instead of being done in house.

2. Question:

After reviewing the information on Table 1 regarding legal requirements, is there anything you would like to change or add?

Answer:

Because of my status as a woman owned business, most of the legal requirements for us emanate from Part 19, Part 22, Part 23 of the FAR and Part 219, Part 222, Part 223 of the DFARS.

3. **Question:**

After reviewing the information on Table 2 regarding financial and accounting requirements, is there anything you would like to change or add?

Answer:

Most of my work has been as a subcontractor to a prime contractor and as such we are not held to the requirements for financial and accounting standards. However, as the rules change, it is becoming apparent that the DoD will hold prime contractors responsible for the accounting and labor tracking systems of their subcontractors and we will have to eventually comply.

4. **Question:**

After reviewing the information on Table 4 regarding the government source selection and evaluation process is there anything you would like to change or add?

Answer:

Since I am a subcontractor to prime contractors, I am not familiar with the government source selection process.

5. Question:

After reviewing the information on Table 5 relative to the proposal preparation process is there anything you would like to change or add?

Answer:

The responsibility for proposal preparation rests with the prime contractors. We usually provide technical write-ups for specific tasking in the government statement of work. However, we do perform a modified bid-no/bid decision process to determine if we can perform the tasking intended for us.

6. Question:

Are you aware of the changes taking place in the DoD acquisition reform movement that affects your business? Please address the increased emphasis on privatization of government functions through outsourcing to the private sector and how this effects your company.

Answer:

The success we have enjoyed is in large part due to the outsourcing of technical work to companies in the private sector. I expect that to continue as the government workforce shrink, providing there is still a need to perform the kind of work we do.

7. Question:

Can you describe PSI's business development and marketing activities particularly towards identification of new business opportunities, customer interface and bid/no-bid decision process?

Answer:

Because we perform very specialized and highly technical modifications to aircraft and aircraft structures, prime contractors come to us to provide those services because the government statement of work requires this tasking to be accomplished. We normally don't have to market or engage in business development activities.

Questions And Answers For Mr. Peter Johnson

Subject Matter Expert – Small Business Operations

Mr. Peter Johnson is a Senior Vice President and one of the two owners of Tekla Research Incorporated. Prior to creating Tekla Research, Mr. Johnson had a distinguished career as a Navy pilot, industry project manager for Sanders Associates (now a subsidiary of Lockheed Martin) and consultant for several companies. Mr. Johnson has been working in the Department of Defense aircraft survivability field for over 25 years and is eminently qualified to provide information relative to the evolution of the acquisition reform movement and the privatization of government functions through outsourcing to the private sector. Mr. Johnson along with his partner started Tekla Research in August 1995 and immediately won a one-year technical research and study contract to investigate commercial uses of a Navy developed aircraft infrared sensor for open ocean oil spills. In September 1996, Tekla signed a multi-year contract with the Navy Research Laboratory for research, development, testing, and measurement of advanced technology airborne systems. In January 2000, Tekla renewed that contract for multi-year engineering and technical support for advanced system development with a number of aircraft and system sponsors. Since the company was founded in 1995, Tekla Research Incorporated has grown from the two owners as employees, to over 20 full time employees, 5 consultants, 4 permanent locations/facilities and nearly \$3.0M in annual sales. Tekla is an excellent example of an entrepreneurial venture that was created to fill a niche resulting from the Government initiative to outsource to the private sector many

of the highly technical research, development and testing functions previously accomplished by in-house staff at the Navy Research Laboratory. During the start-up and initial growth period, Tekla had to overcome many of the restrictions addressed as part of this research study.

Mr. Johnson, this research study is intended to provide prospective DoD contractors with information that will assist them in overcoming the legal, financial and accounting requirements imposed by the government on companies seeking to enter into binding contract arrangements. Tekla Research was selected as one of the case study units of analysis because of your success in identifying unique business opportunities in the Department of Defense, overcoming the legal, financial and accounting restrictions imposed by the government through the DCAA, and your success rate in winning a large percentage of the proposals you have submitted in response to DoD solicitations.

Specific legal, financial and accounting requirements have been identified through an extensive document review and analysis, primarily from government publications such as the FAR, the DFARS, DCAA Pamphlet 7641.90 and others. Those requirements are reflected in Table 1 and Table 2. Table 3 reflects the process used by the government to develop and publish a Request for Proposal. Table 4 reflects the evaluation process generally used by the government to evaluate industry proposals, and Table 5 reflects a suggested proposal preparation process used by many companies to respond to government solicitations. The questions reflected below are intended to gather additional data from your perspective and to clarify or correct any information presented in the tables. Your data will then be correlated and included in the final version of the business

process model. As a case study unit of analysis, one of the aspects of this research study is to demonstrate how your company overcame these restrictions. Information provided by you, together with the data gathered as part of the literature search, will then be presented to several government contracting officials in order to verify and validate the data prior to completing the final process model.

After you have had sufficient time to prepare answers to these questions, we will schedule an interview to review your answers and explore any additional information you can provide that will be of assistance to prospective entrepreneurs seeking to enter into contractual arrangements with the DoD.

1. Question:

Is there anything you would like to add or correct from the description of your company in the information to respondents?

Answer:

I would like to add that the continued success enjoyed by Tekla is due to our stringent control of overhead and G&A expenses. We believe the government considers us a cost-effective solution to their needs for highly skilled engineering and other technical support requirements. As long as we hold our rates to a reasonable amount, we continue to compete favorably in the marketplace. Another key to our success is our conservative outlook on the high dollar expense items that tend to drive the overhead and G&A up. Office rent, computer leases, and personnel that are not billable as direct cost to the government are the big drivers for us. By minimizing our office space, and

permitting employees to work out of home offices we have become truly a virtual company. The office is where your computer, modem, cell phone and fax are.

2. Question:

After reviewing the information on Table 1 regarding legal requirements, is there anything you would like to change or add?

Answer?

The legal requirements you have selected are pretty much the ones I would also have selected from the extensive list of FAR and DFARS legal requirements. The legal requirements for DoD contractors emanates directly from the FAR and DFARS and with the changes in the acquisition process as a result of the reform in government, some of those requirements are disappearing. However, it seems as one disappears, another one takes its place.

When my partner and I formed the company, we decided right from the beginning to get an attorney to help us understand the legal requirements imposed by the government. And this is something I would highly recommend to other prospective contractors. The requirements set forth in the FAR and DFARS are so complex that I believe it is in the best interest of the company to utilize the services of a contracting attorney. Failure to comply with any one of the FAR or DFARS requirements could negate all your efforts to win the contract. We have our attorney review each Section G, H and I of every solicitation to make sure there is not something in those sections that we can't comply with. Having a good attorney that fully understands these requirements is

essential to being able to comply with the regulations and how to get waivers when you can't comply. For the most part, Tekla has been able to demonstrate to the government that we have the required organization, financial, personnel, and other resources to fulfill our contractual obligations. However, we did have to undergo a pre-award audit/survey before we had sufficient corporate history and any successful past performance. There is no magic formula to successfully passing a pre-award survey, the auditors will check every aspect and if the company is based on solid resources and has a plan to obtain the necessary resources it is likely the company will pass the survey.

3. Question:

After reviewing the information on Table 2 regarding financial and accounting requirements, is there anything you would like to change or add?

Answer:

It seemed to us from the very beginning that to succeed and comply with the technical aspects of financial and accounting regulations, we needed to find a good Certified Public Accountant with extensive experience in dealing with the provisions of the FAR/DFARS. Early on, we found such a person and it has paid dividends having someone with the knowledge and experience to take care of these complex restrictions. For a small company to have all the skills necessary to understand and comply with these restrictions seems overly burdensome. Prospective contractors need to understand that a small business has almost the same financial and accounting requirements that a large business has without the in house accounting and comptroller departments to take

care of these issues. We found it cost effective to outsource our accounting, including payroll, to that accountant's organization. Certainly the accounting firm costs us money, but the trade off is not having the skill necessary and having to do something over and over because you didn't do it right the first time. It becomes a cash flow as well as competence issue. The logic for a good CPA with an extensive background in government accounting is the same as the logic for finding a good contract attorney.

We closely monitor every aspect of the financial and accounting procedures. Every invoice and every contract/sub-contract is carefully scrutinized to ensure complete compliance with government accounting standards. We have segregation of direct and indirect expenses. Our indirect expenses are further segregated into overhead and G&A expenses. Our labor tracking system is time sheet based and there are instructions in place requiring frequent internal audits.

4. Question:

After reviewing the information on Table 3 pertaining to the process used by the government to develop the solicitation, advertise/announce it in the Commerce Business Daily, and publish for industry to respond is there anything you would like to change or add?

Answer:

The government usually goes through an extensive decision process and needs analysis before determination that a solicitation is needed. Once the decision is reached to issue a solicitation, it is announced in the CBD, and eventually published for

contractors to respond. However, prospective contractors should be aware that by the time the solicitation is published in the CBD, other contractors have been working with the customer or issuing government office in an effort to make sure they fully understand the technical tasks and what is expected of them as potential winners. The simple truth is that if the first time you heard of this work is when you read it in the CBD, it is probably too late to even submit a proposal because other contractors are more knowledgeable about the work and the customer requirements. Sections L and M dictate how the proposal is going to be structured.

5. Question:

After reviewing the information on Table 4 regarding the government source selection and evaluation process is there anything you would like to change or add?

Answer:

The evaluation criteria are not kept a secret. The criteria used by the government to evaluate proposals are described in Section M of the solicitation. In my experience while the scoring or weight of each item may change, generally each criteria item doesn't change much. However, the members of the source selection committee and the actual process it uses to evaluate proposals are kept strictly confidential within the government.

6. Question:

After reviewing the information on Table 5 relative to the proposal preparation process is there anything you would like to change or add?

Answer:

We spend a lot of time in the bid/no-bid decision process before ever deciding to submit a proposal. One of the dangers for small business is the number of opportunities that are potential contract opportunities. However, we decided at the onset that the company could not be all things to all people and this translated to we simply didn't have the resources necessary to pursue all the opportunities that came along. We had to concentrate on only those that were in our best interest to pursue -- and that we felt we really could win. In other words, stay focused on your business model; don't be led astray by greed. As I said before, if the first time we heard of the work or the sponsor was when we saw the business opportunity in the CBD, it was already too late to even think about submitting a proposal. To win a contract in today's competitive environment, it is essential that you fully understand the customer requirements and have a better plan than your competitor to solve the government's problem. And you have to be able to write that solution in a technical and management proposal that the source selection committee understands. Lastly, we work real hard to make sure our cost and business volume is cost effective for the government and our rates are competitive when compared to the marketplace and the work to be done.

7. Question:

Are you aware of the changes taking place in the DoD acquisition reform movement that affects your business? Please address the increased emphasis on privatization of government functions through outsourcing to the private sector and how this affects your company.

Answer:

The Defense Acquisition Process is an enormous topic to try to understand, let alone try to describe to persons outside the defense establishment. No industry comes close to the bureaucratic checks and balances imposed by laws, regulations, directives and other forms of organizational control. There are clear and legal foundations for the defense establishment to enter into contractual arrangements with business organizations – and there are increasing opportunities for the entrepreneur to carve out a niche to fill voids created by defense establishment downsizing.

Dealing with and understanding the defense acquisition system is extremely frustrating and can have disastrous impact on the small business waiting for contractual actions. The system is notoriously bureaucratic and filled with unknown delays and conditions. In addition to the confusing legal and administrative conditions, congressional oversight in the form of funding approval creates an enormous and convoluting process. There are countless offices, organizations and policies/practices that were created years ago to impose these checks and balances in an attempt to control, in some manner, a system/process out of control. The fact is, there are offices that suffer from the “Rice Bowl” mentality. Each small unit (office) considers themselves so important that there simply is no way the process could survive without their input. The process has grown so enormous that, when it once only took 5 years to fully design, develop, test and produce the Grumman A-6 aircraft, it will now take 15-20 years to field the F/A-18 E/F aircraft. The process is out of control and failure to reform or streamline the process will result in complete stagnation of the system.

As the acquisition reform movement continues, opportunities for small businesses to benefit from the outsourcing trend may very well significantly increase. True acquisition reform is not as easy to accomplish. To be successful, it must affect every facet of an enormous process, from the major organizations down to the smallest office overseeing piece part procurement. It will take not only new organizations to oversee the process, but the congressional courage to eliminate organizations, to reduce staffs, to change laws, and most importantly to not be concerned with re-election because these changes will affect congressional constituencies. The result has been good news for new start up companies that can fill the void created by the downsizing of the defense establishment.

8. Question:

Can you describe Tekla's business development and marketing activities particularly towards identification of new business opportunities, customer interface and bid/no-bid decision process.

Answer:

To foster small business participation in the defense business base, the Small Business Administration in the past required the DoD to set aside a certain number of procurements solely for small business competition. Determination of small business status is accomplished through a complex formula based on number of employees and sales volumes, and currently there are at least four categories of small businesses based on these calculations. Each of the levels has procurement set-asides and competition is

limited to businesses in each of the particular categories. However, due to the downsizing of the DoD internal organizations, more of the work that previously was accomplished in house is being outsourced to private industry – and whenever possible to small business ventures.

For the small business, it is important to understand that marketing to the DoD is unique. Take our case of providing engineering and technical support services. Long before a solicitation is developed and released, we have begun extensive business development and marketing activities, including visits to the customer to discuss the tasking or products, the schedule and the potential funding. We feel it is extremely important to fully understand the problem in order to focus our technical proposal to solving the customer's problem. To succeed in today's competitive environment, we must totally and completely understand the customers' requirements by participating in the process early. Defense industry, like their civilian counterparts, seek to fulfill contractual requirements, stay in business, and make a profit. Fundamental to the success of any competitive endeavor is the basic strategic axiom that "early in the process, one must create the necessary and sufficient conditions such that the outcome is determined well before those forces come into conflict." This means that the company must make extensive preparations to win a contract well before the RFP is issued and the proposal is written. This also means that the Proposal must be written in such detail that it can be used as the device to manage the program once the contract has been won.

Lastly, this means that if the first time you became aware of the solicitation was when you read it in the Commerce Business Daily, the odds of winning the contract with your proposal have diminished dramatically.

Extensive preparations start with information gathering on all potential customers. "Business intelligence" sounds exotic, but it simply tries to answer the questions, "What's really important to the customer"; "What is the exact nature of the work to be performed"; and "Do we know all there is to know about this solicitation". This is done in a variety of ways, but close, continuous customer contact and being a good listener and perceptive observer are the main methods. Different customers have different ideas about what the main issues are. The company must have this insight before a winning proposal can be written. The key data are available to the company that is willing to talk extensively to the customer about his needs before the RFP is released. It will not appear anywhere in the RFP.

One important contribution new business developers can make to the proposal preparation process is to document the perceptions of the needs and the important issues that are expressed by potential customers well in advance of the RFPs being issued. This information is particularly useful to the Proposal Preparation Team as they define the capture strategy and the theme that will be repeated throughout the proposal. There should be a natural flow of this kind of information to the core proposal team well in advance so that they can do the best possible job of addressing the customer's concerns. Obviously there are many questions to be answered; the following represent only a few:

1. Is there an incumbent?

2. What has been their performance?
3. What are the specific tasks to be accomplished?
4. Has their contract been requested under the Freedom of Information Act?
5. When did you last meet with the customer?
6. What are his/her concerns?
7. What are the hidden requirements, such as increased office space, additional capital equipment, or other requirements necessary to perform on the contract?

Contrary to some opinions, business intelligence gathering is not the sole responsibility of the New Business Development/Marketing Director. Everyone in the company should be constantly alert to the potential for new business and always ready to market the benefits of the company's services to anyone whenever they detect a need. This can only come about if all employees have contributed to the company's strategic plan and have accepted the vision, mission, goals and objectives as their own.

In addition to customer related information, it is important to know what other companies will likely be submitting proposals along with your company in competition for a particular contract. This information about the competitors and their competitive advantages should be discussed during the Bid/No-Bid decision meeting so that you can adequately address a competitor's perceived strengths in the process of preparing your proposal.

The thorough analysis of the competition is one of the most important steps in determining the Bid/No-Bid decision. It is imperative that we attempt to uncover as much information about the competition as possible. Questions relative to the competition include:

1. Is the competitor an incumbent and what is their on-the-job performance?
2. What are their labor rates?
3. Do we know their burden multiplier?
4. Have we requested their contract under the Freedom of Information Act?
5. If this is an award fee type of procurement, what has their track record been on winning the award fee?
6. Can they perform this work with in-house resources?

There is a widespread misconception that proposal preparation starts with the receipt of an RFP and ends when the proposal is submitted to the customer. There is much more to it than that. Proposal preparation activities are tightly integrated with the company's overall new business development efforts and plans for corporate growth. A proposal cannot be successfully produced in isolation from the company's overall marketing strategy and new business development.

Because of the integral relationship of proposal preparation with other business related activities, it is often difficult to identify exactly where proposal preparation begins and ends. For the purposes of this guide, we begin the process with annual marketing

plans that guide the identification of potential opportunities before any formal notice is published in the Commerce Business Daily. The process concludes following the successful start-up of the new operation, sometime after actual contract award.