



Decide with Confidence

D&B Webinar: Government Best Practices for Mitigating Contractor Risk

November 18, 2009

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Agenda



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- Introductions
- Current Environment
- Best Demonstrated Practices
- Questions

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Today's Speakers



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- Michelle Derr – Senior Consultant
State & Local Government

Leslie Ferragut – Senior Consultant
Federal Government

Sandy Wright – Director of Business Development

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In today's environment several challenges face the Government to mitigate contractor risk



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- Legacy database issues
- Incomplete or outdated contractor information
- Disconnected (or “siloed”) information systems that inhibit visibility
- Agency shortages in acquisition workforce
- Lack of sufficient resources to meet oversight goals
- Increased likelihood of business failure, business fraud and other high risk activities can undermine program performance

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There are best practices to utilize for contractor risk management



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- Establish a standardized decision framework for mitigating contractor risk
- Validate potential contractors with rigorous due diligence during the pre-award phase
- Monitor contractor risk during the post-award phase
- Adopt a portfolio view that assesses and manages the collective risk of contractors across the entire organization
- Use automated reporting tools to strengthen management, transparency and oversight

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Establish a standardized decision framework
for mitigating contractor risk

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There are benefits to establishing a standardized decision framework coupled with appropriate software applications



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- Enabling consistency, professionalism and a rigor to strengthen decision-making and contractor oversight
- Incorporating the most appropriate software applications adds to efficiency of automation
- Standardizing the oversight process not only reduces contractor risk but also makes decisions less vulnerable to prevention of timely awards

A good starting point is a Contractor Checklist to understand the operational risk during *pre-* and *post-*contract award phases



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Pre-Award Contractor Checklist	Post-Award Contractor Checklist
OPERATIONS	OPERATIONS
Confirmation of Legal Business Name and Address	Address/Facilities Change
Verification of Business Existence (“Proof of Right’ Evidence)	Merger or Acquisition
Validation of Years in Existence/Under Current Management Control	Management Turnover
Confirmation of Capacity to Perform	Confirmation of Capacity to Perform
- Annual Revenue	- Annual Revenue
- Number of Employees	- Number of Employees
- Size and Location of Facilities	- Size and Location of Facilities
Active Operating Status	
Executive or Management Team Background Check	Executive or Management Team Background Check
SIC or NAICS Relevancy Check	

As well as the financial risks



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Pre-Award Contractor Checklist	Post-Award Contractor Checklist
FINANCIALS	FINANCIALS
Low Risk Scores	Negative Trend in Risk Scores
Secure Financing	Financing Challenges
Positive Payment Trends	Negative Payment Trends
Payment History Compared to Industry	Negative Payment History Compared to Industry
Business Solvency Ratios	Weakening Business Solvency Ratios
Efficiency Ratios	Weakening Efficiency Ratios
Profitability Ratios	Weakening Profitability Ratios

And any ethical concerns



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Pre-Award Contractor Checklist	Post-Award Contractor Checklist
ETHICS	ETHICS
Satisfactory Performance Record	Unsatisfactory Performance Record
Absence of Suspensions/Debarments	Presence of Suspensions/Debarments
Absence of Suits, Liens or Judgments	Presence of Suits, Liens or Judgments
Absence of Evidence of Criminal or Fraud Activity	Evidence of Criminal or Fraud Activity

Validate potential contractors with rigorous due diligence during the pre-award phase

Generally speaking, to be determined responsible, a prospective contractor must—



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- Have adequate financial resources to perform the contract, or the ability to obtain them
- Be able to comply with the required or proposed delivery or performance schedule
- Have a satisfactory performance record
- Have a satisfactory record of integrity and business ethics
- Have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them (subcontractors)
- Have the necessary production, construction, and technical equipment and facilities
- Be otherwise qualified and eligible to receive an award under applicable laws and regulations (small business, veteran owned, etc...)

Upfront vetting will help you identify responsible contractors



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Is the business and its executive known?

- Do a business/executive search and validate the presence of key information (Name, Address, Phone)? Is there a business registration?

Can the operational status of the business be confirmed?

- Is the company listed as “Out of Business”? Does it operate at a residential address? How many payment references exist? How large of a “footprint” do they have within the marketplace?

Is there risk associated with the business?

- Does the business have negative payment experiences? How do their financials look? Are they debarred or suspended? Do they have tax liens or a previous bankruptcy filing? Are they considered high-risk based on their predictive risk score?

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Is the business or executive known?



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Civilian Contractor Indicted for Allegedly Soliciting Bribes While Working at Camp Arifjan in Kuwait

[WEBMIRE](#) – Monday, November 26, 2007

WASHINGTON – A civilian contractor from Georgia has been indicted by a [federal](#) grand jury in the District of Columbia for allegedly soliciting bribes while working at Camp Arifjan, an Army base in Kuwait, Assistant Attorney General Alice S. Fisher of the Criminal Division announced today.

The indictment returned this morning charges Terry Hall, 41, of Rex, Georgia, with one count of bribery.

Hall was arrested in Atlanta on a criminal complaint charging bribery on Nov. 15, 2007. The indictment alleges that Hall paid money and other things of value to a U.S. military contracting officer assigned to Camp Arifjan, a U.S. Army base in Kuwait, in order to influence the actions of that officer, including the awarding of contracts.

Hall operated companies that had contracts with the U.S. military in Kuwait, including Freedom Consulting and Catering Co., U.S. Eagles Services Corp., and Total [Government](#) Allegiance. According to the indictment, those companies received more than \$20 million worth of military contracts for providing, among other things, bottled water to the U.S. military in Kuwait.

Here is what we would have learned about U.S. Eagles Services Corp...



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Supplier Information Report

U.S. EAGLES SERVICES CORP
D-U-N-S® Number 78-650-7116

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ATTN: **Sandy Wright**

Report Printed: OCT 14 2008
In Date

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Overview | **History & Operations** | Products & Services | Finance | Public Filings

OVERVIEW

- Business Information
- Summary Analysis
- Diversity
- Special Events
- Customer Service

HISTORY & OPERATIONS

- History
- Operations

PRODUCTS & SERVICES

- UNSPSC
- NAICS
- SIC

FINANCE

- Finance

PUBLIC FILINGS

- Government Activity

HISTORY [About History](#)

The following information was reported **09/09/2008**:

Officer(s): TERRY HALL, PRES
THE OFFICER(S)

On June 9, 2008 A check with Georgia and Delaware secretary of state revealed no Corporate listing for the business.

Business started 2006.

TERRY HALL. Work history unknown.

CRIMINAL PROCEEDINGS:
According to a published report dated Sept 4, 2008, a federal grand jury in the District of Columbia returned a superseding indictment against Terry Hall for allegedly paying bribes to Army contracting officials at Camp Arifjan, an Army base in Kuwait, and for committing honest services fraud in connection with the same conduct.

The superseding indictment returned today charges Terry Hall with one count of conspiracy to commit bribery, two substantive bribery counts and two honest services wire fraud counts. Hall was originally indicted on Nov 20, 2007, and charged with one count of bribery of a U.S. Army contracting official at

- **Company:**
 - U.S. Eagles Services Corp.
- **Location:**
 - 6949 Wood Creek Lane, Rex, GA
- **Executive**
 - Terry Hall
- **History/Operations:**
 - Located at a residential address
 - Has one employee
 - No GA business registration
 - Operates two other companies from same address (Freedom Consulting and Catering, Total Government Allegiance)
- **Footprint:**
 - D&B has no payment experiences
- **Status:**
 - Indicted for soliciting bribes November 2007
 - Suspended by Army March 2008

Is there risk associated with the company or its executives?



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Department of Justice

FOR IMMEDIATE RELEASE
MONDAY, JANUARY 28, 2008
WWW.USDOJ.GOV

AT
(202) 514-2007
TDD (202) 514-1888

DEFENSE CONTRACTOR AND A FORMER MANAGER CHARGED IN CONSPIRACY TO BRIBE A MILITARY CONTRACTING OFFICER IN IRAQ

WASHINGTON — A federal grand jury in Oklahoma City returned an indictment against a U.S. Department of Defense contractor and one of its former managers for conspiring to bribe a military contracting officer in Iraq, the Department of Justice announced today. The indictment was returned on Jan. 22, 2008, and was unsealed today against Elie Samir Chidiac, a U.S. citizen, and Raman International Inc. of Cypress, Texas, which does business as Raman Corporation. Chidiac appeared in the U.S. District Court for the Western District of Oklahoma today after having been arrested in Oklahoma City on Friday, Jan. 25, 2008.

Here is what we would have learned about Raman International ...



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The screenshot shows a D&B report for Raman International Inc. The header includes the D&B logo, the company name, D-U-N-S@ Number 62-384-2361, and copyright information. A navigation menu at the top includes Overview, History & Operations, Products & Services, Payments, Finance, and Public Filings. The main content area is divided into sections: OVERVIEW, BUSINESS INFORMATION, HISTORY & OPERATIONS, PRODUCTS & SERVICES, PAYMENTS, FINANCE, and PUBLIC FILINGS. The BUSINESS INFORMATION section provides details about the company's location, telephone, chief executive, year started, number of employees, and history. A D&B Supplier Risk rating of 7 is displayed, along with a color-coded bar indicating the risk level (High, Medium, Low).

RAMAN INTERNATIONAL INC
D-U-N-S@ Number 62-384-2361
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ATTN: **Sandy Wright**
Report Printed: OCT 14 2008
In Date

BUSINESS INFORMATION

RAMAN INTERNATIONAL INC
17423 Wild Rose Trail
Cypress, TX 77429

This is a **single** location.

D-U-N-S@ Number: 62-384-2361

D&B Rating: --

D&B Supplier Risk: 7

SUPPLIER EVALUATION RISK (SER) RATING FOR THIS FIRM : 7

9 8 7 6 5 4 3 2 1
High Medium Low

- **Company:**
 - Raman International, Inc.
- **Location:**
 - Cypress, TX
- **Executive:**
 - Mike Atallah
- **Facilities:**
 - Operates from residence of officers
- **Footprint:**
 - Raman has 0 accounts; D&B has no payment experiences
- **Case summary:**
 - Signs of severe financial distress
- **Status:**
 - Pled guilty for role in Army bribery scheme; company and three former/current employees suspended June 2008

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Red flags can help indicate the likelihood of a company to commit fraud



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- Questionable trade references
- Suspect financial information
- Predictive indicators
- Unknown individual or unknown business
- Inconsistent address information
- Unconfirmed operational status
- Similar company names, telephone numbers, and addresses
- Individual or business background with previous history of risk
- Lack of documentary or “proof-of-right” evidence

D&B Predictive Indicators can be used individually or in combination to measure financial and operational risks



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Predictive Score	Definition
<p style="text-align: center;">FSS</p> <p style="text-align: center;">Financial Stress Score</p>	<p>FSS predicts the likelihood of an entity ceasing business without paying all creditors in full, or reorganizing or obtaining relief from creditors under state/federal law over the next 12 months.</p>
<p style="text-align: center;">SER</p> <p style="text-align: center;">Supplier Evaluation Risk</p> <p style="text-align: center;">(Derived from the FSS)</p>	<p>SER predicts the likelihood a supplier will fail within the next 12 months or obtain legal relief from creditors or cease operations without paying creditors in full over the next 12 months.</p>
<p style="text-align: center;">CCS</p> <p style="text-align: center;">Commercial Credit Score</p>	<p>CCS predicts the likelihood that a business will pay its bills in a severely delinquent manner (90+ days past term) over the next 12 months.</p> <p>Severely delinquent is defined as a business with at least 25% of its payments slow and at least 10% of its payments 90 days or more past defined credit terms.</p>

Agencies can streamline decision making using D&B scores and contractor risk scorecards



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- Analysis for pre-award to establish current business health and financial condition
- Use for individual responsibility determinations as well as a supplier portfolio risk management tool
- Post award monitoring for ongoing risk

	Green = Approve (SER Score 1-3) (FSS Percentile 80-100)	<ul style="list-style-type: none">• Low Scores• Low Exposure
	Yellow = Further Review (SER Score 4-6) (FSS Percentile 31-79)	<ul style="list-style-type: none">• Middle Scores• High Exposure• Review Criteria
	Red = Reject (SER Score 7-9) (FSS Percentile 1-30)	<ul style="list-style-type: none">• High Scores• “Knockout” Criteria

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Additionally, a web-enabled dashboard can provide a snapshot of a contractor's financial and operational stability



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The screenshot displays the DNBI Supply Management interface. At the top, it shows the user's profile (Pat Smith, D&B SLM) and navigation options like Learning Center, My Profile, Help, and Sign Out. The main navigation bar includes tabs for Dashboard, Suppliers, Catalog, Alerts, Scorecard, and Alerts. Below this, there are sections for Supplier Lookup, My Supplier Folders, and Active Surveys. A search bar is present with filters for 'My Suppliers', 'By Company Rate', and 'USA'. The main content area is titled 'GORMAN MANUFACTURING COMPANY, INC.' and includes a 'Back To' button.

Company Information:

- D&B ID Number: 00-473-5132
- Address: 160 Kolar Street, San Francisco, CA - 94110
- Country: USA
- Phone: 650-555-0000
- Web Site:

Company Actions:

- Last Updated: 1-2-2009
- Watchlist Member: Yes
- Buttons: Add to My Suppliers, Remove from My Suppliers, View Score Monitoring, Complete All New Survey, Update Information
- Links: Suppliers Associations, Assign Questionnaires

Profile Section:

- Corporate Linkage
- Scorecard
- Trends
- Alerts
- Research & Notes
- Supplier Provided Data
- Assessments
- Index
- Commodities
- Contact
- CEL

At a Glance:

- Predictive Supplier Ratings:**

SSI	Scorecard Risk	SEI	FSS	Overall Performance	Paydex
5	Medium	5	3 (7%)	62	99
- Company Overview:**
 - Primary Name: GORMAN MANUFACTURING COMPANY, INC.
 - Alternate Names:
 - Structure: HQ
 - Global Parent: GORMAN MANUFACTURING COMPANY, INC.
 - SEI: 5
 - Last Update: 02-23-2009
- Supplier Information:**
 - Supply Base Member: No
 - Tier 2 Suppliers:

Supplier DUNS	Supplier Name	SSI
8-285-3865	Metro Bedrock	2
5-982-1663	FCL Processors	9
5-982-1663	FCL Processors	9
- Financial and Legal GN Indicators:**
 - Operations: 2 (Warning)
 - Other: 2 (Warning)
- Government GN Indicators:**

Indicator	Family	Site
EPA Inspection	More Info	Warning
EPA Violation	More Info	Warning
EPA Significant Violation	More Info	Warning
EPA Action	More Info	Warning
EPA S Action	More Info	Warning
OSHA		OFF

Monitor contractor risk during the post-award phase

Look how fast information changes in normal economic times...and then factor in that these are not normal times



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EVERY...

4 hours

a business' ownership changes

14 seconds

a judgment is filed against a business

8 minutes

a business files bankruptcy



60 seconds

A business' risk profile changes

3 minutes

A business ceases operations

2 minutes

a directorship (CEO, CFO, etc.) change occurs

2 minutes

a new business opens

Monitor contractor risk during the post-award phase



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- On average, 20% of an agency's database will undergo significant changes during a fiscal year
- After awarding contracts, agencies should continue monitoring the financial and organizational health of their prime contractors and subcontractors
- Post-award due diligence should include
 - real-time alerts
 - periodic checks on the financial and operational stability of contractors whose contracts exceed specified dollar thresholds

In times of economic downturn, we also see increased instances of Higher Risk behaviors



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Higher Risk: The company displays characteristics of fraud, has misrepresented data to D&B, has been indicted or has pled guilty to criminal fraud

- Growing trends in the high risk areas:
 - Business identity thefts
 - Corporate charter takeovers
 - Shell corporations
- Hot spots for Higher Risk activity are Florida, Nevada, California, Georgia and Texas
- Common lines of business are business consulting and real estate services
- Start date misrepresentations are becoming a large concern

Prior to filing bankruptcy, many companies start to display signs of financial distress



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Business Deterioration: A company which displays signs of financial distress, including signs of current or imminent business failure or operating difficulty

- Numerous and significant liens and/or judgments
- Natural disasters (floods, hurricanes, fires, etc)
- Lending difficulties or defaults
- Public announcement of imminent business closure
- Overall payment records declines significantly
- “Going Concern” clause as noted in the company’s audited financial statement
- License revocations

Supplier alerts allows companies to take action before suppliers declare bankruptcy



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Company Name	Bankruptcy Filed	Date of D&B Alert	Days in Advance
Peanut Corp. of America	2/13/2009	1/30/2009	14
Spectrum Brands, Inc.	2/3/2009	1/1/2009	33
Thinkpath, Inc.	3/8/2008	1/2/2008	66
Primus Telecommunications Group, Inc.	3/16/2009	1/3/2009	72
Lexington Precision Corp.	4/1/2008	1/1/2008	91
Process Development Corp.	11/18/2008	8/1/2008	109
Brown Corporation of Waverly, Inc.	5/19/2008	1/2/2008	138
Heckethorn Manufacturing Co., Inc.	5/19/2008	1/1/2008	139
General Growth Properties	4/16/2009	11/22/2008	145
Milacron Inc.	3/10/2009	10/6/2008	155
Sterling Mining Comp.	3/3/2009	9/2/2008	182
Engineered Sinterings And Plastics, Inc.	7/1/2008	1/1/2008	182

Automated post-award monitoring can be the early warning detection system you need in today's volatile environment



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- All reports agencies purchase can be automatically registered
- Agencies can register individual companies
- Agencies can select 13 elements to monitor on registered accounts
- Agencies can select the frequency and method of delivery
- Severe risk alerts prompt notifications about higher risk, bankruptcy or business deterioration

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Adopt a portfolio view that assesses and manages the collective risk of contractors

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Adopt a portfolio view that assesses and manages the collective risk of contractors across the entire organization



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- An agency must examine the combined risk of its entire portfolio of contractors and subcontractors across the agency
- An agency might have the resources to address moderate to severe risks among, say, 3-5 percent of its contractors; but a higher percentage of contractors at these risk levels would be unmanageable.
- Adopting a portfolio view also means evaluating the risks associated with a contractor's corporate parent or related corporate entities.

An agency should monitor the level and type of risk that contractors and sub contractors pose to the agency



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		CCS Score 501-670 CCS Percentile 71-100 CCS Class 1, 2	CCS Score 101-500 CCS Percentile 1-70 CCS Class 3, 4, 5
		Low Risk of Delinquency	High Risk of Delinquency
FSS Score 1255-1875 FSS Percentile 34-100 FSS Class 3, 2, 1	Low Risk of Failure	<p>“STARS”</p> <p>Healthy companies that not only are prompt payers, but also less likely to fail.</p>	<p>“SHORT TERM RISK”</p> <p>Companies that are less likely to experience failure, but are not prompt in paying obligations.</p>
	FSS Score 1001-1254 FSS Percentile 1-33 FSS Class 5, 4	High Risk of Failure	<p>“LONG TERM RISK”</p> <p>Rare situation. Companies that are regular in payment but with a high risk of failure.</p>

Use automated reporting tools to strengthen management, transparency and oversight

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A few simple steps can alleviate some of the reporting burden...it is important to:



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- Define what performance metrics you need to capture
- Identify what information is needed and what systems are required to capture the information
- Ensure your information is accurate, complete and actionable
- Identify the right reporting tool that meets your needs

Most reporting tools includes at a glance dashboards that can quickly show your progress to date



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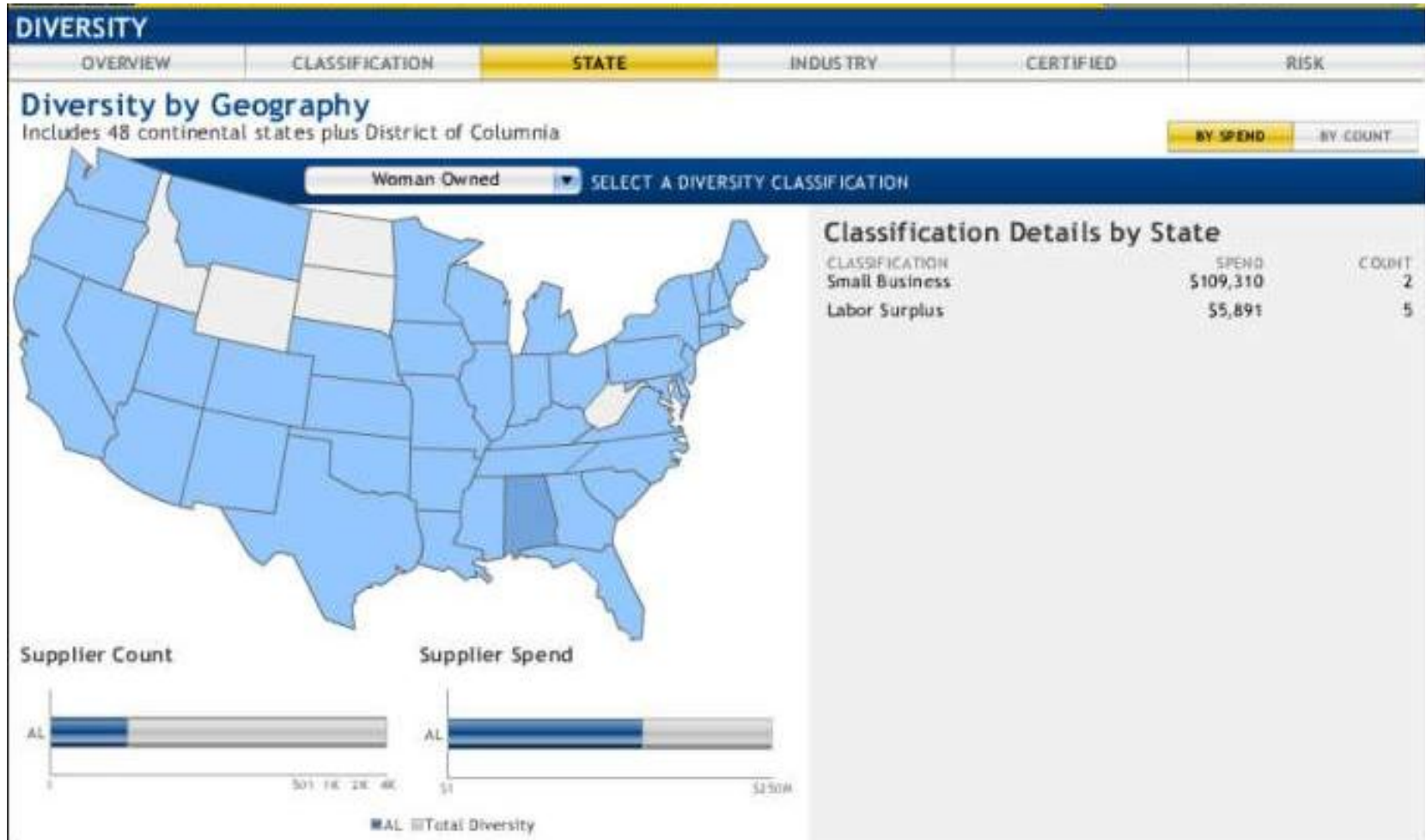


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Some tools allow you to report diversity by geography



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Additionally some applications allow comparative risk analysis



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Summary



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- The demand for increased *transparency* and *accountability* can place a great strain on agency staff and resources
- Rapid expansion of government spending and programs magnifies oversight challenges, particularly those related to mitigating contractor risks
- Ultimately, government efforts to improve transparency and oversight will lead to greater operational efficiencies and lower costs by reducing *waste, fraud and abuse*

Questions?



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- government@dnb.com
- 1-800-424-2495

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