



The Government Contractor's Guide to Optimizing Compliance Efficiency

A GAUGE 2024 eBook Excerpt

ANNUAL INDUSTRY ROADMAP OF BENCHMARKS AND TRENDS
Guiding Government Contractors into 2025 and Beyond

Introduction

About the eBook

The goal of this eBook is to help government contractors navigate the growing complexities and requirements of compliance by examining industry challenges, trends, and opportunities. Expect practical insights on the impact of CMMC 2.0, growing ESG requirements, perennial audit challenges, and how AI can and should be leveraged to streamline processes, reduce burdens, and uncover efficiencies for firms.

Findings are from our [2024 GAUGE Report - Balancing Efficiencies & Compliance w/ AI Insights](#) - based on 1,255 contributors gathered from a wide range and variety of self-identified government contracting professionals and related communities. Survey responses were collected between February and April of 2024. The survey, which lasted 15-20 minutes, consisted of closed-ended questions.

The current state of government contracting

In a fluctuating market landscape, the government contracting industry stands as a bastion of stability and reliability. Growth has been steady; however, survival is never assured.

Along with the ever-present hurdles of business development, uncovering opportunities, winning new business, and managing resource recruiting and retention, government contractors always have compliance top of mind.

Compliance burdens are only intensifying. Business systems are appearing more frequently on RFP solicitations. **A QUARTER OF FIRMS SPEND OVER 40 HOURS A MONTH ON COMPLIANCE, AND OVER A THIRD ARE CONCERNED WITH GAINING EFFICIENCIES.** The publication of the final CMMC 2.0 rule is also a major consideration—and comes with major costs.

To get ahead, GovCons need to find ways to become more profitable and efficient without compromising compliance.



Kim Koster
VP of Product Marketing, Unanet

A handwritten signature in black ink that reads "K. Koster".

Key findings from the 2024 GAUGE Report:

You can find the 2024 GAUGE Report at: info.unanet.com/2024-gauge-report

57%

list new revenue resources as their most or second-most significant financial challenge

69%

experience issues winning new contracts

45%

cite lack of business development resources as a challenge

47%

find lack of qualified talent to be an operational challenge

44%

are worried about resource recruiting and retention

37%

are concerned with gaining efficiencies

Compliance is a keystone of a government contractor's success.

Government contractors must be able to navigate a complex, always-evolving regulatory ecosystem—or perish.

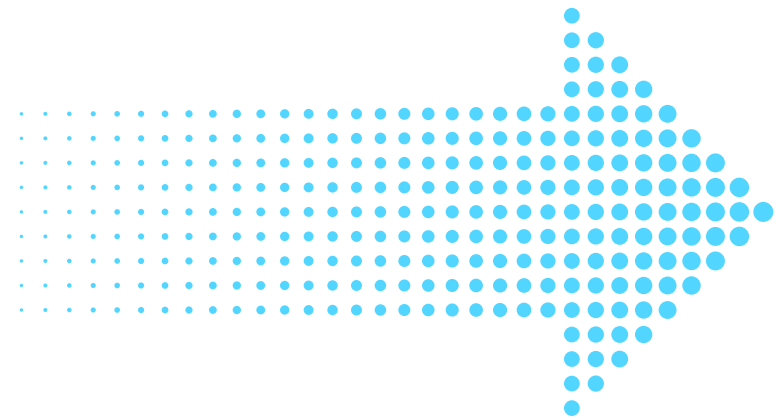
Every contractor must abide by the Federal Acquisition Regulation (FAR), the primary regulation governing procurement for all federal executive agencies.

Government contractors operating in the defense sector—a majority of GovCons—will also be familiar with the Defense Federal Acquisition Regulation Supplement (DFARS), which adds additional considerations for defense-related projects. Agencies like the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA) exist to monitor, evaluate, and ensure that contractors are staying compliant in terms of financials and product delivery respectively.

Between the unique language of the FAR, DCAA and DCMA audits, and the pace of regulatory change, GovCons have their work cut out maintaining a nuanced and up-to-date understanding of the latest standards, let alone complying.

Growing pressures demand a more organized, disciplined, and efficient approach towards compliance activities.

Being able to understand industry shifts, clear compliance hurdles, and capitalize on emerging opportunities will be crucial to the continued success of any government contracting business.



Cybersecurity Maturity Model Certification 2.0 is set to be a major compliance consideration.

The final rule for CMMC 2.0 has been published—but 34% of firms don't know their own level.

On October 15, 2024, the Department of Defense published the final rule for CMMC 2.0 in the Federal Register, setting the timeline for CMMC requirements for defense contracts and upping the urgency for everyone. Issuance in DFARS is expected in the first half of 2025, meaning compliance could be required for prime contracts within months.

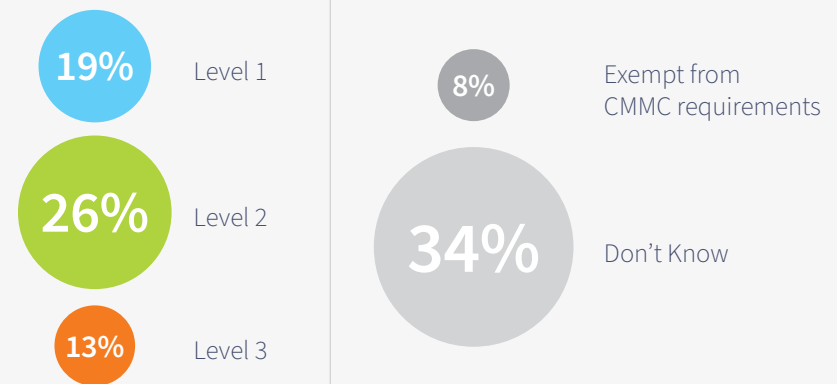
Even with phase-in measures, the cost and opportunity impact of CMMC 2.0 will be massive, especially for small businesses and firms at Level 2 and up. While some may be able to self-assess at Level 1, those handling controlled unclassified information must be assessed by Certified Third-Party Assessment Organizations (C3PAOs). The DOD estimates CMMC Level 2 to cost near \$100,000 and take months to complete. Assessments begin in December 2024.

About 40% of our respondents will be significantly affected.

Due to the rigorous C3PAO certification process, only 55 such assessors were formally authorized as of July 2024. Delays and backlogs are likely.

These numbers signal a clear need for GovCons to get moving on CMMC 2.0 planning now to ensure compliance in 2025 and beyond.

What CMMC level would you assign to your company?



Approved business systems are becoming a major differentiator in bids.

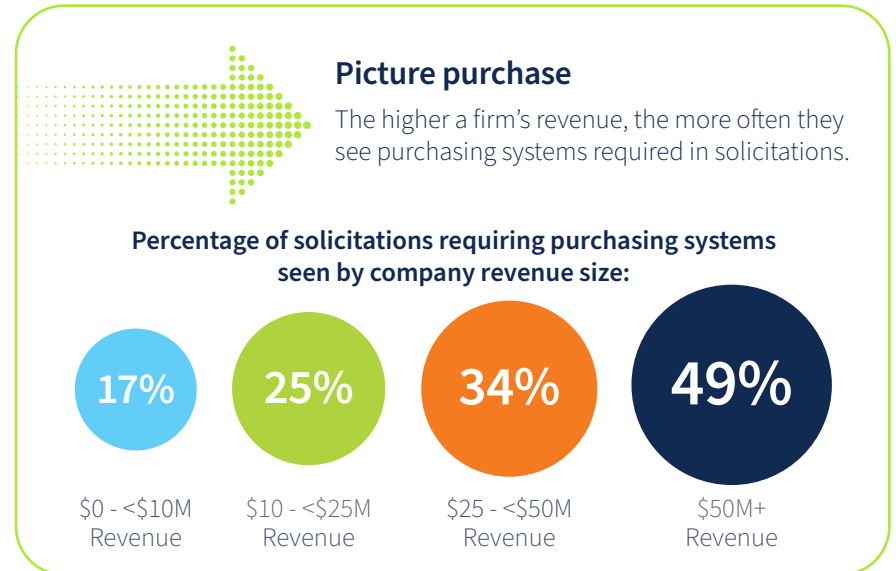
Accounting systems remain the most frequently required system, appearing most or all of the time on 64% of solicitations. Requirements for all other systems have increased in frequency: purchasing, estimating, and Earned Value Management systems are all about 7% more likely to appear in new solicitations than before.

This trend highlights the growing significance of business systems as an indicator of compliant, high-quality service delivery—and a key competitive differentiator for GovCons when bidding. Proficient contractors are likely to be especially attractive for Indefinite Delivery, Indefinite Quantity (IDIQ) contracts and Government-Wide Acquisition Contracts (GWACs).

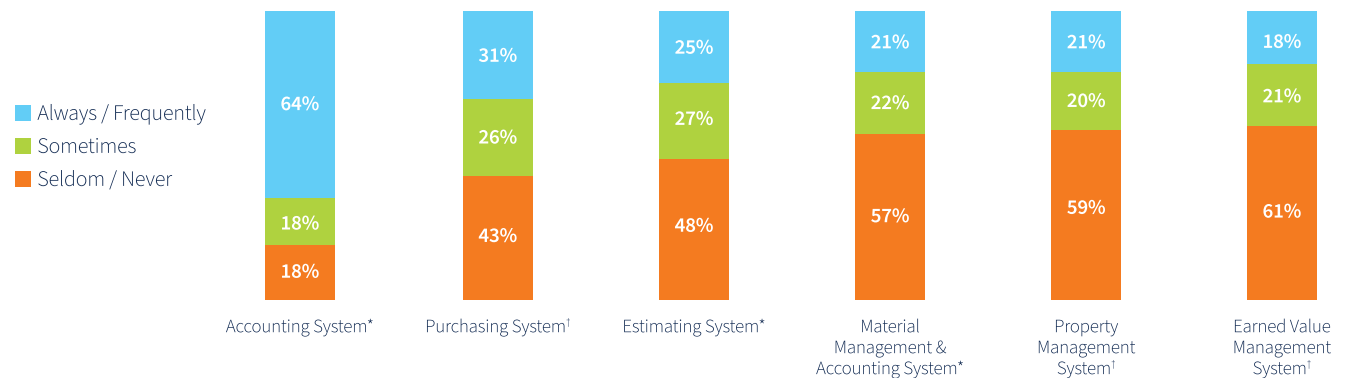
The larger you are in contract volume, the more approved systems you will need to have. **Bottom line: don't let a business system be the difference between winning a bid and losing an opportunity.**

Are you new to government contracting?

Getting your first cost-plus contract can be daunting. Review the Standard Form 1408 checklist to ensure you meet the criteria for contracts requiring an adequate accounting system.



Which of the following approved business systems have you experienced as being required on (new) solicitations in the past year?



* Audited by DCAA or third party
† Reviewed by DCMA or third party

Rates, timekeeping, and business systems top the list of biggest audit challenges.

Indirect rates remain the most frequently cited audit challenge. Small and midsize businesses (SMBs)—meaning firms earning below \$25M in annual revenue, regardless of employee size or industry code—are most likely to list rates as their top audit challenge.

Timekeeping is always a top compliance concern. Compliant timekeeping systems include policies, procedures, tools. Additionally, timekeeping audits require no prior notice—at any time, DCAA auditors may appear unannounced to conduct labor floor checks of your employees. The penalties for non-compliance can range from loss of contract to criminal charges.

To ensure a compliant timekeeping system, we've pulled together a list of 7 top tips to cover the key components:

1. Establish clear policies and procedures.
2. Champion a culture of compliance.
3. Separate the responsibilities for labor-related activities (e.g., timekeeping and payroll).
4. Allow the nature of the work to determine the proper distribution of time.
5. Monitor internal controls and address violations immediately.
6. Provide and reinforce training for proper time-charging.
7. Ensure all timekeeping is:
 - Compliant with established rules
 - Complete (i.e., includes all hours worked)
 - Documented in the system
 - Properly identified (project, contract name, etc.)
 - Validated and countersigned by a supervisor

Adequate business systems round out the top three. Firms earning \$50M+ annually are the most likely to list this as their top audit challenge, reflecting the trend of such systems appearing more often in new solicitations.

Though the priorities of the DCAA shift slightly every year, overall compliance remains the key to success in the realm of government contracting.

Fastest growing audit challenges

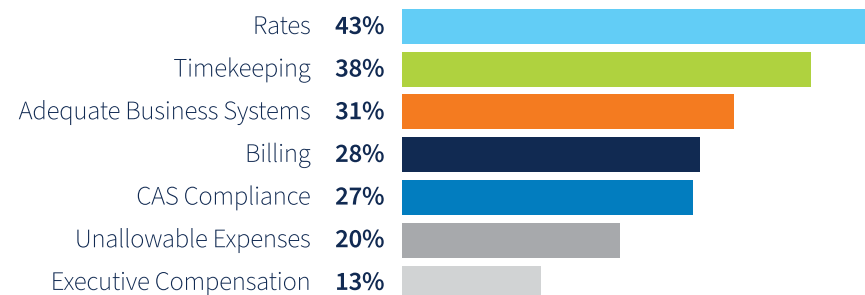


Since 2022, there has been an 8% increase in CAS compliance and a 5% increase in timekeeping appearing in firms' top two challenges.

Firms can expect these pressures to continue in the years to come.

Rank the following audit challenges from the most to the least significant last year

(% Ranked 1st & 2nd Shown)



Environmental, social, and governance (ESG) compliance likely to impact most business.

The percentage of firms predicting that ESG compliance will “significantly” impact business has almost doubled since last year. Firms with over 100 full-time equivalents more often believe they will be significantly impacted than their smaller counterparts.

Given a growing trend towards ESG considerations from both federal government and the broader defense industry, it’s likely that CMMC 2.0 will include some ESG component in the coming years. Related compliance costs are likely to increase quickly and soon.

It may be time to re-evaluate—and address—the impact of ESG compliance in your strategic planning.

How will ESG compliance affect your company in the next 1-2 years?

	2023	2024
Significantly	6%	11%
Moderately	28%	25%
Minimally	46%	35%
Not at all	20%	29%

More FTEs, more impact from ESG



15% of firms with 100+ FTEs predict significant impact from ESG compliance, whereas only 6% of their smaller counterparts believe the same.

Overall, 36% say ESG will have some effect on their business within the next two years.

Empowering compliance with Artificial Intelligence

AI is quickly becoming a key resource for compliance efficiency.

As the burden of compliance increases, and a quarter of firms report spending 40+ hours a month on compliance, GovCons are thinking about ways to maintain compliance more efficiently.

While many are taking tried-and-true approaches—75% creating and updating new policies and procedures, 46% reviewing their project-based tools—almost 40% of firms are either using or considering how to use AI to support greater efficiency in compliance.

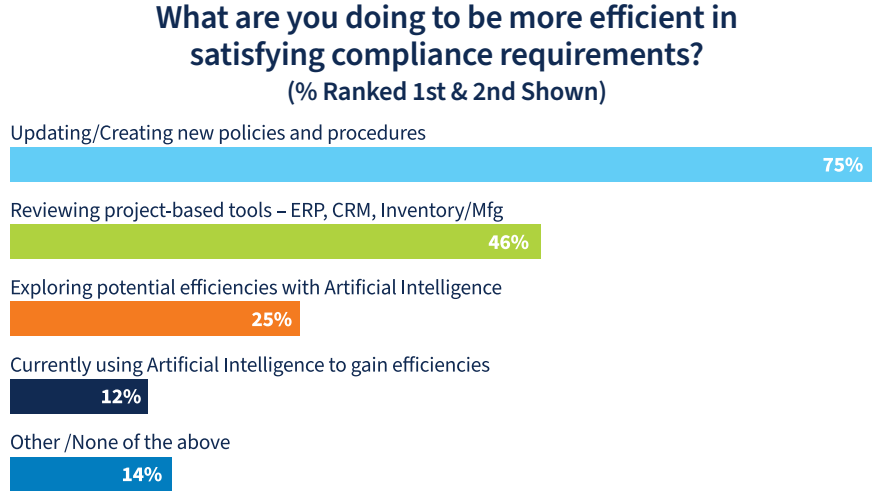
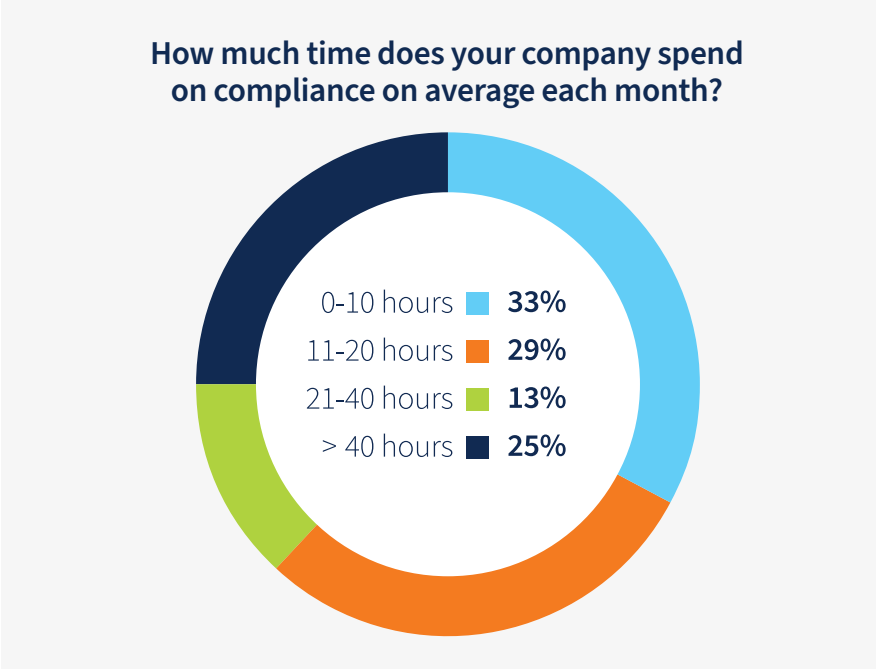
Compliance is a major part of operating in the government contracting space, and excellence in compliance is a major competitive differentiator. Firms looking to differentiate themselves on this basis must be prepared to invest the appropriate time and cost in compliance activities.

It's no coincidence that firms with annual revenues exceeding \$50M and firms with greater data and AI maturity all more frequently prioritize compliance.

These trends hearken a fundamental shift in attitudes towards emerging technology and a growing recognition of the impact of digital transformation in GovCon.



Empowering compliance with AI
Firms with 100+ FTEs are twice as likely to use AI to gain efficiencies.



The benefits and risks of AI in compliance

AI implementation in GovCon is not a question of if, but rather when.

Government agencies are already using AI tools to discover new vendors with experience in specific sectors or agencies. Soon, they'll use the same technology for their own internal operations, and where they go, the industry follows.

Though compliance-specific AI tools are not yet available, AI can still make compliance easier—especially for embattled SMBs with resource constraints. AI models can be trained to interpret the challenging language of the FAR, flag compliance risks like mismatched data or unallowable costs, or generate training on the latest compliance changes and requirements.

But AI does introduce multiple possible points of concern about auditability, accountability, and cybersecurity—particularly in GovCon, where a security breach is an existential threat.

How to make AI work while managing its risks

To be effective, AI requires strong data management and high-quality data; “Garbage in, garbage out” is particularly apt. And AI technology does come with its own inherent risks—biased results stemming from biased data, or the risk of hallucination, which can never be entirely eliminated.

For these reasons and more, AI cannot operate without human oversight. As AI development accelerates, firms must have governance in place for managing its implementation, risks, and compliance.

The best way to successfully implement an AI strategy is to develop a methodical, structured and strategic approach—before any risks turn into reality. Firms that are able to do so quickly will soon find themselves reaping the considerable (and significant) benefits.

How AI can make compliance easier:

1. Analyzing and applying rules by contract or project.
2. Continuously monitoring time and expense entries.
3. Providing automated detection and alerts for data disparities across systems or reports.
4. Checking whether relevant clauses are included in RFPs.
5. Sending automated alerts for project milestones or project plan deviations.
6. Providing updates and training on policy changes.
7. Creating dynamic learning modules to update and train employees on new requirements.

A Big Thank You!

The goal of the GAUGE is to provide the government contracting industry with a reliable, insightful, timely benchmarking resource—one that GovCon execs can trust, reference, and use to guide their decision-making. We're immensely grateful to everyone in the GovCon community who took the time to share the insights, data and experiences that shape every GAUGE Report. Thank you for your continued support. Without you, there is no GAUGE.

About Unanet

Unanet is a leading provider of project-based ERP and CRM solutions purpose-built for government contractors, architecture, engineering and construction firms, and professional services firms. More than 4,000 project-driven organizations depend on Unanet to turn their information into actionable insights, drive better decision-making, maintain regulatory compliance, and accelerate business growth—all backed by award-winning support delivered by a people-focused, forward-thinking team for whom the success of your projects, people, and financials is paramount. For more information, visit www.unanet.com.

Contact Us

Have questions or comments about the GAUGE Report? Want to share your insights by taking part in future surveys? Reach out to Unanet, and let us know how we can make the GAUGE even better for you.

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