The Subcontractor Tracking Conundrum

How forward-thinking Prime contractors can overcome subcontractor time tracking pains with an integrated, project-based cloud ERP

Unanet

INTRODUCTION

Government contracting can be a lucrative and stable business for providers in a variety of sectors. Even in the age of COVID-19, optimism remains high among government contractors that there will continue to be ample opportunity for working with the federal government.

Government contractors are continually looking at what opportunities to pursue, often targeting larger projects that can stretch many GovCons to the absolute limits of their resources and abilities.

That's why traditionally – and especially now – contractors have relied on subcontractors to help fulfill the requirements of the projects, usually in the form of extra labor and boots on the ground. Bringing in subcontractors allows contractors to introduce flexibility without the expense or traditional onboarding processes involved with hiring permanent employees, or having to commit to a long term business relationship. However, it also introduces a slew of new challenges for managing and invoicing projects.

In particular, the methods primary contractors (prime contractors) have historically used to accurately and effectively account for project labor have always been subject to the inefficiencies and difficulties subcontractors (subs) face when trying to collect that information internally themselves.

Traditional reporting methods rely heavily on manually managed timesheets, which are prone to frequent data entry errors and delays in processing that can result in primes waiting up to eight weeks to receive, severely impacting their cash and revenue recognition.

In response, forward-thinking professional services firms are looking for ways to dramatically improve subcontractor management through emerging cloud-based technologies that replaces traditional paper- or spreadsheet-based tracking with a single platform that can help primes collect revenue faster and more efficiently – without any of the hassle of manual data entry, reconciliations, or having to email invoices.

The prime gets a lump sum bill with a timesheet back up and has to cross-reference to make sure the charges are correct, prepare payment, and invoice the project client as appropriate. From there, primes face a number of other challenges, too.

In 2023, the federal government awarded a record $765 billion in contracts, which is a 9.5% increase from 2022.

68% of government contractors are cautiously or very optimistic about the current business environment, and organic growth was the #1 financial challenge. It's not surprising that the top issue keeping executives up at night is resource recruiting and retention.

SUBCONTRACTORS SOLVE MANY PROBLEMS, BUT BRING MANY HEADACHES

The most lucrative government contracts can't just be done by a prime's team, which is why so many turn to subcontractors to help complete the work. Every step of the way, both primes and subcontractors have to accurately capture their total time and apply it against other line items in the project budget to help project leaders keep the project on time, on budget, and provide the visibility to help drive profitability.

While the process may appear straightforward for primes, conventional approaches to subcontractor time management are anything but quick and efficient. Once the subcontractor's employees input time, the subcontractor's internal team has to approve it, prepare a billing invoice, and mail the invoice to the prime.

COMMON CHALLENGES IN MANAGING SUBCONTRACTOR TIME:

- Ensuring time charges are accurate, allowable, and properly allocated
- Incorporating subcontractor time into the official records
- Accurately reflecting total compensation
- Complying with the established GovCon

DISPARATE SOURCES MAKE RECONCILIATION A CHALLENGE

Legacy accounting systems can get messy and disorganized quickly. For primes, the process of sifting through various timesheets and expense statements from each employee and subcontractors is already burdensome. But aggregating them into a single location where the team can standardize them, approve them, and process payments before recording them in the ledger can take dozens of hours – more if the data has any inaccuracies.

Inaccurate data – anything from missing decimal points to miscalculated totals – might take weeks to resolve, owing to lengthy back-and-forth email exchanges to isolate the issue, rectify it, and get it reapproved. At scale, the entire sequence adds substantially more paperwork for accounting teams and results in longer wait times for subs to receive payment.

For example, if a prime works with 50 subcontractors on a project and each of sub has 15 employees of their own, the prime must accurately account for 750 total workers,

all of whom are submitting disparate timesheets and expense statements that must be rapidly processed with total accuracy – by hand or with minimally helpful digital tools.

LEGACY SYSTEMS DELAY TIME TO CASH

With legacy systems, many primes can wait as much as 6 to 8 weeks to realize revenue from subcontractor labor. Moreover, the Prime can't bill for the time and expense until issues are resolved and there is backup for the billing that meets contractual obligations, which can easily lead to:

- Cash flow problems that impact a prime's ability to pay their own bills or employees

- Skewed revenue and profitability projections that feed into hiring decisions

- Affect credit ratings and the types of projects a prime pursues in the future

LIMITED PROJECT VISIBILITY KILLS PRODUCTIVITY AND PROFITABILITY

The legacy approach is outdated, costly, time-consuming, and frustrating to execute. But it has a deeper impact than the accounting department. All this paperwork means the prime has no advanced notice of what is coming in the invoice or who has charged what. They have little visibility into resource utilization or availability, remaining funding, cash flow, revenue, and profit. Essentially, there's no way for them to tell if their project is on budget or if they're approaching their funding limits.
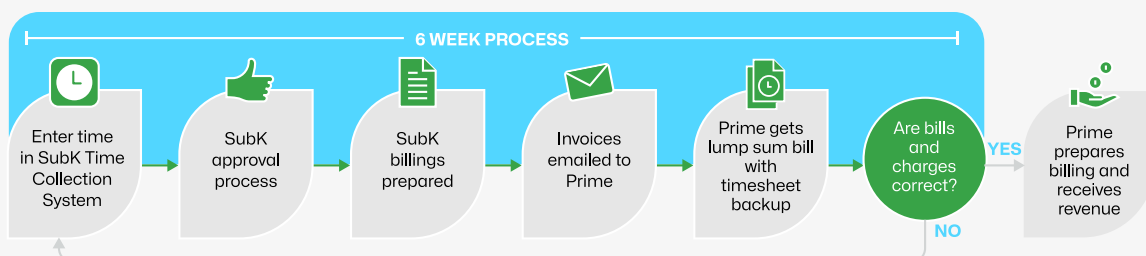
Without on-demand project insights, project leaders can't accurately monitor and track subcontractors' work progress, which negates any ability to modify plans or activities to improve efficiency, provide more detailed guidance for subcontractors working on the projects, or even decide which subs to work with in future engagements.

> " We now control the data flow at the front end of the subcontracting process, assuring labor and expenses are input correctly, reducing errors, eliminating reconciliations, and saving 100's of hours each month preparing invoices and reports.

> **— Director Global Supply Chain**

THE TIME-CONSUMING REALITY OF LEGACY SUBCONTRACTOR ACCOUNTING

6 WEEK PROCESS

Enter time in SubK Time Collection System → SubK approval process → SubK billings prepared → Invoices emailed to Prime → Prime gets lump sum bill with timesheet backup → Are bills and charges correct? — YES → Prime prepares billing and receives revenue

NO

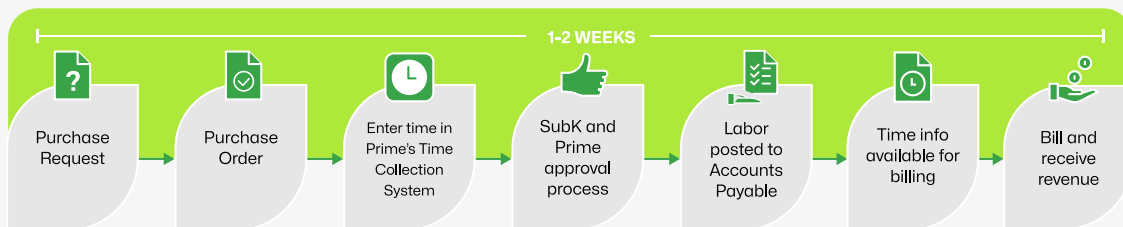## SIMPLER, FASTER, MORE ACCURATE SUBCONTRACTOR LABOR ACCOUNTING

In the age of cloud computing and personal devices, the paper and spreadsheet-based project accounting is obsolete, as the costs of manual processes are impossible to justify and the headaches greatly outweigh the benefits.

Government contractors have a golden opportunity to go beyond automating the mind-numbing manual task of processing and reconciling timesheets, expense statements, and invoices. Using project-centered

Subcontractor management software, they cannot only automate their existing manual processes, but also build a more efficient operation that ultimately results in greater productivity and project profitability.

Modern software replaces timesheets from disparate sources with a single cloud based portal accessible by all of a prime's subcontractor partners. Anytime, anywhere access to digital timesheets and other accounting tools eliminates numerous back-and-forth emails and constant manual changes, simplifying time management and shortening the cycle from labor reporting to receiving cash.

PROJECT-BASED ERP SOFTWARE REDUCES THE TIME BETWEEN LABOR AND REVENUE

1-2 WEEKS

| Purchase Request | Purchase Order | Enter time in Prime's Time Collection System | SubK and Prime approval process | Labor posted to Accounts Payable | Time info available for billing | Bill and receive revenue |

PROJECT-CENTERED ERP IS BETTER FOR PRIMES, BETTER FOR SUBCONTRACTORS

Employing a project-centered platform can benefit both primes and subcontractors alike. Streamlining time subcontractor management can translate to a significant decrease in cash cycle time, by as much as 8 weeks per subcontractor in some cases, as well as reducing reconciliation time and improving the speed of conversion from labor to revenue. Depending on the subcontractor management solution, subcontractor

employees can be assigned by project order, project, and authorized hours.

This approach not only changes how government contractors run their businesses, but also goes beyond legacy accounting methods, and generic ERP systems that only automate work steps, helping to improve efficiencies by giving primes real-time visibility and control into their open commitments.

At the same time, subcontractors benefit from faster payment cycles, increasing both their cash flow and ability to keep their employees happy and productive.

With a dedicated subcontractor management solution, there is less manual effort – no invoices have to be emailed – and fewer mistakes that require rework cycles, improving time-to-cash, as well as prime-sub relationships given the consistent communication and better visibility into project execution.

FEWER HEADACHES, FASTER CASH FLOW WITH INTEGRATED SUBCONTRACTOR MANAGEMENT TOOLS

Leading GovCons have stopped asking whether they need a given technology, but are rather asking how adopting technology can help optimize their operations.

For government contractors seeking to improve efficiencies, Unanet's web-based subcontractor management portal replaces timesheets and emails with a cloud-based portal. This allows anytime, anywhere collection of hours and status for real-time project and expense tracking, along with enhanced compliance with government contracting data governance standards.

Subcontractors register their own employees into Unanet, allowing them to input and approve their time and expenses into a dedicated portal. Once on board, subcontractors and primes can manage their communications and processes right within the dedicated Subcontractor Portal. It supports purchase order (PO) reviews, PO assignments, payroll, invoicing, project accounting, chargeback, and job cost accounting.

6 Steps to Onboarding a New Subcontractor Management Tool

1 Decide to make a process change and form a team to address the issues and challenges

2 Inventory current subcontractors and the methods they are using to send time and expenses

3 Understand the process required to get subcontractors to make the change

4 For new subcontractors, include in the use of the tool of choice in contracts so that all subtractors will use the tool in the future

5 Update processes and procedures to reflect the new way the organization will be handling subcontractors

6 Train the Prime's team and the subcontractor's team on the use of the new tool

This dramatically simplifies the onboarding process and alleviates the headaches involved with exchanging time and expense actuals, helping prime contractors get paid faster and reduce their administrative burden.

Unanet provides robust features for auditing, is recognized as the best government contractor timesheet software, and complies with DCAA requirements. Since subcontractors can also access the system, both the Prime and the subcontractor save time and money.

Government contracting remains a lucrative industry, especially when GovCons have refined and efficient project accounting and subcontractor management operations. As many prime contractors continue to face complexities in collecting time and revenue reports from subcontractors, they're increasingly abandoning time-consuming, laborious, and mistake-riddled manual processes in favor of advanced, cloud-based solutions that eliminate the work and the worry from the process.

Contact us today for a free, personalized demo to see how a project- centered ERP helps simplify cost accounting and support project profitability.

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Where Information Means Insight

Unanet serves more than 4,100 businesses with its ERP software solutions purpose-built for professional service organizations. Unanet's software helps project-driven organizations reliably plan, track and manage projects, people and financials. Unanet's customer-centric culture means we strive to deliver insights with personal service.

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