

IMPROVING SUBCONTRACT MANAGEMENT EFFICIENCY AND REDUCING THE COST OF COMPLIANCE

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If you're like most of today's U.S. government contractors, you either have subcontractors, you're one yourself, or you're both. In either case, automating the subcontracting process has historically been challenging, costly and inefficient. The need exists for a software system that integrates and supports subcontract budgeting, subcontract creation, approvals, document management, billing and payment controls, change management, and notification and reporting processes.

Further compounding these process inefficiencies, government contractors are subject to numerous public laws, regulations and contract clauses that govern the subcontracting process, including, without limitation, those as described in FAR 44.303 and DFARS 252.244-7001, Contractor Purchasing System Administration. Contractors subject to FAR 52.244-2/DFARS 252.244-7001 are subject to contractor purchasing system reviews (CPSR), which can lead to system disapproval by the Administrative Contracting Officer and withholding of payments, among other implications. For many contractors, the lack of having an effective subcontracting system and the associated cost of compliance is a recurring drain on the bottom line and impacts their competitive position in the federal marketplace.

This paper examines the key ERP system processes and capabilities that government contractors should look for when deciding to improve the subcontractor budgeting, vendor selection, subcontract creation, subcontract approval, document management, billing and payment, change management, and notification and reporting processes and reduce the cost of compliance.



1. Establish the Subcontract Budget



The subcontract process normally begins in the Bid & Proposal phase with a capture/cost estimating/project management team conducting multiple iterations of subcontractor basis of estimates (BOE). Typically, this starts at a high level, and as the solicitation progresses will eventually become integrated into a detailed final proposal for submittal to the customer. Specific system capabilities should provide the ability to:

- **Proposal Build:** Provide cost estimators/project managers the ability to input proposed subcontractor hours/amounts from their BOE, into a proposal build. In addition, provide ability to attach all supporting BOE-development documentation.
- **Track Proposal Builds:** Enable cost estimators/project managers the ability to create/track multiple variation of proposal builds and corresponding documentation

2. Validate and Select the Subcontract Vendor



The subcontractor selection process should include due diligence, including considering historical performance data of the subcontractors you have worked with on previous contracts. Your system should provide a way to easily add and report on vendor-specific attributes, including:

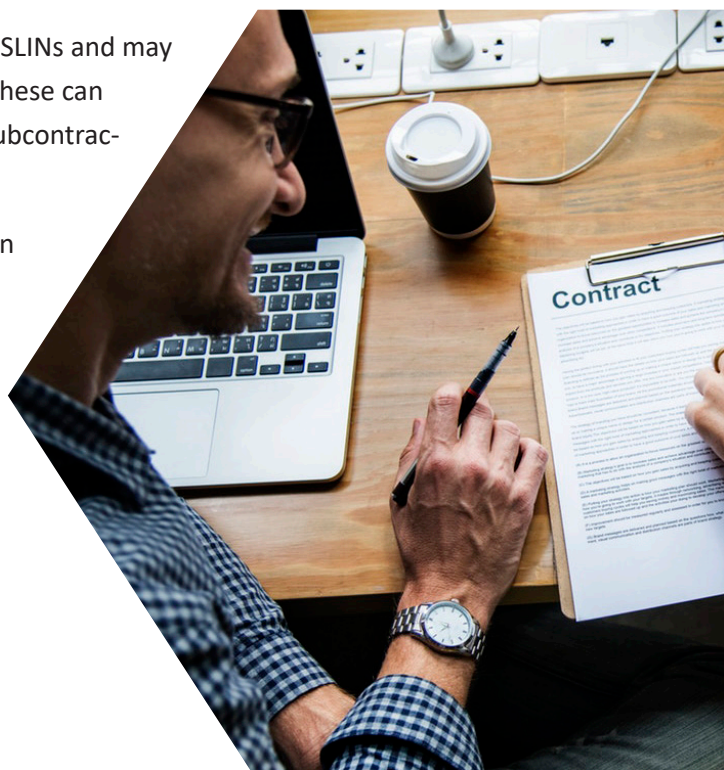
- **Subcontractor history:** Historical prices, quality, and delivery
- **Subcontracting ratings:** Vendor past performance ratings
- **Vendor qualifications:** Mil-Spec, Commercial, ISO, general; technical and financial capabilities
- **Other subcontractor information:** Vendor classifications, fiscal year, approved business systems, identifying debarred or suspended vendors, and tracking conflict of interest data

3. Create the Subcontract Agreement



Once the subcontractor scope of work has been defined, the source has been selected and prices agreed to, the subcontract can be created and finalized. The subcontract should identify all key aspects of the agreement, including the overall ceiling and funding value, the PoP, and terms and conditions. Specific capabilities should include:

- **Subcontractor/Subcontract documents:** Store, manage and provide access to other performance data, request for proposals, proposals, negotiation memorandum, price analyses, representations and certifications, and other pre-award and post-award documentation needed to substantiate compliance with federal acquisition regulations.
- **Track SBA classifications:** Track and report subcontractors by business type and size such as defined by the Small Business Administration on a specific subcontract
- **Flow-down FAR clauses:** Automatically flow-down FAR clauses from the prime contract to subcontracts when the subcontract is created.
- **Establish the subcontract Period of Performance (PoP):** Use budget schedules to establish and validate subcontract PoP by subcontract and/or SLIN. This data should also be able to be used in downstream processes to help automate subcontract invoice processing and purchase commitment reporting.
- **Establish subcontract ceilings and funding:** Utilize existing subcontract data to establish the subcontract ceilings (cost and hours) for subcontracted labor, travel, ODCs, and other subcontract line items numbers (SLIN).
- **Fund by SLIN:** Each subcontract can have unlimited SLINs and may include specific hours by specific labor categories. These can then be used during the billing process to validate subcontractor invoices.
- **Assign Specific Subcontractor Resources:** For certain types of work, the system should support the ability to authorize individual subcontractor resources who are authorized to work on the subcontract. Subcontractor resources should be easily maintained and managed as vendor resources rather than comingled with employee data.



- **Control over-ceiling processing:** Establish how exceptions are handled when subcontractors have submitted invoices that exceed subcontract ceilings.
- **Provide an entry form for time and expense:** Subcontractor resources should have the ability to enter both time and expenses in a form that also displays a description of the work to be performed.
- **Subcontractor/Subcontract documents:** Store, manage and provide access to other performance data, request for proposals, proposals, negotiation memorandum, price analyses, representations and certifications, and other pre-award and post-award documentation needed to substantiate compliance with federal acquisition regulations.
- **Include contract terms and conditions:** Your subcontractors should be provided with a document that includes all the subcontract information along with your standard terms and conditions so it becomes a part of the subcontract and can be fully executed from within the system.

4. Approve the Subcontract



Establishing a clear subcontract approval process is critical part of having an approved purchasing system. Your system should provide you with a comprehensive subcontract approval engine that handles the necessary workflow approval processes. These may potentially include sequential, threshold, and/or conditional-based approvals by any or all of the following types of users:

- Manager(s),
- Project Manager(s),
- Divisional Manager,
- Contracts Administrator,
- Subcontracts Administrator,
- Compliance Manager,
- Financial Manager(s)
- Executive/C-level managers

The prime contractor is responsible for auditing subcontractors and generally closes subcontracts using procedures similar to the government. The functional specialist shall ensure that the prime has settled subcontractor costs before closing a contract/order. [The Defense Contract Audit Agency (DCAA)] may issue a qualified indirect cost audit report indicating that audit of certain subcontract costs has not been completed...¹

¹Defense Contract Management Agency, DCMA-INST 135 (March 8, 2016): § 3.2.3.2 "Subcontract Costs," available at <https://www.dcmamail.com/Portals/31/Documents/Policy/DCMA-INST-135.pdf>

Once properly approved, the system should be able to automatically notify the Subcontracts Administrator that the subcontract is ready to be sent to the subcontractor for their signature. For full subcontract automation, the system should be able to:

- **Include your Terms & Conditions.** Incorporate the agreed-to Terms & Conditions into the subcontract so it becomes a part of the subcontract document.
- **Send the Subcontract.** Send the subcontract directly from within the system to track the event and update the subcontract activity history.
- **Support electronic signatures.** Natively integrate with external document approval applications, such as DocuSign and Adobe.

5. Track All Critical Documents



The subcontract process will generate a lot of documents created from internal and external processes and systems. Examples of documentation that should be included with the subcontract documentation file may include:

- Solicitations/RFPs
- Proposals and quotes from subcontractor
- Management-level justifications for non-competitive awards
- Commercial Item Determination
- Properly approved purchase requisition
- Price Analysis/Cost Analysis
- Negotiation Memorandum
- Determination of Responsibility
- Vendor Rating System Verification
- Debarment Status/Eligibility for Award



- Fully executed subcontract
- Modifications to the subcontract
- Post-award requirements including ACO Notification of Cost Accounting Standards-covered subcontract and Federal Funding Accountability and Transparency Act reporting
- And more to ensure the subcontract file contains adequate documentation to provide a complete and accurate history of purchase transactions to support vendors selected and prices paid

To make the management of these documents as efficient as possible, your subcontracting system should provide you with the ability to store, manage, and access all of these documents from a single, unified location that is associated with the subcontract. Specific system capabilities should include the ability to:

- **Attach at the subcontract or SLIN level:** Allow users to attach files either at the overall subcontract level, or specific SLIN level.
- **Enable keyword searches:** To make finding them easier, users should be able to search for documents by typing in keywords associated with the document.
- **Empower local and mobile users:** Such documents should be equally accessible to local office users via a browser as they are from the road via a mobile device.
- **Control allowed file types:** The system should provide you with the ability to determine what types of files you will allow to be attached.

6. Automate the Billing and Payment Processes



One of the biggest costs of administering subcontracts is the time and effort required to accurately process subcontractor invoices. In addition, the payment of subcontractor invoices can lead to serious compliance and legal matters.

Your subcontracting system should provide at least two options for automating the subcontract process. First, contractors should be allowed to require their subcontractors to submit invoices for their work on a schedule as defined in the subcontract. Optionally, the system should support the ability for contractors to require that their subcontractors enter their time and expenses directly into the contractor's subcontractor time and expense process application. Both approaches are described below.

Option 1: Subcontractor Invoice Processing

In this scenario, the subcontractor captures time and expenses in their own accounting system and submits an invoice to the prime. To reduce costs and improve accuracy, the system should be able to provide controls to automatically validate the agreed-to subcontract terms and conditions. Specific capabilities should include the ability to:

- **Display available Subcontracts:** Restrict the subcontracts to only the ones open to a specific vendor during Accounts Payable (AP) entry
- **Default contract terms:** Automatically default authorized SLINs and agreed-to labor categories, rates, POP, hour and cost ceilings, and authorized subcontractor resources.
- **Manage over-ceiling charging:** Control what happens in the event that a vendor submits costs that exceed a given subcontract
- **Update Subcontract Commitments:** Automatically decrement outstanding subcontracts.
- **Attach documents:** Easily store files associated with the vendor invoice, such as a copy of the actual subcontractor invoice, project deliverables, milestones, and receipts for expenses.
- **Notify stakeholders:** Automatically trigger notifications to stakeholders when approvals and/or management actions are required.



Option 2: Direct time and expense entry

In this scenario, subcontractor resources are assigned to a subcontract and given access to record their time and expenses in the prime's accounting system. The benefits of this approach include improved timeliness of data for reporting, reduced data entry and errors, and online approval tracking by both the prime and sub. In this scenario, the system should be able to provide controls to assign resources to subcontracts, provide them with a time and expense entry form, validate the agreed-to subcontract terms and conditions, and approve entries. Specific capabilities should include the ability to:

- **Charge to your Subcontracts:** Allow subcontractor resource should charge time and expenses against a SLIN, rather than a project
- **Support real-time commitment updates:** Perform real-time cost commitment updates, including cost burdens, so managers can monitor the current status of in-process subcontractor charges.

- **Control potential funding overruns:** Provide real-time warnings or prevent subcontractors from submitting labor cost, hours, and expenses that exceed funding ceilings.
- **Manage associated documents:** Provide ability for subcontractor resource to attach files if required, such as those that document deliverables, milestones, and receipts for expenses.
- **Support comprehensive approval workflows:** Provide for subcontractor labor and expense signatures and approvals from the subcontractor resource and manager, as well as your project manager and subcontract administrator.
- **Auto-Create AP Vouchers:** Be able to automatically generate an AP voucher from approved subcontractor invoices. Automatically default authorized labor categories, rates, and ceilings during the AP voucher process.
- **Support complex billing backup requirements:** Provide detailed billing backup of subcontractor resources including daily hours and expenses

7. Manage Changes



Once the initial subcontract ceiling and funding documents have been executed by all parties, any subsequent changes should be initiated, processed and approved in the system as Change Orders (or modifications). Changes may include overall changes to the contract funding or ceiling, PoPs, the addition or modification of specific SLINs, resources, labor categories, rates, FAR/DFARS clauses and more. If needed, your subcontract manager should also be able to easily report on all changes in the form of a Subcontract Brief. Finally, changes should automatically adjust funding values in outstanding Subcontract Commitments and notify impacted stakeholders. Specific capabilities should include the ability to:

- **Modify your subcontracts:** Document changes to subcontract ceilings, PoPs, SLINS, rates, labor categories, authorized hours, funding, and FAR clauses for agreement between parties.
- **Manage approvals:** Automatically route subcontract mods through the same or a different approval workflow as the original subcontract. Seamlessly utilize 3rd-party approval systems such as DocuSign or Adobe if desired.
- **Track all changes:** Track all subcontract changes in an audit trail that keeps a comprehensive history of all changes to subcontracts including ceilings, funding, POPs, SLINs, and approvals.
- **Notify internal stakeholders:** Notify impacted stakeholders during the change process.

8. Notifications & Reporting



Your system should be able to provide comprehensive reporting and notifications throughout the subcontracting lifecycle. Stakeholders should be able to pull info on-demand, but the system should be able to provide alerts based on Key Performance Indicators and Metrics that are out of the normal range. The system should be able to notify impacted stakeholders of events requiring immediate action, e.g. such as when funding ceilings are approached, limitation on pass-through charges thresholds are approached, etc. Specific capabilities should include the ability to:

- Provide comprehensive subcontract reporting:** Provide subcontract administrator and other stakeholders with views into the current status of all subcontracts, including those that are open, in-process, or closed. Provide reporting for specific subcontracts, subcontractors, or on an organization-wide basis. Report on subcontract ceilings, amounts remaining, history, and documents. Report or inquire into vendor performance, insurance, certifications, and additional user-defined fields. Display all key subcontractor metrics and monitor performance real-time on a Subcontracting Dashboard.
- Provide real-time labor and expense charge reporting:** Enable real-time reporting on any subcontract charges, including raw or fully-burdened costs at any level of the project WBS. View costs by type, including labor, travel, materials, and ODCs. View all cost records in summary or detail, either by a report, online inquiry, or dashboard update.
- Report on all subcontract changes:** Run a Subcontract Brief that shows the complete history of a subcontract, including changes to PoPs, ceilings, funding, SLINs, and FAR clauses.
- Automatically receive alerts and notifications:** Receive instant notifications, alerts, and dashboard updates when subcontract metrics such as charges exceeding funding, costs approaching approved ceilings, subcontract changes approved, and other user-defined events occur. Notify stakeholders of subcontractor labor and expense charging and unreported time or expenses during a period.
- Monitor Subcontractor Compliance with FAR 52.216-7, Allowable Cost & Payment:** Provide the ability to automatically generate emails to subcontractors reminding them of their responsibility under flexibly priced subcontracts to submit an incurred cost submission and provide interim invoices to provide for efficient closeout and management of funds.



- **Initiate the Closeout Process:** At the end of the subcontractor period of performance, the system should generate and send the appropriate closeout documents (e.g. Release of Claims, Property Clearance Forms, Report of Inventions and Subcontracts, Disposition of Classified Information, and/or Subcontractor's Assignment of Refunds, Rebates, and Credits) to ensure efficient closeout and final invoice processing.
- **Enable your mobile workforce:** Empower project managers with real-time access to subcontract charging, changes, and document attachments from their mobile devices.

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