



GAUGE
2022 REPORT

Reimagining How We Work



6TH EDITION



Annual Industry Roadmap of Benchmarks and Trends
2022 Results Guiding Government Contractors into 2023



TABLE OF CONTENTS

4 Executive Summary

5 Report Highlights

8 Using the GAUGE

12 About the Survey

GAUGE FINDINGS

44 Industry Insights

47 Benchmarking Tool

48 Afterword

15 GOVERNMENT
CONTRACT
COMPLIANCE

21 ACCOUNTING

27 UTILIZATION

33 GROWTH

39 EFFICIENCIES

Take note of our “Workplace Horizon” callouts at the end of each section where we provide guidance for how the changing workforce might be affected in critical areas.

Watch for drill downs by revenue size and FTE employee count in certain charts.

2023
WORKPLACE
HORIZON 


GAUGE
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G Government
Contract
Compliance

A Accounting

U Utilization

G Growth

E Efficiencies

Pressures Impacting the GovCon Industry

- Buy American & CFIUS
- Biz Consolidations, Combos, & SPACs
- 5G/EVs
- Military & Political Threats
- Infrastructure Spending
- Virtual/Hybrid Working
- Great Resignation/Talent War
- Inflation/Recession Concerns
- Space Market/Race
- Supply Chain Survival
- Crypto Currency

● New in 2022



EXECUTIVE SUMMARY



The annual GAUGE Report strives to be *the* thought-provoking roadmap for the business community focusing on government contracting. However, we believe the report is relatable to all industries. Each year GAUGE users share stories of how the report inspired them to adopt a best practice or sparked a valuable conversation within their organization. This sixth edition GAUGE Report focuses on a new thought-provoking cross-industry theme: the **workforce**, which has been greatly impacted by changes to the **workplace**. As the upheaval of the pandemic settles, leaders are faced with unprecedented decisions surrounding how to shape their **workforce**. When are employees required to be in the office? How can employers best attract and retain talent? What incentives are enticing, smart, and allowable? These questions are always on the minds of business leaders, but never has there been so much uncharted territory, so much decision-making latitude, and so much riding on the decisions made around **workplace** structure. We encourage you to use this year's GAUGE to better understand how companies like yours are choosing to navigate the future of the **workplace**.

Federal and state government funding, including the \$550B infrastructure bill and the most recent *Inflation Reduction Act* of more than \$330B of spending, provide plenty of opportunities for businesses to pursue. Companies are scrambling to answer questions like: “What contracts are likely to be recession-proof?” and “How can I best staff

and satisfy the work I win?” and “How can I take advantage of the financial and cultural benefits of the redefinition of today’s **workplace**?” It may take three to five years before the best practices for questions like this are established. In the meantime, there is much to gain (or lose) based on a company’s approach to this liminal time.

We applaud the government contracting industry community for weathering the storm relatively well in one of the most uncertain times of the past few decades. With supply chain battles in full force, a looming recession, rising interest rates, and the war for talent raging, we must seek out and understand new ways to get things done. This is the inspiration for the sixth edition of the GAUGE Report, **Reimagining How We Work**.

Rich Wilkinson
Sr. Industry Director, GovCon
Unanet



Christine Williamson
Partner
CohnReznick



REPORT HIGHLIGHTS

How has the pandemic affected how you hire and retain employees?

	Average	By Annual Revenue			
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+
We have made significant changes and they're working	21%	17%	10%	17%	24%
We have tried many things but they're not working well	18%	11%	5%	17%	29%
Little has changed and we're losing a lot of people	18%	17%	30%	17%	13%
The rate of employee turnover hasn't changed much	43%	55%	55%	49%	34%

The 2022 GAUGE Report arrives with years of a global pandemic sliding into the rearview mirror, and the looming threat of increasingly uncertain economic and socio-political dynamics in the years ahead. As always in government contracting, contractors seek solid ground — **this year 68% of respondents reported optimism about the current environment for government contracting.** Thankfully, the federal budget continues a robust flow, which means the industries it feeds will compete from a position of abundance. However, resource recruiting and retention leaped to the top of the list of what keeps contractors up at night.

What are, or likely will be, your company's post-pandemic work location policy?

	Average	By Annual Revenue			
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+
Fully remote or hybrid work from home-state telework locations taken into consideration for tax purposes	36%	36%	34%	35%	39%
Fully remote or hybrid work from home-state telework locations not a consideration for tax purposes	33%	28%	42%	29%	33%
Require full-time work location in HQ or satellite office	15%	17%	12%	16%	15%
Not sure, management still making a determination	16%	19%	12%	20%	13%

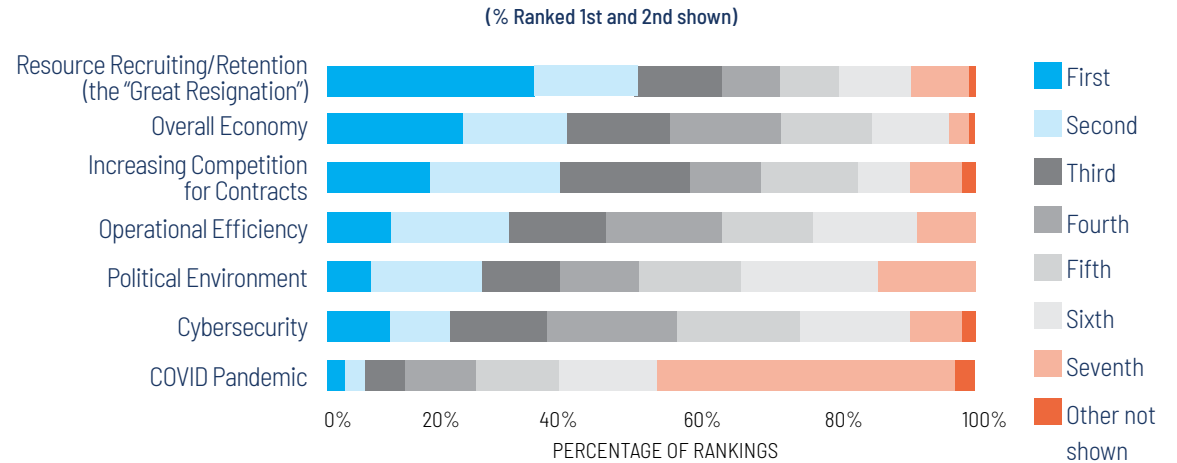


Many industries and the macro-economy appear to be facing a bumpy season ahead, which will likely lead to competition in federal contracting — including industries impacted by infrastructure spending. Not surprisingly, 82% of respondents raised obtaining and winning new contracts as a top concern, followed by budget and funding constraints (53%) due to delays in the procurement process during the pandemic.

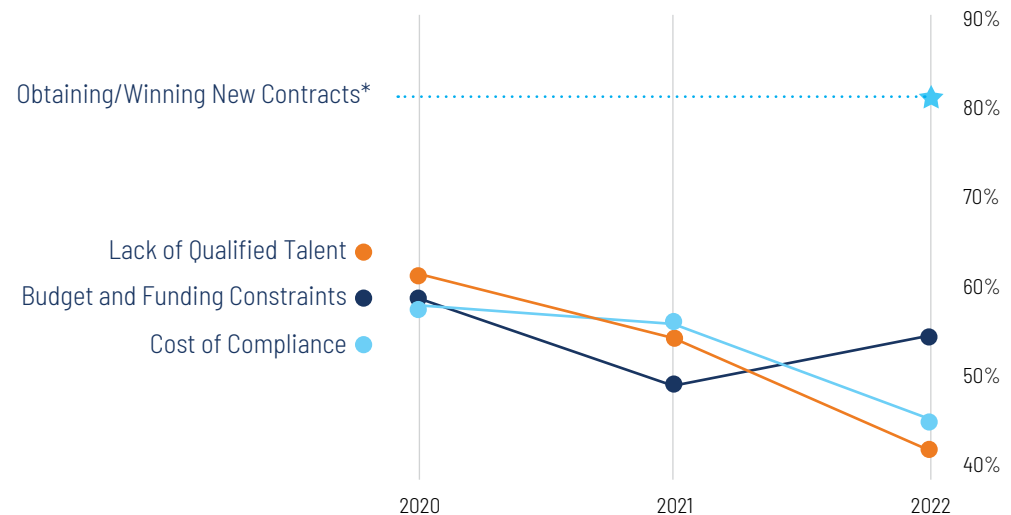
Twenty-one percent of companies indicated they have made significant changes in hiring and retention, with 18% saying changes have come with mixed results. Larger companies seem to be leading the way in making hiring and retention changes that are working. This has spurred much conversation about how companies can innovate in these areas to compete in the **workplace** and retain their **workforce**.

We are facing a once-in-a-lifetime opportunity to reimagine the government contracting industry **workplace** and **workforce**. Everything from who, how, when, and where is on the table for reimagination like never before. One of the early hot topics is work location policy. At the time of the survey, just 15% are reporting mandatory office attendance and nearly 70% use either fully remote or hybrid models. Companies are realizing people and work location are just two of the many variables in restructuring their **workplace** and culture for the foreseeable future. Companies are also awakening to the tax burden of tracking where employees are located; an unintended consequence of working from home in various states.

Rank what issues “keep you up at night” regarding your organization



What issues are of the most concern to your organization today? (Select all that apply)



* new to this year's GAUGE

How would you characterize the current business environment for government contracting?

	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Very Optimistic	16%	15%	17%	21%	17%	17%	15%
Cautiously Optimistic	52%	40%	52%	60%	69%	41%	66%
Neutral	21%	28%	23%	14%	10%	25%	15%
Somewhat Pessimistic	8%	10%	8%	5%	4%	12%	4%
Very Pessimistic	3%	7%	0%	0%	0%	5%	0%

Cautious optimism is dominated by companies \$50M+ in revenue size at 69%, and by companies in the 100+ category of employee size at 66%. In fact, companies with fewer than 100 employees are showing concern, with 42% responding from neutral to very pessimistic about the current government contracting business environment. Although pessimism increases as company size decreases, overall industry results remain very consistent year-over-year in the GAUGE Report.

The GAUGE Report annually includes:

- Comparisons of perceptions, opinions, and challenges
- Business outlook, performance, and operational metrics
- Project management approach, performance, opportunities, and challenges
- Compliance/audit experiences, cost, and key metrics
- An annual theme

USING THE GAUGE

Reimagining How We Work

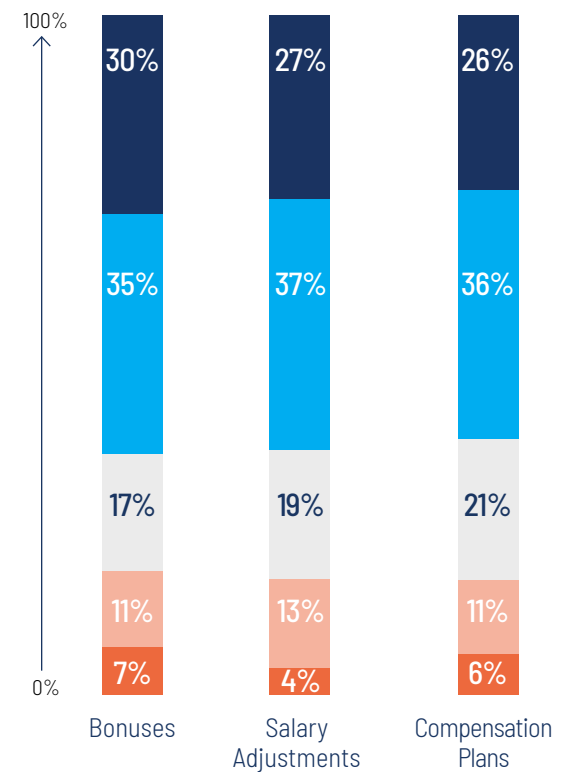
There are few things more important to business success than attracting, incentivizing, and retaining good people. Current marketplace and economic dynamics make it harder than ever to know how to do these well. This year's GAUGE Report is dedicated to shedding light on the **workplace** through helpful benchmark and comparison data including:

- Top 5 Workforce Trends
- Workforce talent needs, skills composition, costs, strategy and policies, and challenges
- Compensation plans, salaries, benefit structures, and other benefits
- Effects of the pandemic on employee hiring and retention

The 2022 GAUGE Report sets out to reimagine how we work. This moment in history presents both a challenge and an opportunity with respect to everything from talent to compensation to the physical **workplace**.

Indicate how much you agree with the statement: "My company has a clear and well-documented process for bonuses, salary adjustments, and compensation plans (job descriptions, salary ranges, bonuses, commissions, benefits, etc.)."

- Completely Agree
- Mostly Agree
- Don't Agree or Disagree
- Mostly Disagree
- Completely Disagree



This year's theme is devoted to helping companies evaluate the key components of how they work, discern driving factors, and gain insight into what similar companies are doing. In each section, we offer *Key Takeaways* to help interpret chart data and take a look at what's on the horizon, called "**2023 Workplace Horizon**", featuring suggestions on what to watch for in 2023. This year's theme, and the data that supports it, helps bring clarity and focus to businesses in this transformative time.

2023
**WORKPLACE
 HORIZON** 

Watch for the "2023 Workplace Horizon" at the end of each section.

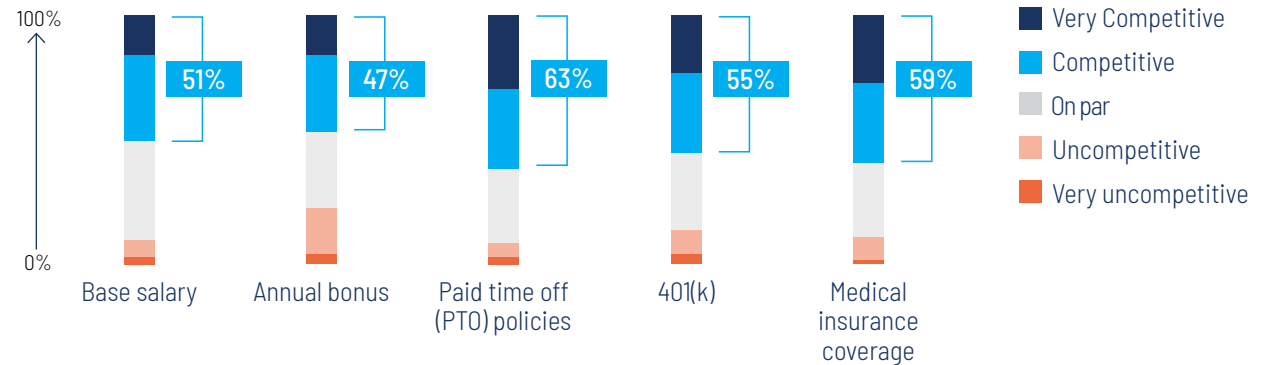
One glance at the word cloud demonstrates the ambition of our charter. The words — all titles and headings used throughout this report — signal the foundational shift that is currently in progress in every corner of every industry, including government contracting. What does your business' 2023 horizon look like?



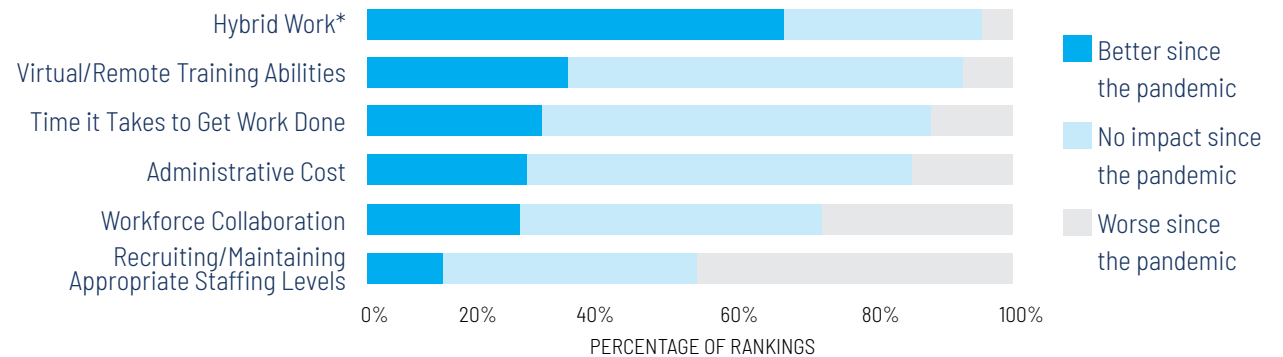
Today's Top 5 Workforce Trends

- Inclusive Benefit Strategies**
 Embracing diversity, equity, inclusion, and belonging (DEIB) in employee benefits to support recruitment and retention efforts
- Alternative Care**
 Expanding access on a variety of services, and improving healthcare engagement and outcomes
- Increased Use of Technology**
 Improving employee access, engagement, communications, and HR support
- Bridging Gaps**
 Stabilizing healthcare prices as they continue to rise, and considering new strategies to contain and better manage costs
- Labor Shortage**
 Facing significant shortages and turnover affecting employers in all industries and geographies

Compared to other companies like yours, please rate how competitive the following types of compensation are at your company.



Have these workforce areas gotten better, no impact, or worse since the pandemic?



* in-office and remote - See next page on how remote work is changing the employment landscape.

Remote Work is Changing the Employment Landscape

Provided by USI Insurance Services — see *Industry Insights* for expanded information.

In a 2022 Gallup report, 60% of employees who work remotely at least part of the time prefer a hybrid at-home/in-office arrangement, while 34% want to work from home exclusively. Only 6% want to return to the office full time. Like it or not, remote work is something that almost every employer will have to consider.

Which positions are capable of remote work?

The belief that all jobs must be performed on-site is no longer accurate. Some positions can function 100% remotely, some can use a hybrid model, and some can't be performed remotely at all. However, some managers still cling to old assumptions, so it is important for employers to take an unbiased look at which positions can and can't be performed remotely.

What are the legal issues related to remote work?

Employees working remotely are generally subject to the same legal requirements as any other employee. They are covered by workers' compensation insurance, they may be entitled to medical or religious accommodations, and if they are nonexempt (hourly), employers are responsible for carefully tracking and paying for every minute they perform work. Nearly the only change is that OSHA requirements generally do not extend to at-home work spaces.

How should remote work relationships be administered?

Remote workers and their managers must have the same understanding of what success looks like and how it will be managed. That starts with establishing clear and objective ways to measure performance and work output, including when employees should be available and how often they may have to report to a physical work site. Employers should adopt policies and procedures that cover the administrative aspects of remote work relationships, such as:

- What equipment will be provided and how will equipment be recovered if an employee leaves?
- Will employees be reimbursed for remote work expenses such as phone or internet service?
- Is it clear that remote work is a benefit, not a right, and that authorization can be revoked?
- What will be the evaluation criteria to determine whether an employee is a good fit for working remotely?

Which of the following paid time off (PTO) policies do you offer?

(Select all that apply)



Unlimited PTO

12%

VTO (Volunteer Time Off)

8%

PTO Based on Billable Hours Worked Per Year

6%

Set Amount of PTO

6%

Other

1%

None

3%

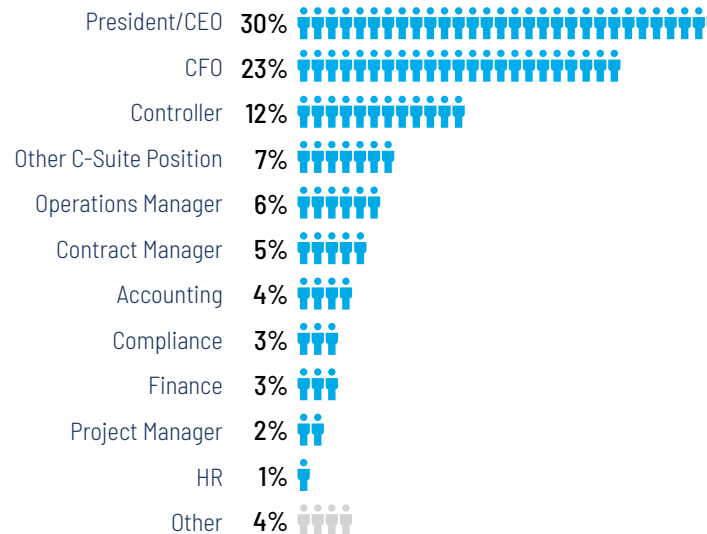
ABOUT THE SURVEY

Background & Objectives

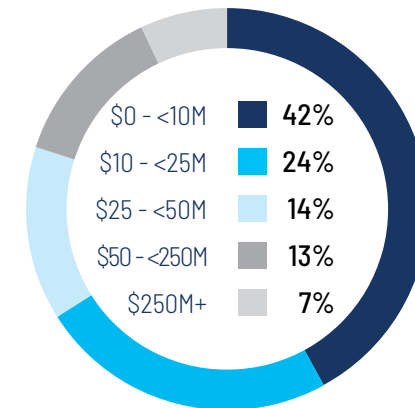
Since 2017, Unanet and CohnReznick have collaborated to conduct an annual survey focused on government contracting and the industries that serve that community. We use the results of this survey to develop the GAUGE Report — a benchmarking tool with insights into industry practices and metrics. The report includes input from companies of all sizes, with the goal of providing timely data to the government contracting community to address important challenges, identify key performance indicators, and allow for benchmarking against competitors.

The 2022 GAUGE Report reflects more than 1,170 survey responses captured from January to July of 2022. Each year the volume and diversity of responses confirms that this is a tool many companies find valuable for guidance and thought leadership. It is with this mission and backdrop that we offer this year's GAUGE Report, with 60% of respondents from the C-Suite and 20% of the companies had greater than \$50M in revenue. For the first time in our six-year history, we are also offering workforce analyses which provide FTE (full-time equivalent) employee count data.

Respondents by Job Title



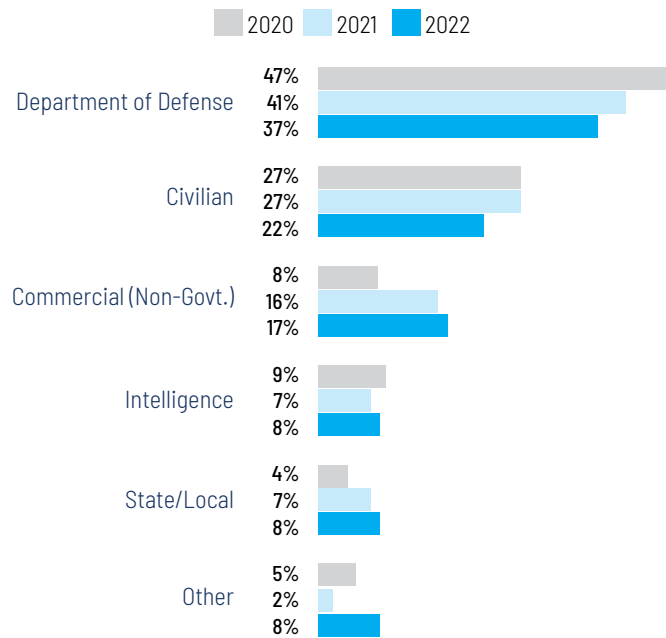
Respondents by Annual Revenue*



* Breakouts will max out at \$50M+ in the charts

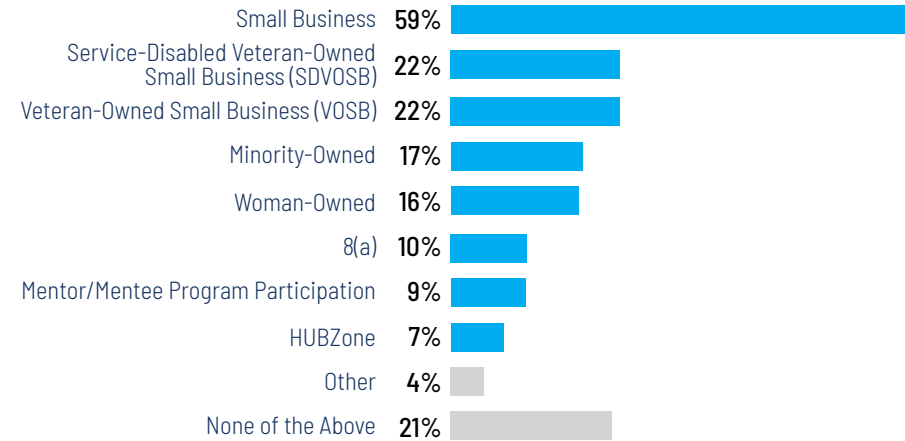


Respondents % of Revenue Sources

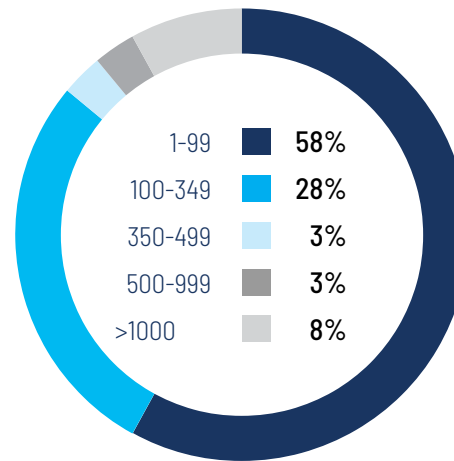


Respondents by Set-Aside Designations

(Select all that apply)

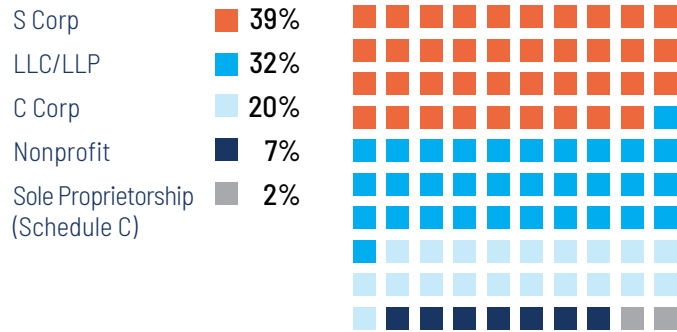


Respondents by Full-Time Employees*

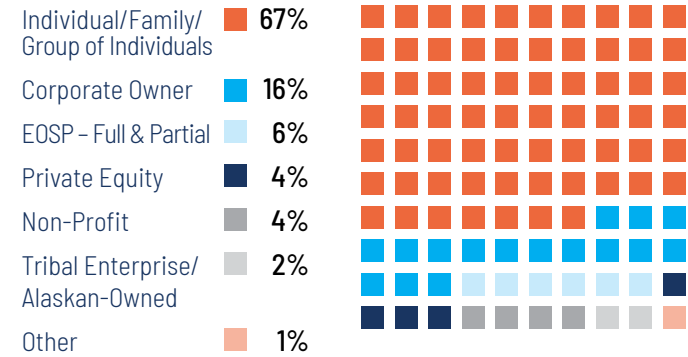


* For the first time this year we are providing breakdowns by employee size to assist with benchmarking. Breakouts will be shown 1-99 and 100+.

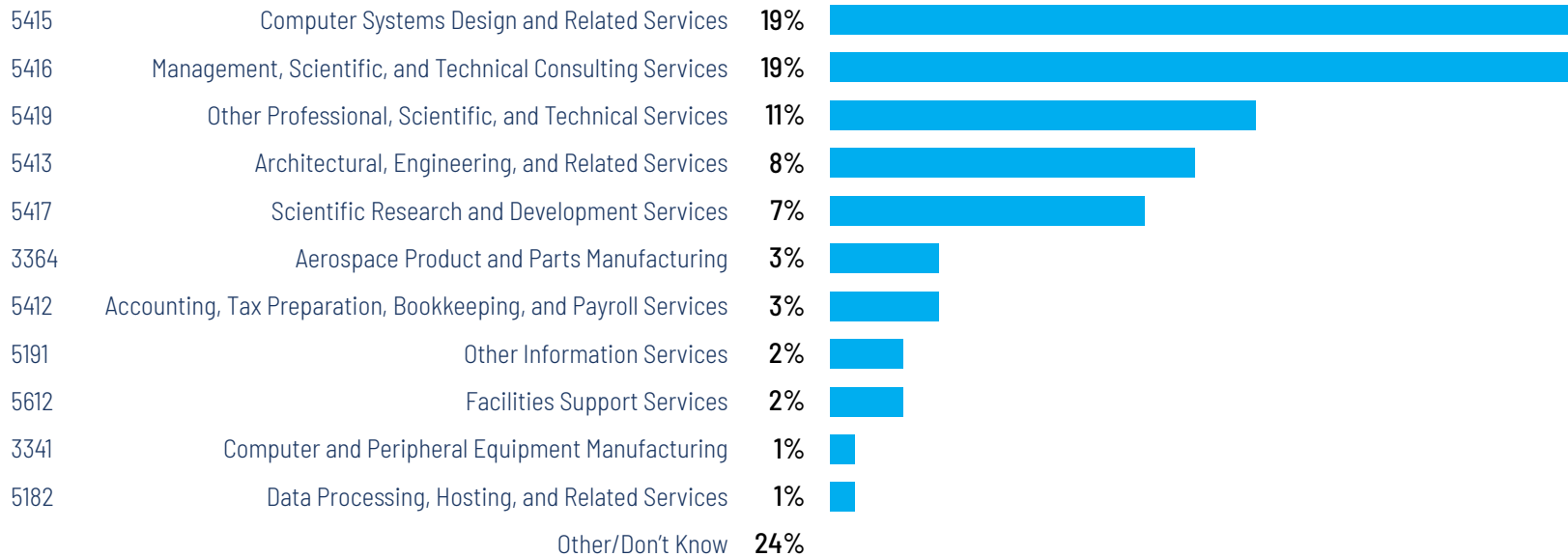
Respondents by Entity Structure



Respondents by Company Ownership



Respondents by Primary NAICS Code



GOVERNMENT CONTRACT COMPLIANCE

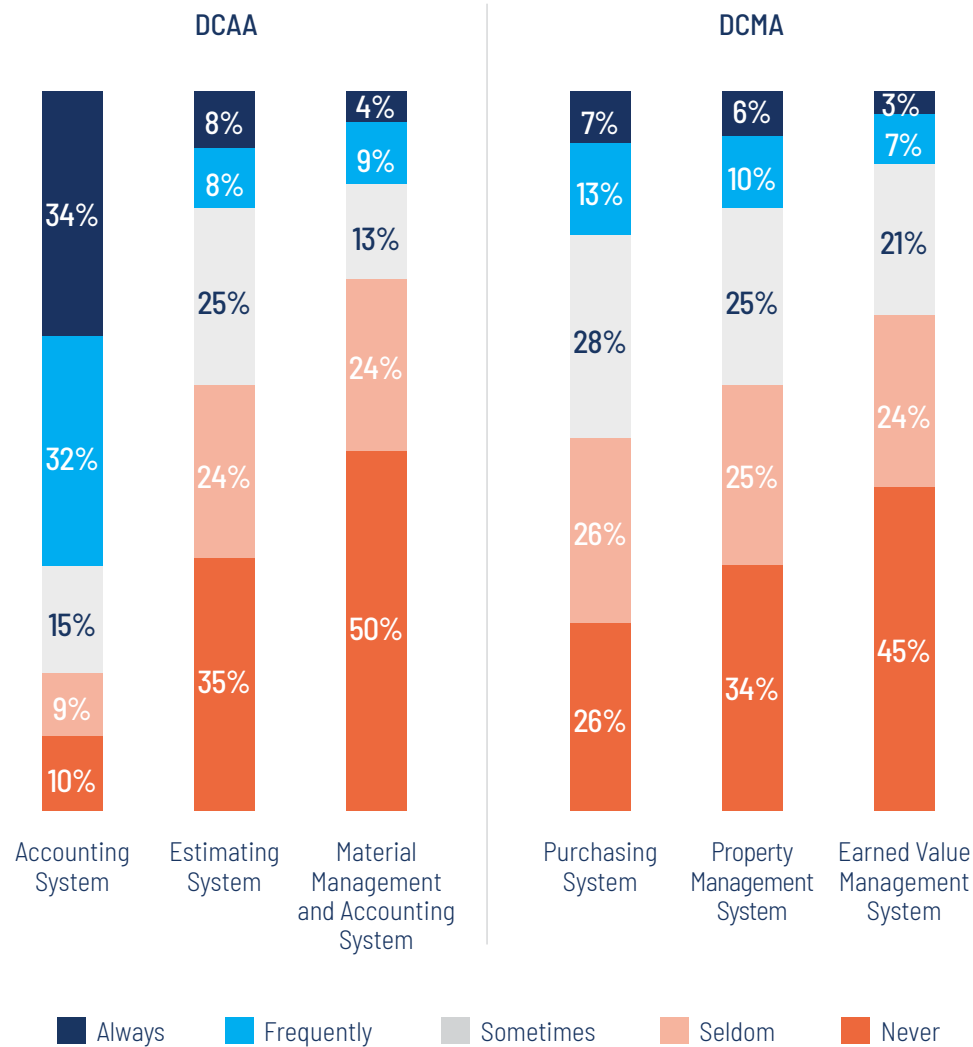
This section highlights the critical components of a compliant government contractor. We cover government audit types, the effects of incurred costs on cost structure, and trends that delay or challenge contractors in areas such as timekeeping, executive compensation, unallowables, and Cost Accounting Standards (CAS) compliance.

Key Takeaways

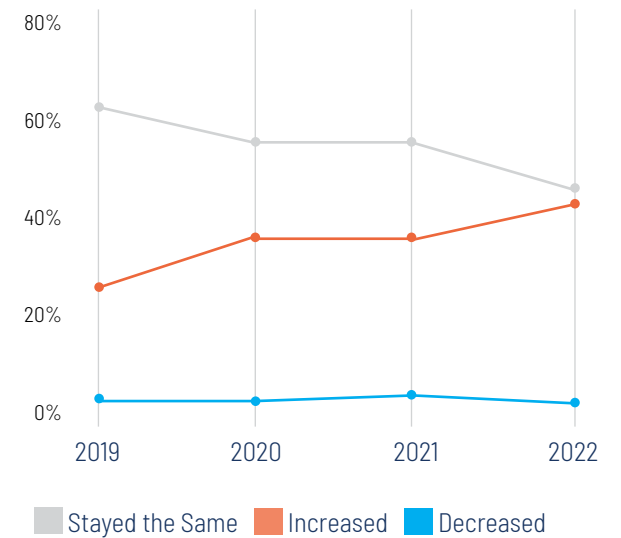
- Adequate accounting systems were frequently or always required in solicitations 66% of the time last year.
- Annual training is consequential to meeting requirements for Business Systems as well as Diversity, Equity, Inclusion, and Belonging (DEIB); 37% of respondents reported offering each and 20% are providing Environmental Social and Governance (ESG) programs.
- Unallowable training is offered by 26% of companies — surprisingly low in light of the emphasis on adequate accounting systems.
- Respondents' perception of government oversight increased by nearly 10% from the previous year's response, which is positive as it reflects that Incurred Cost Submissions (ICS) audits are up-to-date, task orders are being closed out, and an increase in approvals of CAS impact changes and forward pricing rate agreements.
- 52% of respondents reported no audits last year because of one or more of the following dynamics:
 1. Consistent level of fixed priced contracts
 2. Domination of pharma contracts for vaccine research/production
 3. Increase in use of "low risk" memos by DCAA
 4. 9% spike in firms of less than \$10M in revenue in this year's survey
- Labor floor checks increased this year, partly due to remote work. The weight of these fell heavily upon the larger companies, emphasizing DCAA's focus on certain types of audits.
- Adequate Business Systems debuted this year in the second spot of audit challenges, while unallowable expenses dropped to second-to-last, consistent with 83% of respondents reporting less than \$10,000 in questioned costs.



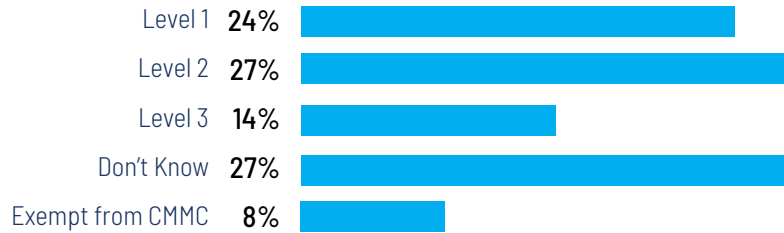
Which of the following approved Business Systems have you experienced as being required on (new) solicitations in the past year?



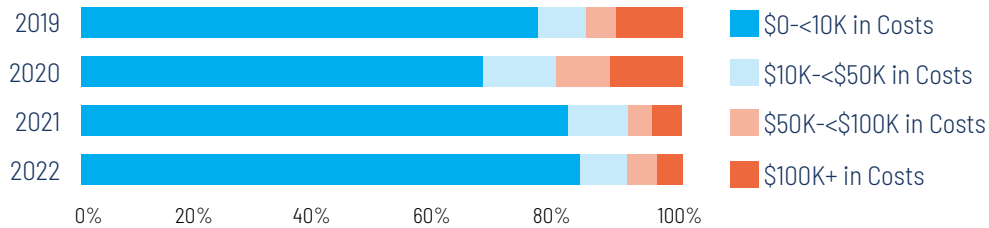
How would you describe the change in government oversight for your company over the past year?



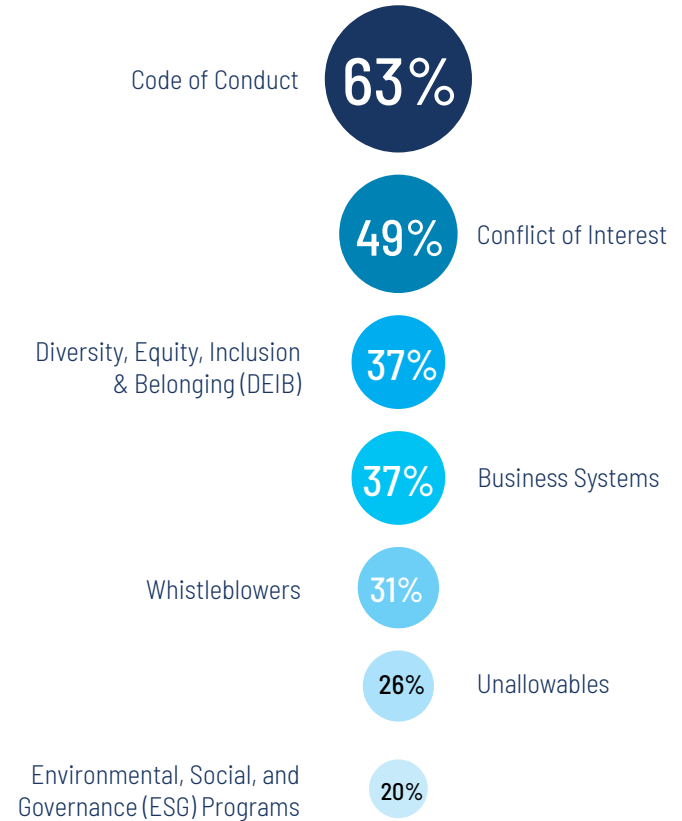
What CMMC level would you assign to your company?



What was the amount of questioned costs from your company's last Incurred Cost Submission?



For which of the following does your company provide annual training? (Select all that apply)



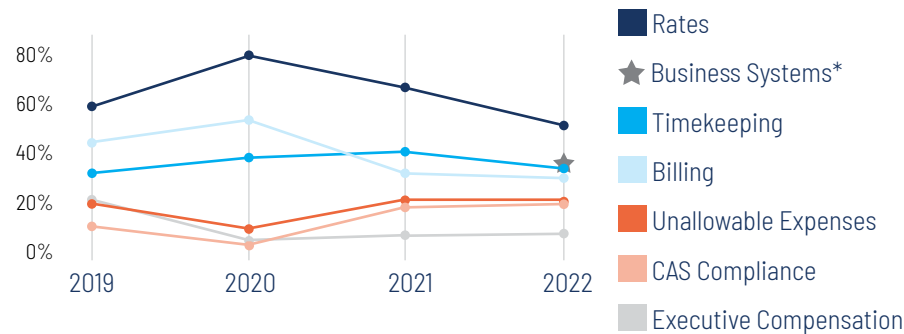
Which of the following DCAA audits did your company experience last year?
(Select all that apply)

Audit Type	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Incurred Cost Submission (ICS)	26%	10%	25%	50%	49%	12%	47%
Accounting System (Pre- or Post-Award)/1408	24%	10%	27%	38%	40%	15%	37%
Provisional Billing Rate Audit	17%	10%	12%	28%	34%	9%	29%
Proposal Audit	13%	9%	12%	6%	29%	9%	18%
Labor Floor Check	11%	2%	7%	9%	40%	4%	21%
Purchasing System (CPSR)	7%	2%	2%	13%	23%	2%	14%
Property System	6%	0%	5%	13%	20%	1%	15%
Material Management Accounting System (MMAS)	5%	1%	3%	3%	17%	2%	9%
CAS Compliance or Disclosure Review	4%	3%	2%	3%	11%	2%	7%
Estimating System	4%	1%	3%	3%	14%	2%	7%
Earned Value Management System (EVMS)	3%	1%	3%	3%	6%	2%	3%
None of the Above	52%	72%	49%	34%	29%	67%	33%

Rank the following audit challenges from the most to the least significant last year.
(% Ranked 1st and 2nd shown)

Audit Challenges	By Ranking	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Rates	51%	50%	63%	54%	31%	55%	44%
Business Systems*	35%	36%	32%	41%	31%	35%	34%
Timekeeping	33%	32%	33%	30%	41%	31%	37%
Billing	29%	32%	22%	24%	36%	30%	27%
Unallowable Expenses	20%	17%	20%	22%	28%	18%	24%
CAS Compliance	19%	16%	20%	22%	21%	17%	22%
Executive Compensation	13%	17%	10%	8%	13%	13%	13%

Audit challenges for your company from the most to the least significant year-over-year.



* new in this year's GAUGE

2023 WORKPLACE HORIZON

Government Contract Compliance

CMMC 2.0

The CMMC journey was streamlined in 2022. The previous five stages are now three, and there is an increased alignment with NIST standards. The value of climbing the CMMC ranks remains intact. With a workforce more distributed than ever and digital threats abounding, hiring and spending in IT will only increase in importance. Your company should plan ahead to determine what level of CMMC it needs to be, what C3PAO your company will engage for the audit, and what hiring needs are projected for your IT department as a whole.

Labor Floor Checks

As a post-pandemic “new normal” starts to take shape, companies will have to navigate a shifting audit landscape. In the remote work world, electronic timesheets represent the pulse of projects and businesses. Companies should contemplate what labor floor checks will look like in this new arrangement.

Virtual Training

In anticipation of a flood of new people in the GovCon industry in the future, companies should consider bolstering training in critical workforce areas such as virtual management and leadership. Ironically, much of that training, along with other training GovCons need to do, will likely need to be delivered in a virtual classroom format.

Performance Evaluations

With the span of generations in the workplace, from millennials to baby boomers, providing the right types and methods of feedback can be challenging. Building key performance indicators (KPIs) into evaluations is one way to achieve more meaningful discussions with your workforce. Involve your people in using the GAUGE and other sources to help build mutually important KPIs. Example KPIs could be:

- For Business Development – use percent win rates for initial and re-compete success
- For Human Resources – monitor hiring and turnover by gender and ethnicity
- For Accounting – measure and monitor the invoice cycle and DSO

ACCOUNTING

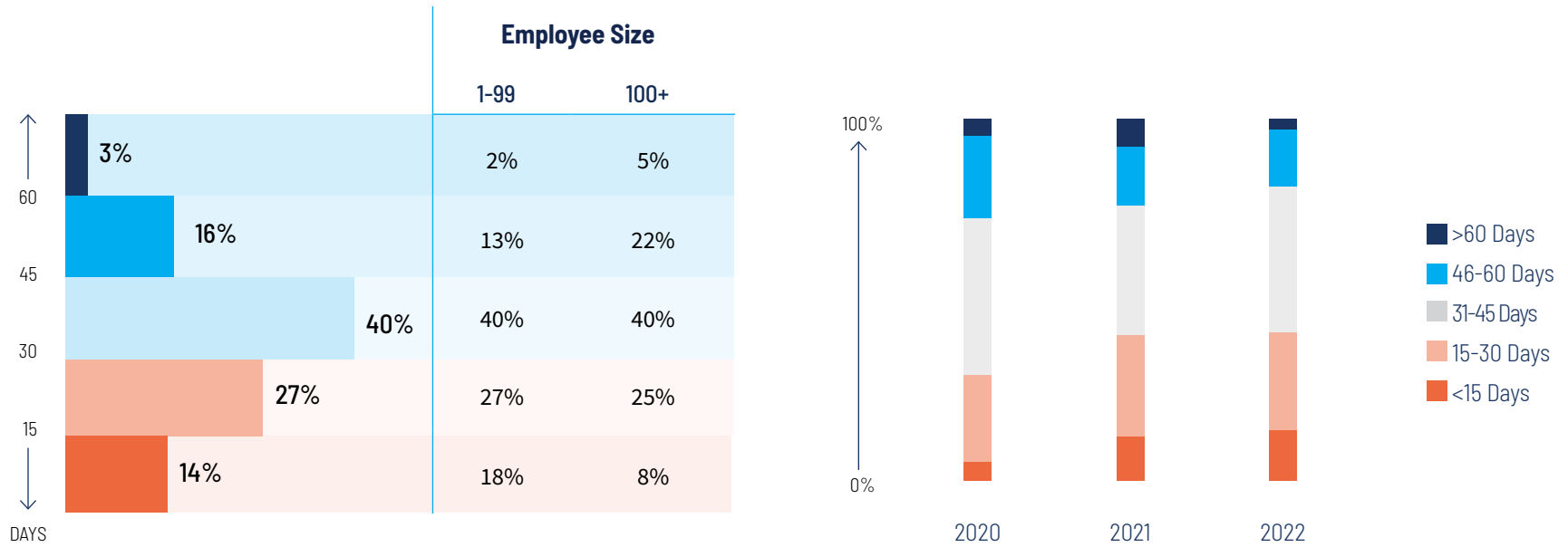
Government contractors account for types of costs in a detailed and specific manner. This section reveals patterns in company size and processes as well as their impacts on gross margin, invoice cycles, and days sales outstanding (DSO). Learn how your peers allocate cost by location, function, customer or product/service, and what the largest indirect cost is (other than labor) affecting profitability.

Key Takeaways

- The dramatically improving trend of DSO and invoice cycles continues. 1 in 7 companies manage to be paid in less than 15 days, and 4 in 10 reported a DSO of 30 days or less.
- Indirect cost rankings remained consistent but IT infrastructure/cybersecurity cost moved up to battle bonuses as the fourth highest indirect cost. Watch closely into 2023 for what companies do with their facilities cost as leases come up for renewal and the potential for DCAA to view idle facilities cost as unallowable starts to become real.
- 56% of firms reported DCAA auditors did not question the level of compensation, but as inflation pressures start to increase labor rates and cost in proposals in 2022 and beyond, we predict more questions around where employees are located and whether their compensation is commensurate to their location and job title.
- The M&A market is hot and private equity firms are making their mark in government contracting. GAUGE respondents have a healthy appetite for M&A with 35% reporting plans for some type of buying or selling in the coming year.
- Financial challenges continue to be led by organic growth, but uncertain federal spending is weighing heavily on the minds of contractors.
- Surprisingly, a new survey financial challenge option — Benefit Parity — debuted at the bottom of the list of challenges even amidst heightened anxiety around recruiting and retention.
- Location remains the leading basis for differentiating between overhead rates/pools in respondents' rate structures. As companies settle on virtual working arrangements, we will look for fewer trends of the traditional "offsite/onsite" pool schemes and more combined overhead pools and rates, and an increase in pools calculated by number of days in the office vs. the location of the person.



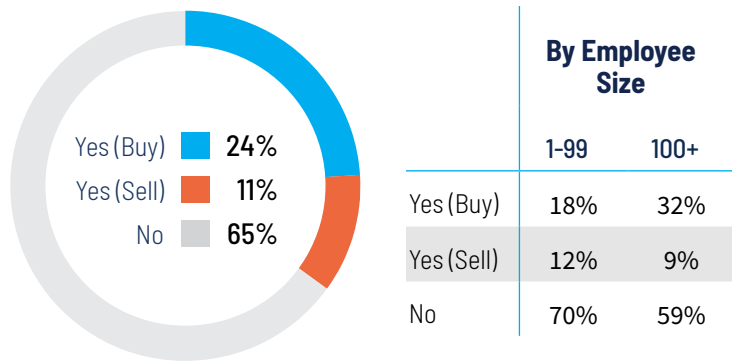
What is your approximate Days Sales Outstanding (DSO)?



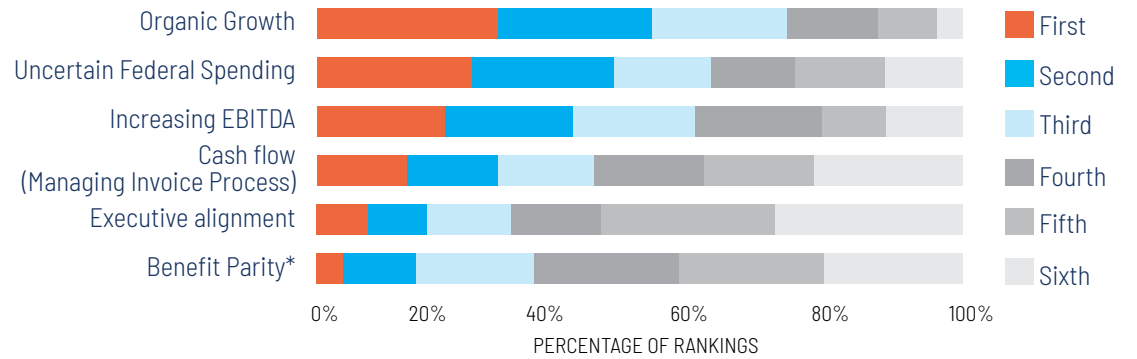
Which of the following do you use as a basis for your overhead (OH) rates?

Basis	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Location	30%	22%	36%	29%	41%	24%	40%
Function	12%	16%	11%	10%	6%	15%	7%
Product/Service	10%	13%	7%	6%	12%	10%	10%
Customer	9%	9%	9%	16%	3%	10%	7%
Other	9%	8%	7%	13%	9%	9%	9%
Single OH Pool/Don't Know	30%	32%	30%	26%	29%	32%	27%

Is M&A a priority for your company in 2022?

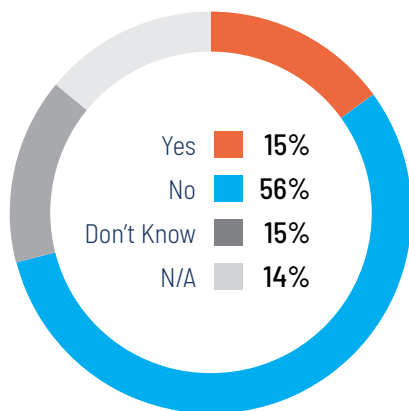


Rank the following financial challenges from most to least significant.

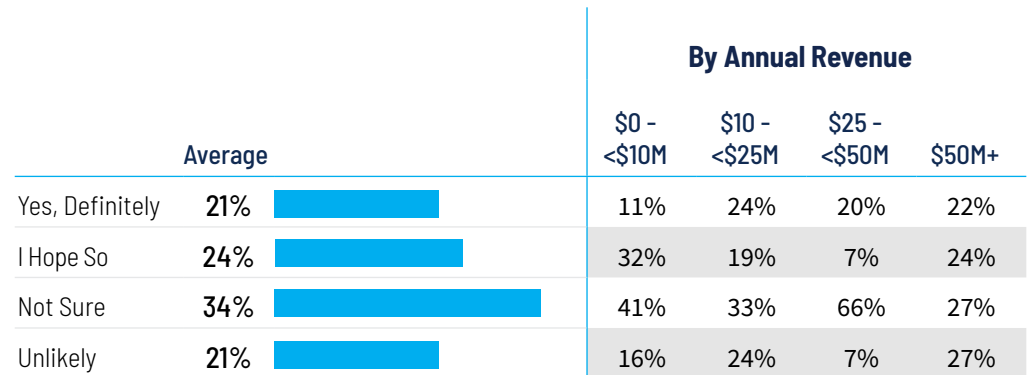


* new in this year's GAUGE

In the past 12 months, has DCAA or other agency auditors questioned the level of compensation in any proposals or incurred cost submissions?



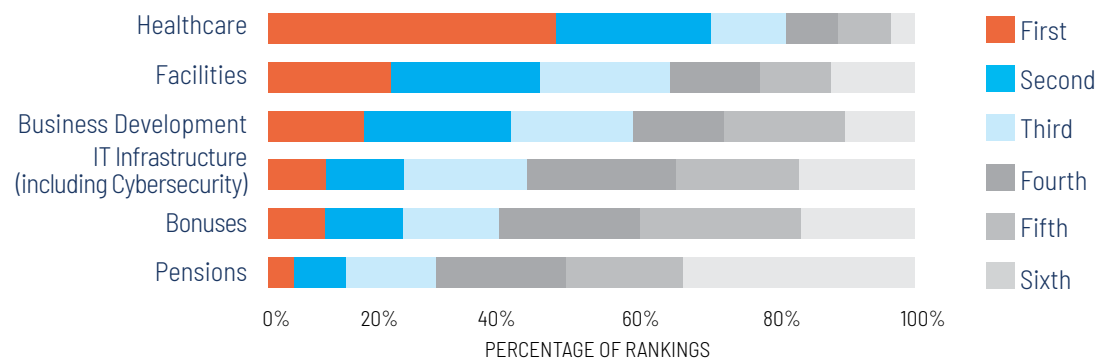
Is your company planning to make a change to compensation policies in the next twelve months?



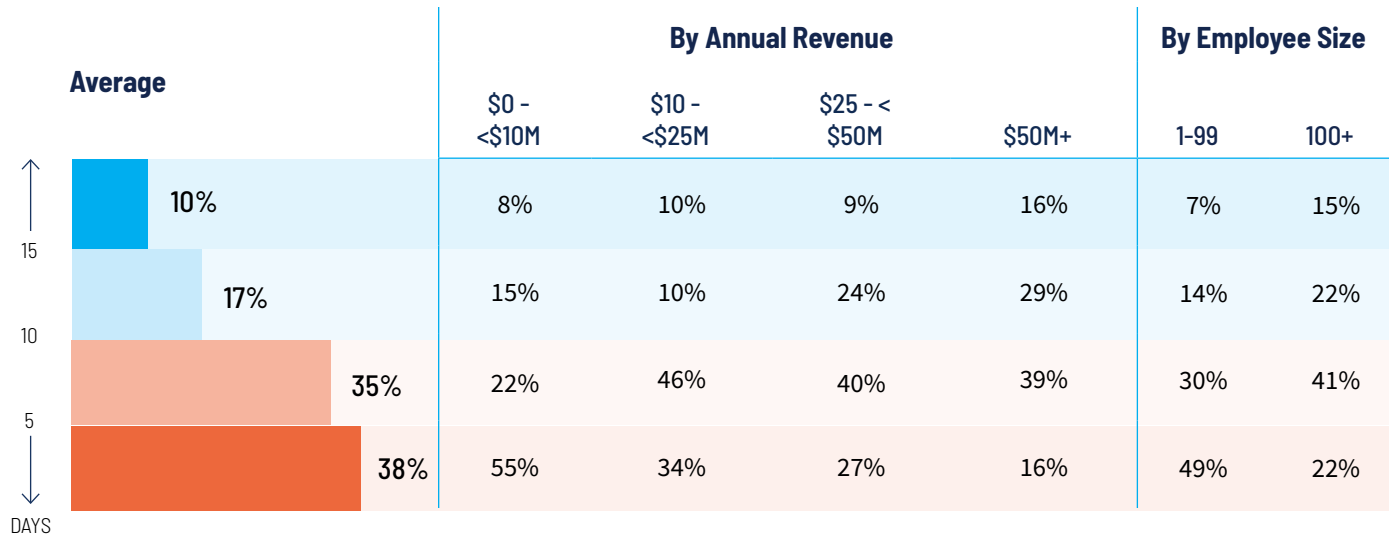
Rank the following indirect costs other than labor from highest to lowest expense.

(% Ranked 1st and 2nd shown)

	Ranking by Year		By Annual Revenue				By Employee Size		NAICS Code				
	2021	2022	\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Archt. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/ Sci/Tech Svcs. (5419)
	Healthcare	76%	69%	58%	80%	68%	73%	61%	79%	74%	72%	73%	83%
Facilities	37%	41%	38%	39%	50%	47%	39%	45%	30%	28%	41%	50%	80%
Business Development	32%	38%	51%	30%	39%	20%	47%	24%	30%	48%	32%	22%	15%
Bonuses	24%	20%	16%	24%	25%	20%	20%	21%	22%	17%	29%	11%	25%
IT Infrastructure (including Cybersecurity)	19%	20%	30%	11%	11%	23%	25%	15%	26%	22%	15%	17%	10%
Pensions	12%	12%	7%	17%	7%	17%	8%	16%	17%	13%	10%	17%	0%

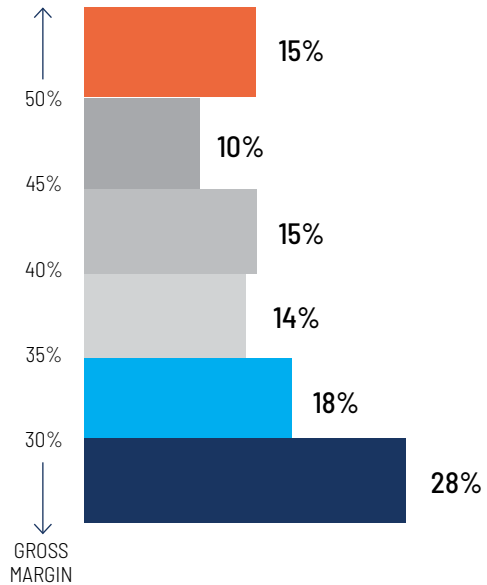


What is your company's average Invoice cycle in days?



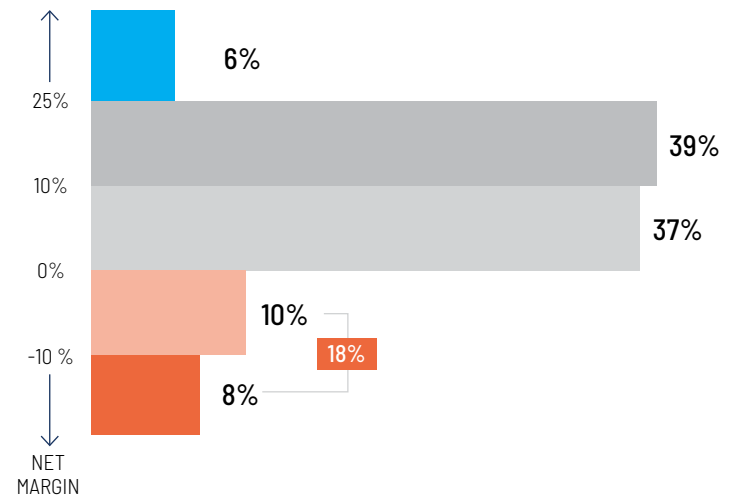
What is your Gross Margin as a percent of revenue?

(Direct Contract Cost/Revenue)



What was your Net Profit Margin in the previous year?

(Revenue - Direct & Indirect Cost/Revenue)



Salary Reset

Accurate, but aggressive, labor estimating on a government contract has always been a fundamental key to success. This will be more true than ever over the next few years as long-held escalation assumptions are put to the test. When employees move their homes in this increasingly remote workplace, do firms have to adjust salaries and convey that to contracting officers? And what is a reasonable escalation in current bids compared to salary expectations?

Indirect Rate Consolidation and Re-engineering

A vexing question companies face is: “If there is no ‘company site’ location, how do I restructure my overhead rates?” As facilities costs are adjusted to accommodate a remote workforce, accounting teams will scramble for a solution to accurately reflect the cost of performance. Many are considering going back to a single overhead pool regardless of work location.

Post-Merger Culture

M&A transactions continue to be fervent, and of new interest is post-merger integration. Savvy firms will work hard to retain key employees. Contracts and assets are important, but the precious resource in this market is people, and change management is increasingly a necessary post-integration cost.

Facility Cost

A future question for some contractors might be the allowability of idle facilities. It will take some time for companies to accurately match office space to the still-emerging remote workplace, and during this time finance, accounting, and audit teams will be busy investigating how best to represent and mitigate those costs.

Hiring & Retention

Some companies are treating hiring and retention as additional efforts and cost, trying to keep up during this Great Resignation and Great Exit. Forward-thinking companies are acting differently, shifting budget from hiring cost towards bonuses and retention cost.

UTILIZATION

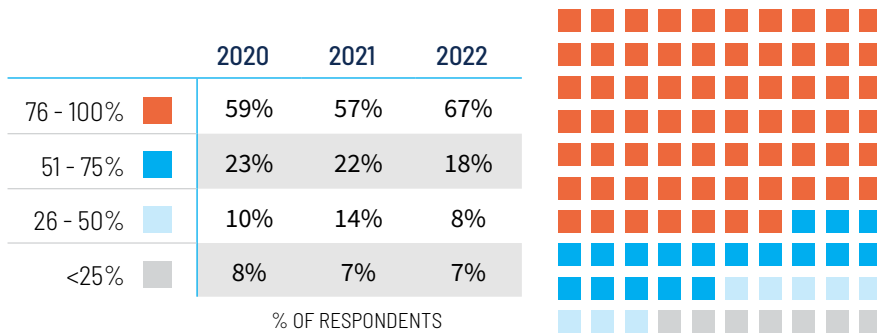
Government contractors share the same challenge: how best to manage people, subcontractors, and consultants to create a winning culture and deliver optimal value. Each year, *Utilization* is the most popular GAUGE section, likely due to this shared operational struggle. Here we focus on utilization of people and the efficiency of the contractor's project management practice. Specific to this year's report theme, we also dive into compensation, benefits, diversity & inclusion, and other workplace policy drivers.

Key Takeaways

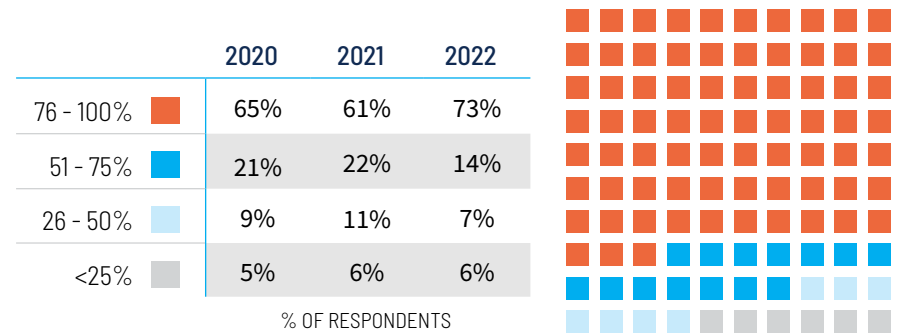
- Elite project performance spiked, with the majority of companies reporting 85% of their projects on/under budget and 87% on time.
- More companies reported a high level of maturity in their project management than at any time in the six years of the GAUGE survey and 7 out of 10 respondents rated their maturity level as either very or somewhat mature.
- Recruiting topped the list of HR challenges again this year with almost 70% identifying it as either their first or second choice. We broke out retention separate from recruiting for the first time this year, and it debuted in the #2 spot. These challenges, including keeping up with compensation, are the front lines of HR's battle against the Great Resignation.
- Resource management by companies of fewer than 100 employees leaped (from #3 in 2021) to the top of the list of project management challenges, amplifying the fact that government contractors are focused on recruiting and retaining a stable and effective workforce in the new normal.
- The report headliner is that headcount increases will take a significant drop in companies' expectation of growth in the coming year. The number of respondents reporting an expectation of significant growth dropped from 40% just four years ago to just over 20% this year. The good news is that more than 70% of all respondents expected to at least grow slightly or remain the same in 2023.
- The HR challenge question revealed a disconnect this year, with just 15% of respondents tagging management skills as their first or second challenge. And yet, an axiom in the HR world is that "people don't leave companies, they leave managers." The roots of the Great Resignation may run deeper than just the pandemic.
- Companies with fewer than 100 employees report no project management offices (PMO) at nearly twice the rate (42%) as their larger counterparts (23%).



What percent of your company's projects are reported as on or under budget?

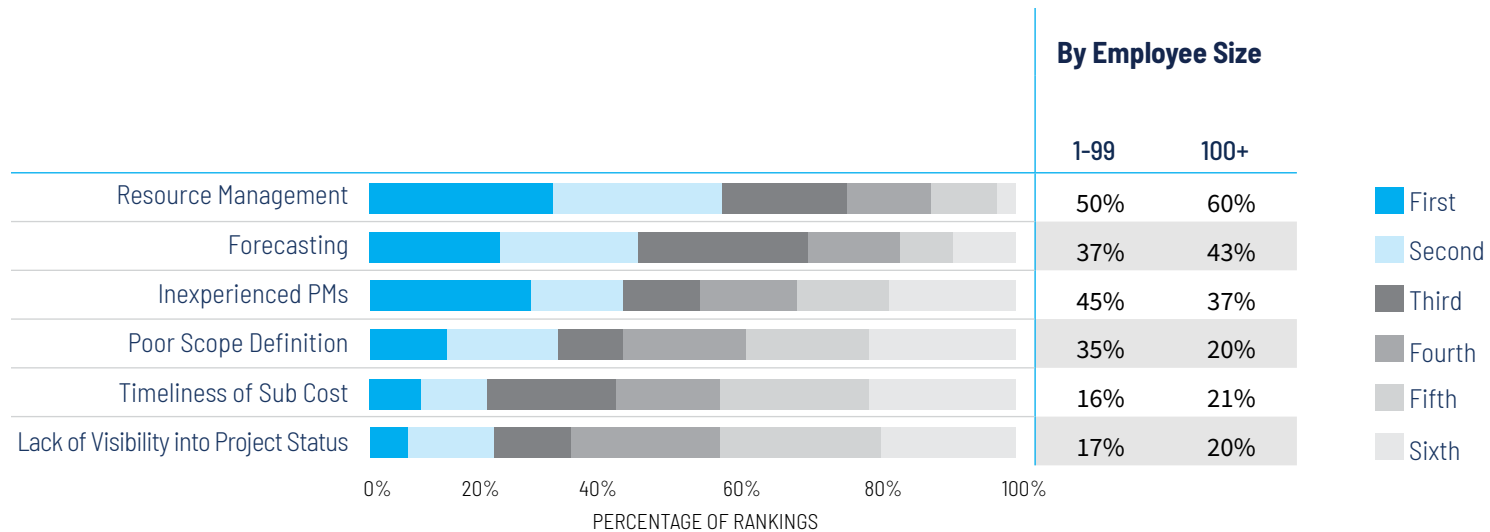


What percent of your company's projects are reported as on time or sooner?



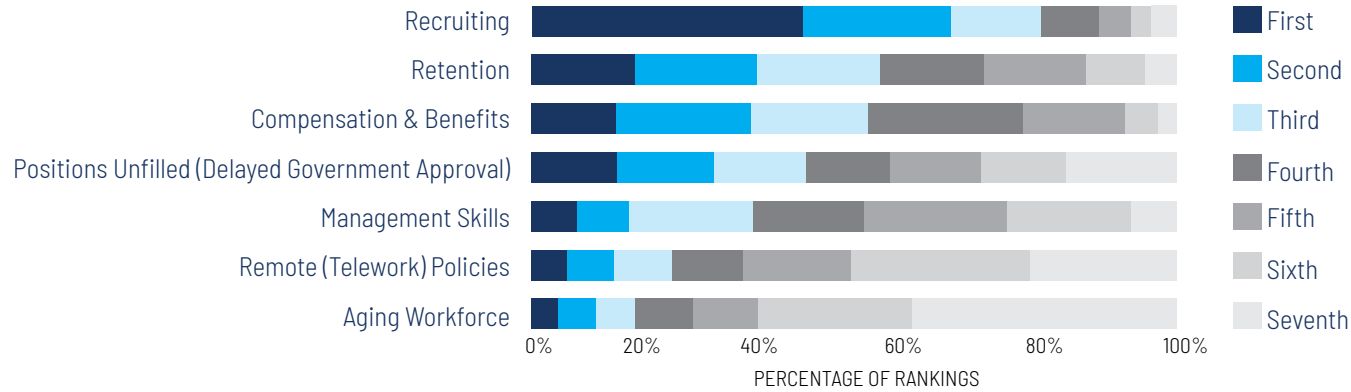
Rank the following project management challenges from most to least significant.

(% Ranked 1st and 2nd shown)

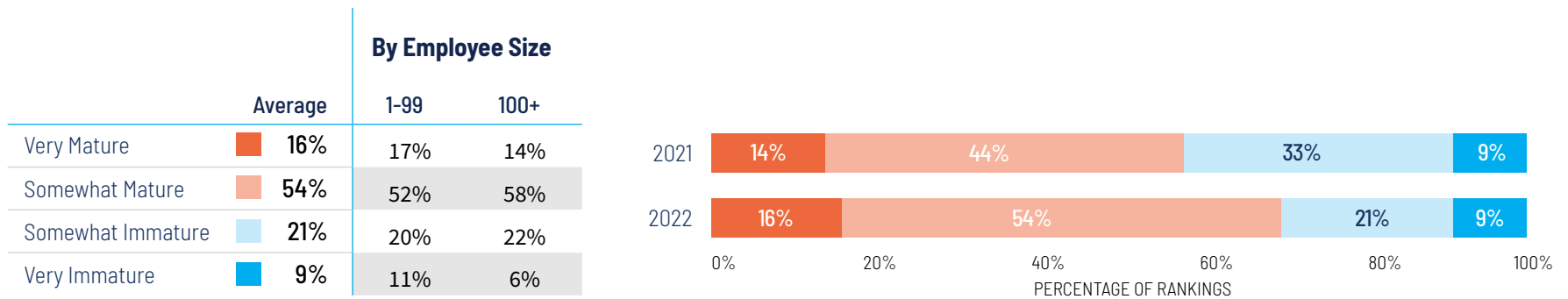


Rank the following human resources (HR) challenges from most to least significant.

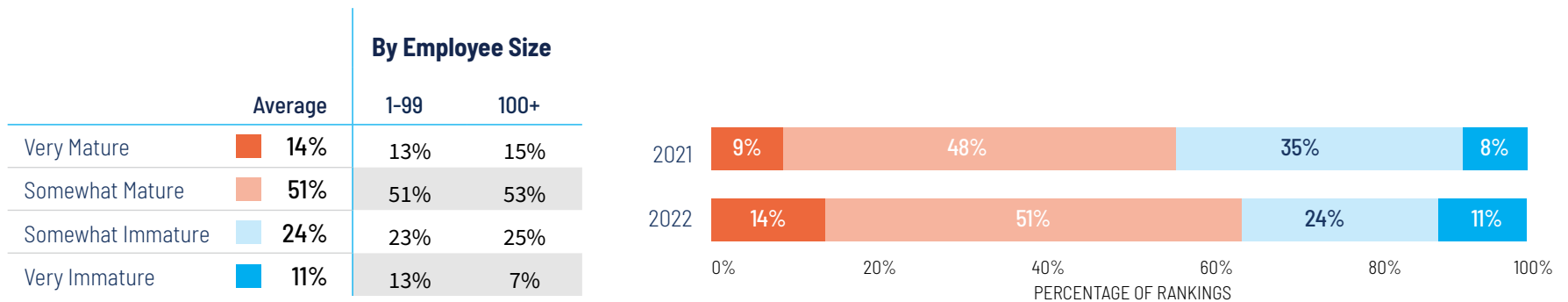
(% Ranked 1st and 2nd shown)



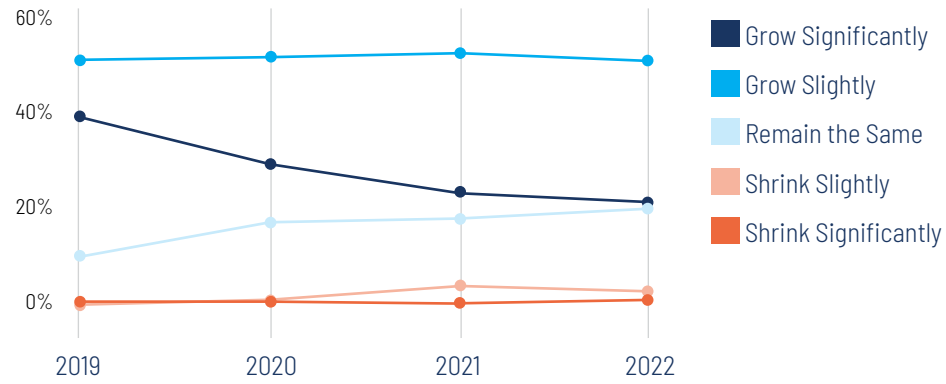
How would you rate your company's project management maturity?



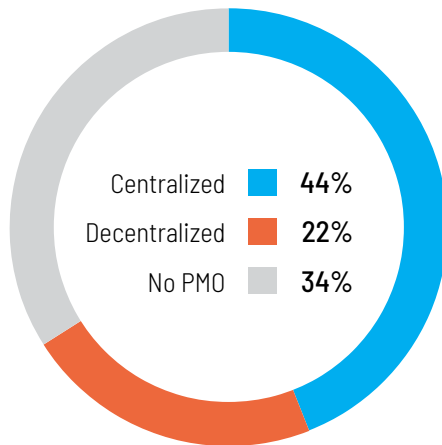
How would you rate your company's resource management maturity?



What change in your company's workforce size do you expect in the upcoming year?

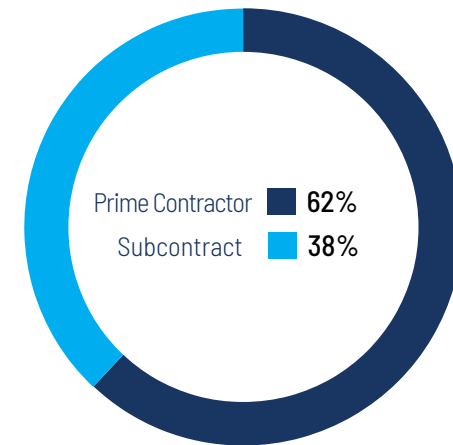


Select the option that best describes your Project Management Office (PMO) model.



	By Employee Size	
	1-99	100+
Centralized	42%	48%
Decentralized	16%	29%
No PMO	42%	23%

What percent of your contracts were awarded to you as Prime Contractor versus Subcontract?



For each of the following functions, list the full-time equivalent (FTE) headcount at your company.

FTE	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Business Development	3.3	1.2	2.6	3.2	9.0	1.5	5.9
Accounting	3.4	1.2	2.4	3.4	9.9	1.5	6.3
IT	2.8	1.0	1.6	3.0	8.5	1.0	5.5
Human Resource	2.5	0.7	1.9	2.2	7.7	0.9	4.9
Contracts	2.5	1.1	1.8	2.3	6.5	1.3	4.1
Project Controls	2.3	1.0	1.8	2.7	5.7	1.3	3.8
Recruiting	1.9	0.8	1.5	1.8	5.6	0.8	3.7
Compliance	1.4	0.6	0.8	1.1	4.3	0.6	2.6
Legal	0.8	0.3	0.3	0.6	3.1	0.3	1.7
Internal Audit	0.8	0.3	0.3	0.9	2.6	0.3	1.6

2023 WORKPLACE HORIZON

Utilization

New Era of Recruiting

The constant drumbeat of this year's GAUGE is that reimagining the workforce must start with reimagining people. One HR executive we spoke to called it a "revolution, where all the old rules and guidelines no longer apply, and we need to figure out a new way to fight the war for talent." Looking to the horizon, recruiters are creating innovative ways of hiring such as building the offer letter with the candidate, and using new tools to grab candidates' attention before another recruiter does.

Rewards & Perks

The data is screaming: Getting and keeping people is one of today's top challenges. Savvy companies are shifting budget and resources into retention, compensation, and benefits to stem the talent exodus. Winners are likely to be those that get creative with perks and workplace culture. See our Industry Insights for small but impactful employee benefits, programs, and policies that you can analyze to use in your business.

Project Management Offices 2.0

The perfect storm of remote workers, electronic timesheets, and an uncertain DCAA response to the "new normal" would seem to make the case for an increased reliance on a centralized PMO, but the verdict on the PMO is out still. The right systems and processes in place will go a long way toward supporting reimagined resource and project management models. The companies that invest in those systems will likely see more efficient, more effective, and more profitable operations.

Management Training

This year's respondents reported significant increases in project management and resource management maturity while suggesting that they are less challenged with inexperienced managers and management skills. Recent studies by SHRM and McKinsey have shown clearly that the top reasons employees leave the workforce are toxic culture and uncaring leaders. Now is the time to refocus on those areas through training.

GROWTH

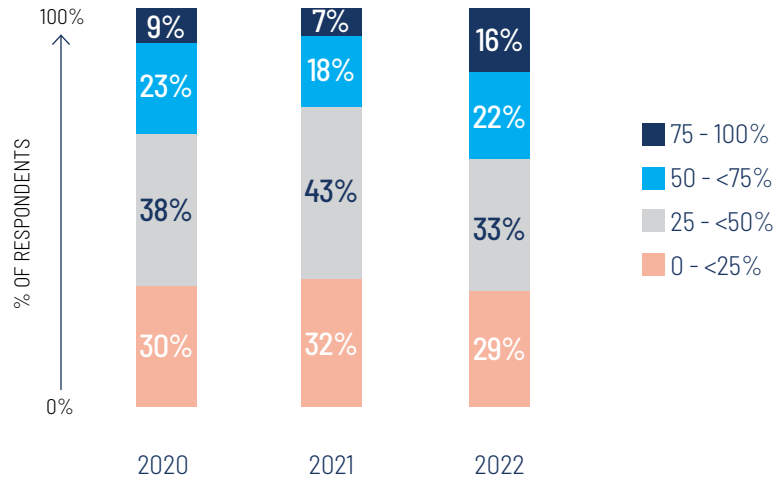
As the current economic climate ebbs and flows, companies will need a clear view of their growth rates and profit expectations to know how best to chart their course. This section helps companies navigate a smart approach to selecting opportunities to pursue and winning them, as well as overcoming the business development challenges that are getting the attention of their peers.

Key Takeaways

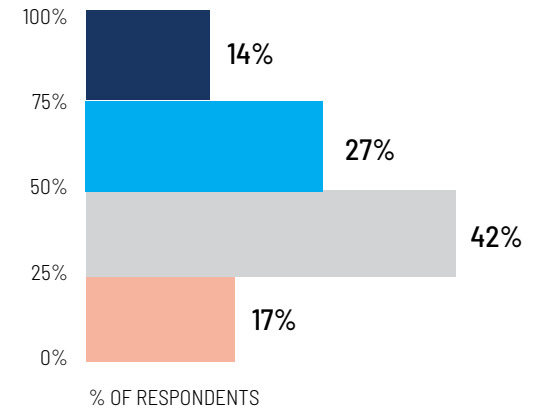
- Both projected and actual win rates more than doubled at the highest end (75-100%) over last year. A contributor is the significant increase in win rates reported by firms with fewer than 100 full-time employees. Business development professionals often attribute higher win rates to a less aggressive pursuit of opportunities, which can constrain growth.
- There was a 24% jump from last year in companies reporting a positive rate of revenue growth. Most of this jump seems to have shifted from the “no change” category, which moved from 47% last year to 12% this year.
- DEIB initiatives are just starting to push their way into GovCon solicitations, with 1 in 6 respondents reporting they see requirements to address DEIB in 25% or more of their proposals.
- Companies reported a high level of confidence in their budding DEIB programs, with over 50% reporting somewhat or very mature programs. Perhaps influencing this is a higher-than-typical level of executive response to this year’s GAUGE.
- More than 80% of respondents say personal relationships with partners and customers is still the number one approach to finding new opportunities, with market intel tools like FedBizOpps and GovTribe a close second at 67%. Virtual events and conferences fought to replace in-person events as the pandemic continued to affect business development activity, but came in at less than 20%.
- While 30% of respondents reported a decrease in square footage, more than 60% kept space the same, including 16% of those that will re-purpose that space. We will watch this trend closely as leases come up for renewal and work location policies settle.



Actual Win Rate Over Past 12 Months



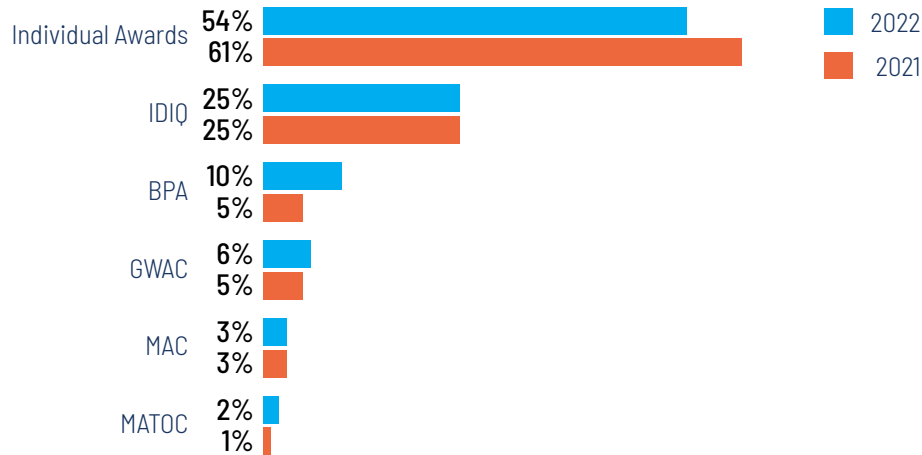
Projected Win Rate Over Next 12 Months



What is your actual and projected win rate?

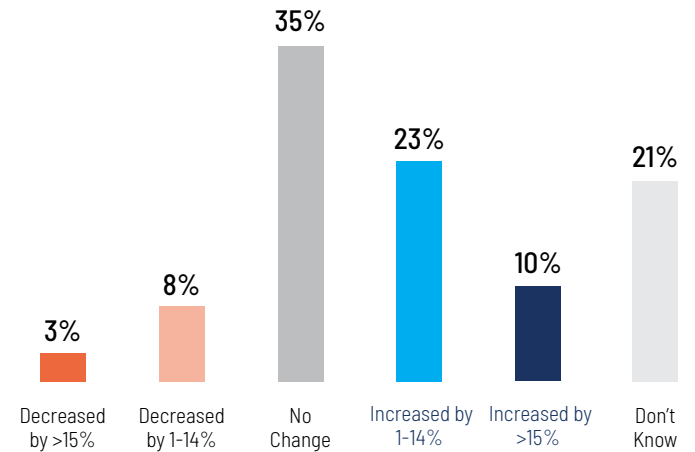
Actual Win Rate Over Past 12 Months	Avg.	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
75 - 100%	16%	21%	9%	14%	16%	20%	10%
50 - <75%	22%	16%	24%	32%	26%	20%	24%
25 - <50%	33%	24%	42%	32%	42%	24%	47%
<25%	29%	39%	25%	22%	16%	36%	19%
Projected Win Rate Over Past 12 Months							
75 - 100%	14%	19%	13%	8%	11%	18%	9%
50 - <75%	27%	20%	25%	36%	39%	23%	32%
25 - <50%	42%	34%	48%	48%	42%	36%	49%
<25%	17%	27%	14%	8%	8%	23%	10%

Which of the following contract/vehicle types comprised the greatest proportion of your company's government revenue?

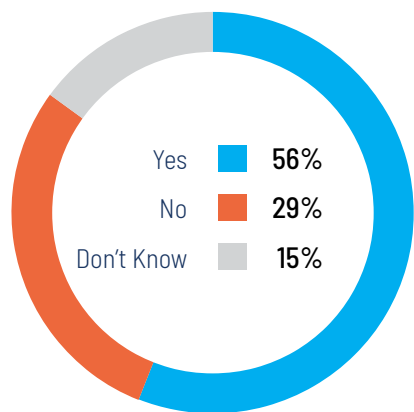


From last year to this year, indicate the change in your proposal win rate and revenue growth rate.

Proposal Win Rate Change

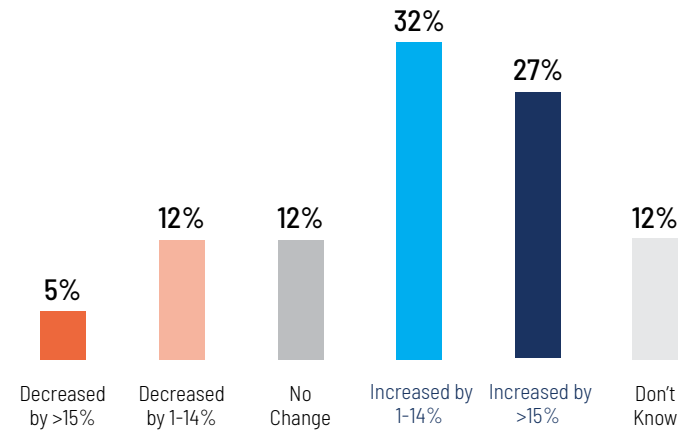


Do you have a formalized capture or gate process for federal proposals that is followed within your organization?

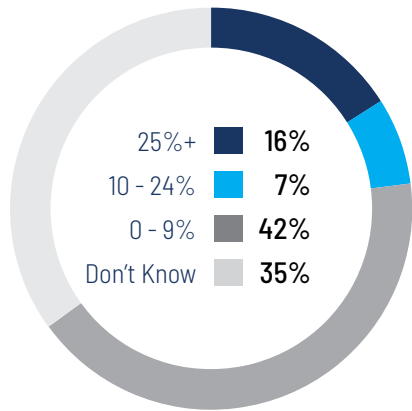


	By Employee Size	
	1-99	100+
Yes	46%	72%
No	37%	16%
Don't Know	17%	12%

Revenue Growth Rate Change

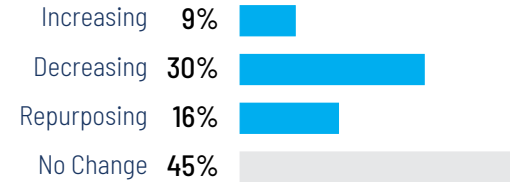


Approximately what % of proposals have you received in the last 12 months ask questions about DEIB?

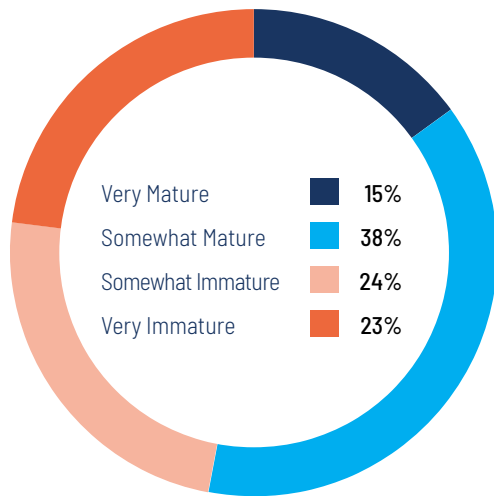


	By Employee Size	
	1-99	100+
25%+	18%	12%
10 - 24%	7%	6%
0 - 9%	46%	37%
Don't Know	29%	45%

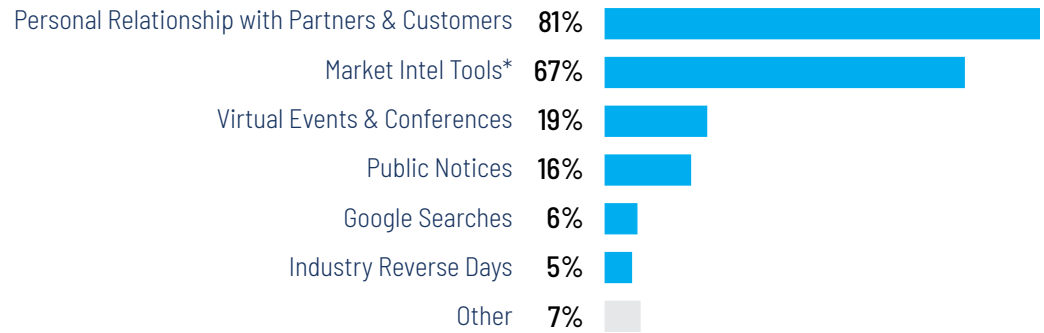
Are you, or did you, make changes to your square footage requirements because of the pandemic?



How would you rate the maturity of your DEIB programs at your company?

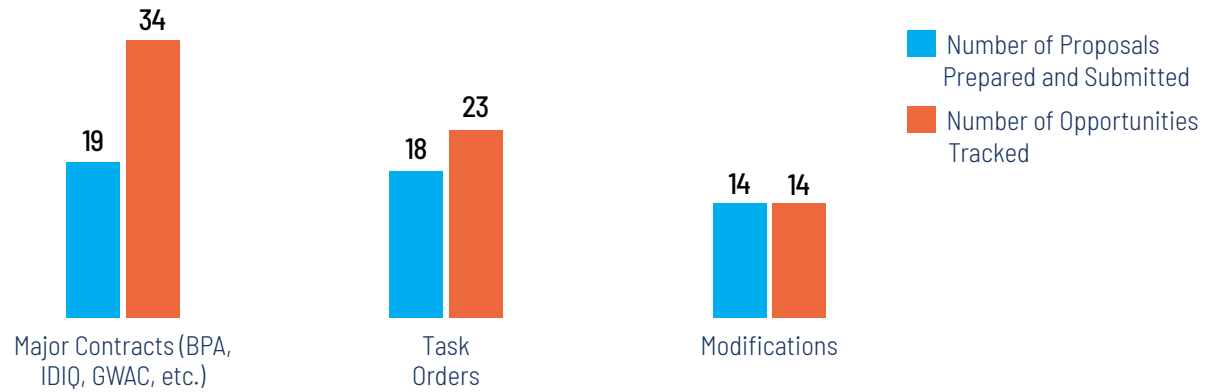


What are the top two approaches you are currently using to find new opportunities?



*Includes FedBizOpps, GovWin, Fedmine, Pulse, GovTribe, Federal Compass, Capture2Proposal, etc.

Approximately how many proposals (opportunities) does your company prepare/submit and track in a 12 month period?



Number of Proposals Prepared and Submitted	Average	By Annual Revenue				By Employee Size		NAICS Code				
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+	Arch. & Engr. (5413)	Comp. Systems Design (5415)	Mgmt/ Sci/Tech Consult. (5416)	Sci Rsrch & Dev. (5417)	Other Prof/Sci/ Tech Svcs. (5419)
Major Contracts	19	9	11	17	60	9	35	12	8	44	21	14
Task Orders	18	6	16	21	45	9	31	13	18	27	16	12
Modifications	14	5	10	22	33	8	22	17	8	16	10	15
Number of Opportunities Tracked												
Major Contracts	34	19	22	33	89	19	57	26	17	63	14	26
Task Orders	23	9	17	23	64	12	29	17	23	36	9	17
Modifications	14	5	10	22	33	8	22	17	8	16	10	15

Virtual Everything

Since relationships continue to be critical to growth, how are leading companies adjusting to the reality of today's Zoom culture? Some shrewd practices are emerging, including mandatory "cameras on during customer meetings" policies, recurring social team meetings, and programs requiring senior leaders to have junior team members shadow them on customer calls to model best practices. Managers are finding their role to be key in fostering the desired culture in a virtual world.

Operational Efficiencies

It is said that necessity is the mother of invention, and companies are going to have to invent creative solutions to thrive in this new environment. After indirect labor, healthcare and facilities are the second and third ranked indirect costs that cause concern. Firms will have to adopt new operating approaches to make the pieces of the performance/competition puzzle fit. Gaining operational efficiencies will allow companies to spend more money on benefits and perks, and less on operations.

DEIB Maturity

In the midst of the competition and performance struggle, companies are being asked to implement and promote DEIB programs, and remain competitive with recruiting and retention perks. HR personnel and programs will continue to be critical to navigating this path.

Rising Labor Costs

Requests for equitable adjustments are coming as inflation rises and companies will want to watch the government's response closely. The DoD released guidance recently, but the language was not actionable or directive. By law, contracting officers are severely constrained in their ability to increase prices without the government getting something in return. This issue sits at the heart of how to maintain performance at a high level, especially in the contract out years. Although inflation is running at 7%, those out years were priced with an assumed escalation of 2-3%. Rising labor costs must be balanced somehow, requiring companies to innovate with indirect costs. The gains associated with shedding facilities costs may be completely offset by rising labor costs.

EFFICIENCIES

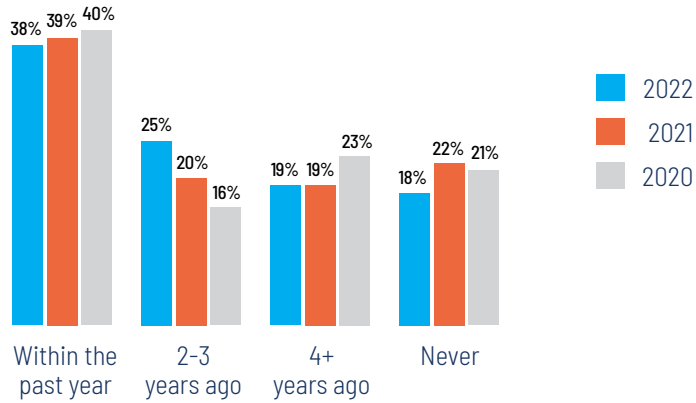
The government contracting puzzle has always involved winning the right work, and attracting and retaining the right workforce to service the work. Today's business climate makes this puzzle a bit harder to solve. Clues are revealed in this section, which dives into items such as indirect rates/wrap rates, rate composition, and the new lease standard.

Key Takeaways

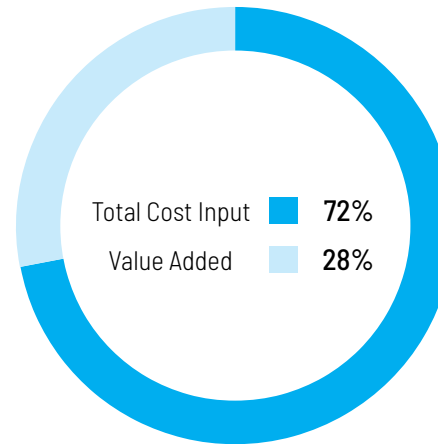
- Fringe rates continued a five-year downward trend, falling to a level in the smaller firms that seems barely sufficient to cover payroll taxes and paid absences. We can't help but wonder if this may be a significant contributor to issues in recruiting and retention.
- This is the first time a significant disparity in fringe rates for smaller versus larger firms appeared. Study the data for your size firm for the deeper story.
- The number of respondents changing their indirect rates remained steady this year. The effect of the pandemic on indirect rates seems to have been absorbed by most companies over the past two to three years.
- The new lease standard for treatment of leases as a right-to-use asset is emerging in the finance and accounting departments, with 44% preparing for the change. Training will be important for the 41% that don't know or haven't begun to determine if their financial statements are required to be GAAP compliant.
- Employee morale costs debuted at the top of the list of indirect cost issues for companies with more than 100 employees. This is consistent with the perceived need to improve the workplace culture to attract and keep a stable and effective workforce.
- This was the first year a response for "None of the Above" was available for Indirect Cost Issues, and it dominated, with 35% of respondents selecting it. Smaller companies report low risk memos in place of audits for their incurred cost submissions, and this may be one effect of the DCAA resource challenge. However, low risk memos won't last forever, as DCAA's policies require random sampling of the low risk pool of incurred cost submissions even for the smallest of companies, so companies still need to ensure they are prepared for an audit with the proper processes and systems in place.



When was the last time you changed your company's indirect rate structure?

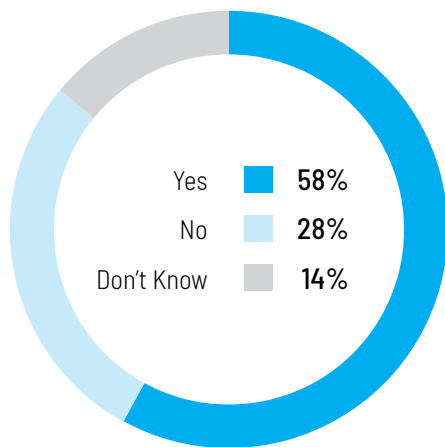


Is your company's G&A base Total Cost Input (TCI) or Value Added?



	By Employee Size	
	1-99	100+
Total Cost Input	79%	63%
Value Added	21%	37%

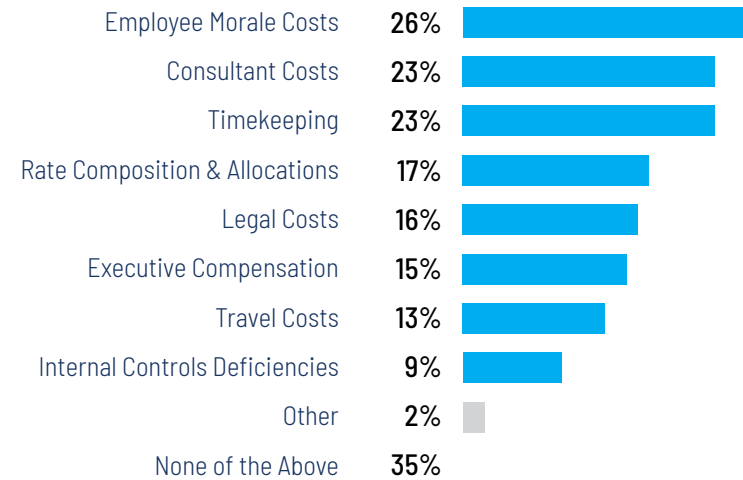
Does your overhead allocation base include your fringe costs?



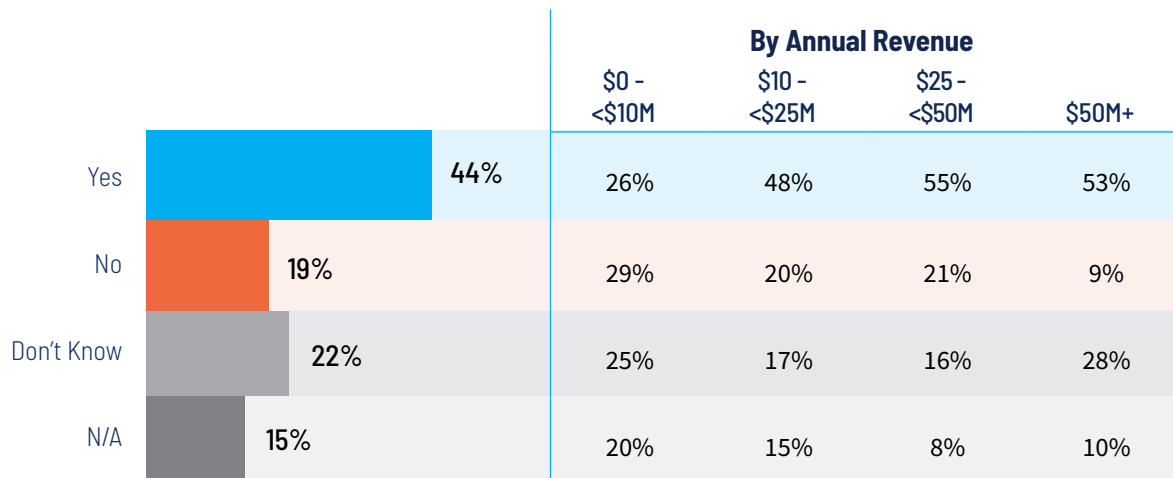
	By Employee Size	
	1-99	100+
Yes	57%	59%
No	29%	27%
Don't Know	14%	14%

What are the most common indirect cost issues and deficiencies for your organization with more than 100 employees?

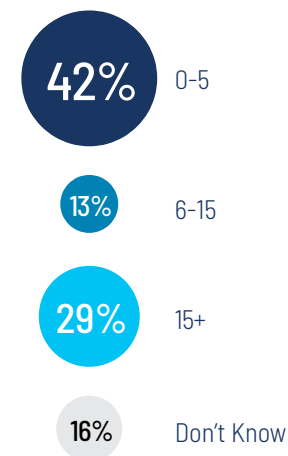
(Select All That Apply)



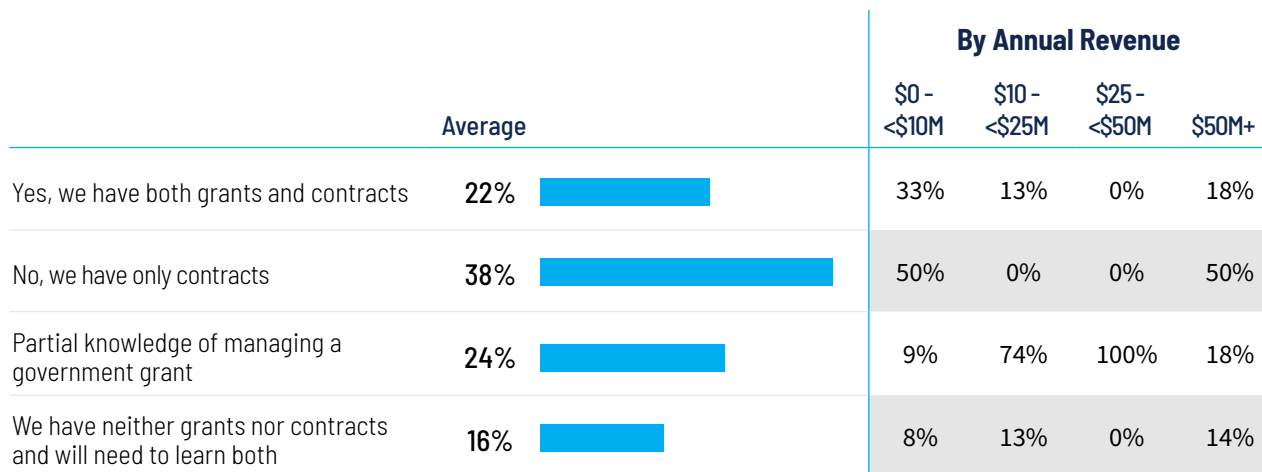
Are you currently preparing for the new lease standard (ASU 842) in your 2022 financial reporting?



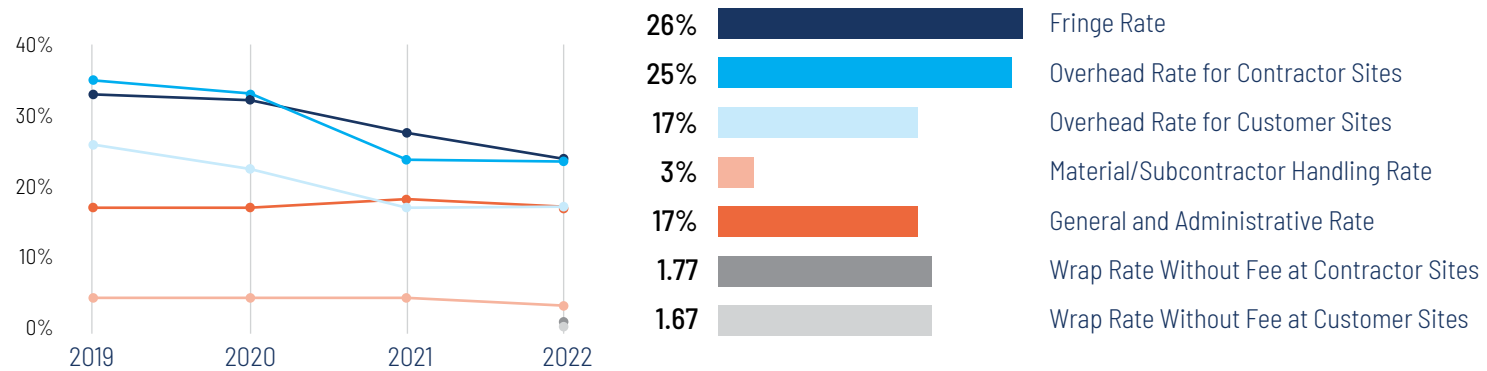
How many operating leases (facilities, equipment, furniture, vehicles, etc.) does your company have?



With the infrastructure funding mostly being issued as grants, is your company equipped to manage grants vs. a contract, or both?



What are your organization's average indirect rate and wrap rate year-over-year?



Indirect Rates - By Revenue and Employee Size

Indirect Rate Type	Average	By Annual Revenue				By Employee Size	
		\$0 - <\$10M	\$10 - <\$25M	\$25 - <\$50M	\$50M+	1-99	100+
Fringe Rate	26%	20%	28%	32%	31%	22%	31%
Overhead Rate for Contractor Sites	25%	17%	28%	38%	31%	23%	31%
Overhead Rate for Customer Sites	17%	12%	15%	30%	18%	16%	18%
Material/Subcontractor Handling Rate	3%	4%	2%	3%	2%	4%	3%
General and Administrative Rate	17%	18%	17%	16%	14%	18%	15%
Wrap Rate Without Fee at Contractor Sites	1.77	1.62	1.83	1.97	1.85	1.71	1.86
Wrap Rate Without Fee at Customer Sites	1.67	1.56	1.67	1.88	1.70	1.63	1.71

2023 WORKPLACE HORIZON

Efficiencies

PTO Perks

While four out of five companies reported a PTO policy based on a standard accrual of hours worked, 12% reported “Unlimited PTO”. There is an open debate in many boardrooms as to whether employees view unlimited PTO positively or negatively. What changes will you be making to your PTO policies in 2023? This might be the one last perk you can be agile and impactful with. Companies are experimenting with other perks and benefits, such as offering additional PTO around holidays, increased parental leave for both parents, and paid time off to care for elderly parents and manage mental health illnesses.

Budgets

Today’s labor market is presenting accounting with a budgeting puzzle. Faced with the hottest labor markets in decades, government contractors can’t rely on just boosting their hiring budgets. Many are creatively calculating 2023 budgets with innovation in mind and realizing that we must re-invest in our people at this stage of life. Use the 2018 GAUGE Report for tips and tricks on budgets and what to do as you embark on your budgeting journey.

Workforce Development

With career readiness plans and career development, new and updated training for specific qualifications will help to shape the change in the workforce talents and skills that are needed into 2023 and beyond. Entry level positions are not the same anymore. LCAT maintenance is also important to keep up with as the CO’s are getting ever more concerned about individuals meeting LCAT requirements.

Office Stipends

As companies cut back on square footage, they are also experimenting with reimbursement for home office setups and maintenance. With little or no expectation of getting furniture or equipment back, many are offering stipends. This is raising questions such as, “What is allowable and reasonable?” and “Are receipts required?” and the ever popular, “Is it taxable?”

Paperless Data Management

Anyone fighting the paperless push probably succumbed during the pandemic. Now the question for companies has turned into, “How should my data be set up so I can collect what is needed at tax filing or audit time?” and “Do I have functionality in my systems to store the documents and organize them for efficient retrieval?”. Remote workers and paperless operations increase the pressure to have the right systems and automation in place and use them effectively.

INDUSTRY INSIGHTS

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Services

Top questions GovCon companies are asking:

1. **How is general inflation impacting the late 2022 and early 2023 renewals?**
2. **How are employers addressing remote work?**
3. **How are PTO policies being updated to reflect the remote work environment?**

The latter two questions are predominantly based on the contracting officer's stance. If the contracting officer will allow direct employees to work remotely, then filing positions will be that much easier. For corporate positions, many of our clients have a hybrid response: part-time in the office and part-time remote. As for general inflation, it is adding 1-3% to health plan renewals currently, and hopefully that will relax a bit in the coming months.

Two years after mass shutdowns in response to the pandemic crippling the U.S. economy and dramatically changing the nature of the workplace, COVID-19 continues to have an impact on employers, and the C-suite faces tough operational obstacles ahead. Competition for talent remains fierce, employers are experiencing higher than average turnover, and job openings are going unfilled for longer than before the pandemic.

Employee expectations are also higher than ever, with many seeking employers that offer benefits, flexible work policies, and programs that support their financial, physical, and emotional well-being. Benefits budgeting will be a challenge. Employer health plans will continue to be affected by rising healthcare costs for the foreseeable future, exacerbated by plan members delaying routine care and recommended screenings during the pandemic and the high cost of specialty drugs and emerging therapies which drive up pharmacy benefit costs. Decision-makers will need to stay on top of trends in healthcare, compliance, and benefits in order to develop thoughtful mitigation strategies.

Inclusive Benefits and Alternative Care Strategies

More GovCons will need to embrace diversity, equity, inclusion, and belonging (DEIB) in employee benefits to support recruitment and retention efforts. Most employers have come to embrace such initiatives as a way to improve workplace culture and demonstrate they value their employees as people, not just workers. Harvard Business Review found that 65% of U.S. executives say DEIB is a high strategic priority, and organizations on



the leading edge report multiple organizational benefits related to their DEIB work, including increased employee engagement and innovation, and success in recruiting and retaining employees. Additional studies suggest that taking the right actions to improve DEIB can also lead to better financial outcomes for the organization.

Employers seeking to nurture and retain their existing workforce as well as attract new candidates should work to ensure employees feel welcome and included, and can see opportunities for growth and development. But while many organizations want to invest in such strategies, they are struggling with increasing costs. How can employers balance the need to invest in workers to drive growth with the costs of keeping the lights on?

There are many opportunities for employers to make small adjustments with big impact, particularly in employee benefits, programs, and policies. Furthermore, these adjustments may be easier and less expensive than you'd think.

Pathways to Parenthood

Many health plans cover some form of fertility treatment, but the scope of treatment options may inadvertently exclude certain plan members and family structures, such as transgender individuals, same-sex couples, or single individuals, as well as members in need of donor tissue and/or looking to preserve fertility. Making changes to the types of treatment covered by the plan can greatly expand access to these services and demonstrate your commitment to DEIB.

Healthcare Access

People from some racial and ethnic minority groups continue to face multiple barriers to accessing healthcare, such as inadequate

insurance, proximity to care, access to childcare, or ability to take time off from work. Social determinants of health — the conditions in the places where people live, learn, work, play, and worship that affect a wide range of health risks and outcomes — have historically prevented certain groups from equal access to care. Taking steps to ensure your employees have just and fair opportunities to be as healthy as possible may help reduce their financial burdens and help reduce overall health plan costs.

Financial Wellness

Benefits and programs to support the financial well-being of your employees signal that you value and support them and their needs. Helping employees address their financial concerns can also help increase engagement and reduce absenteeism and presenteeism.

Retirement

A recent report from the Federal Reserve found that among middle-aged families (age 35-54), only 44% of Black families and 28% of Hispanic and Latino families have at least one retirement account, compared to 65% of white families. Addressing the importance of retirement, presented in a meaningful way to employees, can help bolster retirement readiness. For example, use a custom-tailored approach to communicate financial wellness to different employee groups.

Policies and Communication

Expanding policy offerings and eligibility beyond what's required by law is an easy and often low- or no-cost way to demonstrate your commitment to increasing DEIB within your workplace. For example, adjust time off policies to include a broader range of reasons so that more employees can better manage work and life.

Caregiver Needs

Offering or expanding caregiver support and benefits can help employees better manage work/life balance, and avoid absenteeism and burnout.

Educational and Skills Needs

Tuition reimbursement or student loan repayment programs help first-time college students or lower-income employees invest in the education and professional development often required to get hired and to advance. Developing and communicating a clearly defined pathway for advancement can also signal to employees that you are willing to invest in their growth and development, as well as help increase diversity at the management and leadership levels.

Healthcare Needs

Ensuring employees are actively engaged with a primary care physician can help improve employee health and reduce out-of-pocket costs. Helping employees address behavioral health needs, such as stress, anxiety, depression, alcohol and substance use, and other conditions, can also result in better overall health, engagement, and productivity.

Telemedicine

The pandemic created a surge of interest in and usage of various forms of telemedicine, increasing to 32% early in the pandemic when in-person care was highly restricted. Behavioral health saw the largest increase in virtual care during the pandemic, with the number of providers offering virtual care in most instances spiking from 2% to 60%. It remains a popular mode of care. Telemedicine can also help connect rural patients with healthcare, especially if the nearest clinic is 90 miles away or local clinics are at capacity. It continues to be a good option for treating and diagnosing certain injuries and illnesses, and prescribing medications.

Direct Primary Care

Direct primary care (DPC) can provide a range of care options, including a combination of telemedicine, traditional in-office visits, and, in some cases, in-home care, all in exchange for a flat monthly fee. Employers pay for employee access to primary care services, including appointments, lab work, X-rays, and other primary care needs. Some DPC models have even expanded to provide prescription drug service and specialist services like physical therapy and behavioral healthcare. The flexibility of a DPC offering can significantly increase utilization over a stand-alone telemedicine model, while reducing costs and improving employee satisfaction.

Employee Clinics

Many employers still find value in offering employee clinic services on-site or nearby. Employers implement employee clinics for many different reasons, the most common being to promote preventative care, though some clinics may also be able to help health plan members with chronic disease management and workplace injuries. Offering convenient, on-site access to care for employees may also help promote productivity and reduce absenteeism or presenteeism.

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BENCHMARKING TOOL

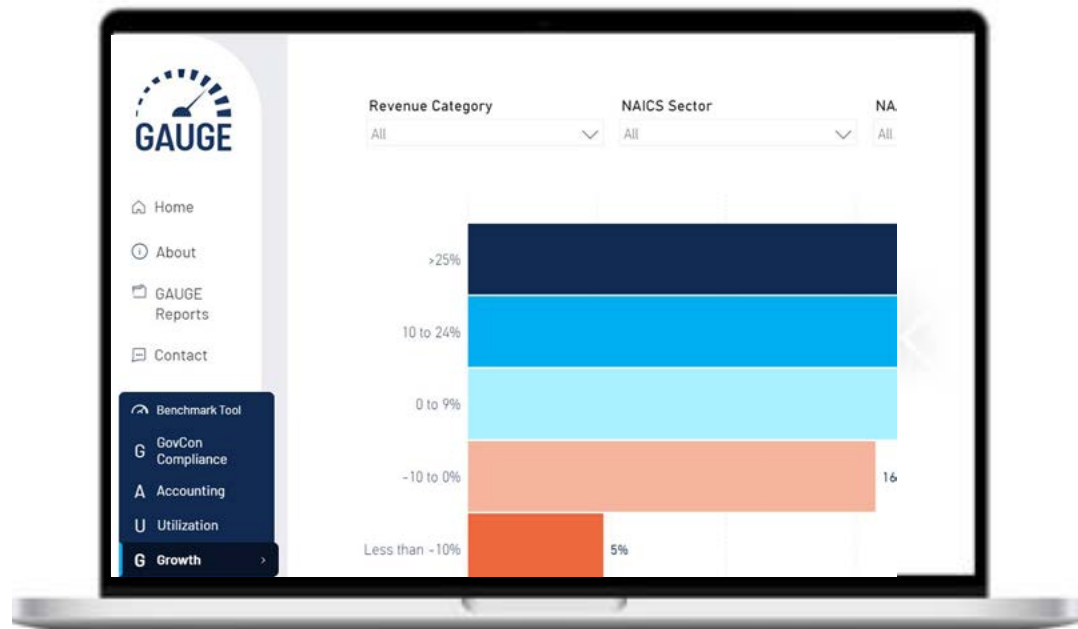
Our Benchmarking Tool

We are proud to once again provide our GAUGE Benchmarking Tool. Compare your business performance against hundreds of your peers in the government contracting industry.

For the past five years, the GAUGE has been a critical asset for government contractors to understand where the industry is going and how similar companies are performing. Intelligence gathered over the years — spanning business development metrics, audit and compliance trends, and program management best practices — has been offered through the GAUGE to guide

decisions on how to invest resources and tackle tough challenges. Our GAUGE Benchmarking Tool brings this intelligence to life. Simply enter some basic information about your organization and hit “Submit” to receive the visualization of how your company stacks up against others in the industry.

Start the journey toward a better understanding of how you rank among your government contracting peers, and dive into suggestions for how to reach the next level! Join in at www.gaugebenchmarking.com.



AFTERWORD

A Word of Thanks

A very special thank you to our respondents and contributors for participating in our sixth annual survey and for providing valuable insights and suggestions. We continue to listen to our readership, incorporate feedback, and stay up-to-date with current events for the report. We hope that you find it a useful benchmark and source of insights.

About CohnReznick

As a leading advisory, assurance and tax firm CohnReznick helps forward-thinking organizations achieve their vision by optimizing performance, maximizing value and managing risk. Clients benefit from the right team with the right capabilities; proven processes customized to their individual needs; and leaders with vital industry knowledge and relationships. Headquartered in New York, NY, with offices nationwide, the firm serves organizations around the world through its global subsidiaries and membership in Nexia International. For more information, visit www.cohnreznick.com.

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Contacting Us

If you have questions or feedback regarding the 2022 GAUGE, or wish to participate in the 2023 survey, please contact:

CohnReznick

Christine Williamson, CPA, PMP
Partner
christine.williamson@cohnreznick.com
703.847.4412

Unanet

Rich Wilkinson
Sr. Industry Director, GovCon
rwilkinson@unanet.com
703.625.6497





2022 REPORT

CohnReznick & Unanet used information gathered from participants referenced in the “Respondents” section of the 2022 GAUGE. The information provided to us has not been independently tested or verified. Thus, we have relied exclusively on the 2017-2022 GAUGE participants for the accuracy and completeness of the data. No survey can be guaranteed to be 100% accurate, and errors may occur. CohnReznick & Unanet do not guarantee the completeness or the accuracy of the data submitted by GAUGE participants and thus do not accept responsibility for your reliance on this Report or any of the information contained herein. The information contained in the 2022 GAUGE includes estimations, approximations, and assumptions and is not intended to be legal, accounting, or tax advice. Please consult a lawyer, accountant, or tax advisor before relying on any information contained in this Report. CohnReznick & Unanet disclaim any liability associated with your reliance on any information contained herein.

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