



What is Compliance and Regulation Costing You and Your Organization?!

Compliance and Regulation ... Impacts You!

What is compliance and regulation costing each and individual and the U.S.? What is each of us paying, not only in the price of goods and services, but the long-term financial health of the U.S.?

Compliance and regulation are necessary for protection against fraud, and damage to the environment, ensure fair tax payment and responsible use of Government funds, long-term greed containment, and many other areas. The problem is we have become so overburdened with compliance and regulation that what you do not know can kill your business. If larger companies / organizations are barely keeping abreast, how are the small and mid-sized businesses doing? If we add in the reality that most jobs are generated by small business, there are not many resources available for a sound and founded business economy.

If you take a moment and conduct an internet search about compliance and regulation you will discover the immense amount of information available is staggering. So, with that in mind, we thought we would do something different and list articles that provide different insights about the subject.

Proactive Planning

Our goal is not to discourage you, but to educate you with proper planning, procedures, and forward thinking so that you can at least be proactive with internalized Standard Operating Procedures (SOPs), internal assessment audit tools, best practice, follow up, and continued sustainable systems.

Why would you create, implement, and sustain a proactive approach with compliance and regulation? So that you have less risk, do not pay more penalties in the long-term, do not lose money through fraud, decrease your goods and services defect, are not embarrassed publicly, and a host of many other areas. In other words, with a proactive approach, you will reduce your risk and come out ahead being more in line with the regulations set forth while retaining more for your bottom line.

When we say it is worth your time, it is! We have witnessed companies over the years pay millions of dollars, lose human capital, and damage their reputation. Preventive is better, less stressful, less expensive, more productive, and better for your bottom line, than a reactive plan. Plan by reading this short informational paper and then, plan, implement, and sustain your compliance and regulation plan.



Reality

In today's business world, as compliance and regulation become more complex and stringent, by not knowing, to know not know the rules is no justification. In many non-compliant cases, there are financial penalties. There are ways you improve your bottom line, through our procurement methodologies (at no cost to you until we perform). In other words, we can help reduce costs without jeopardizing quality and best practice and use some of those funds to become more compliant to regulations and laws.

Articles and Information

Please take some time and review the material below. After you have done so, just know that there are solutions to become stronger in compliance and regulation.

The Impact of Regulatory Costs

The article below, even though older, shows how compliance and regulation has increased over time, as you read other articles further into this informational piece.

As Mark Crain points out, "In the face of higher costs of federal regulations, the research shows that small businesses continue to bear a disproportionate share of the federal regulatory burden. The findings are consistent with those in Hopkins (1995) and Crain and Hopkins (2001)."

The research finds that the cost of federal regulations totals \$1.1 trillion; the cost per employee for firms with fewer than 20 employees is \$7,647 (as identified in 2001).

As you will see, the cost has only gone up since 2001.

Highlights

We would recommend you take some time to read the report as it provides a lot more detail of the distribution of regulatory costs for five major sectors of the U.S. economy: manufacturing, trade (wholesale and retail), services, health care, and other (a residual category containing all enterprises not included in the other four). The sector-specific findings reveal that the disproportionate cost burden on small firms is particularly stark for the manufacturing sector. "The compliance cost per employee for small manufacturers is at least double the compliance cost for medium-sized and large firms. In the service sector, regulatory costs differ little from small to larger firms."



As you review this information, the disproportionality of the burden borne by small firms, identified in previous Advocacy studies, is further validated in this instance. “On a per employee basis, it costs about \$2,400, or 45 percent, more for small firms to comply than their larger counterparts. The 2001 study, using a slightly different methodology, concluded that the disproportionality rate was higher—nearly 60 percent.”

As we fast forward to the present, the numbers have grown more burdensome.

What we found interesting for then were the two top cost drivers. “Environmental and tax compliance regulations appear to be the main cost drivers in determining the severity of the disproportionate impact on small firms. Compliance with environmental regulations costs 364 percent more in small firms than in large firms. The cost of tax compliance is 67 percent higher in small firms than the cost in large firms. In the aggregate estimates for all sectors, the cost per employee of economic regulations falls most heavily on large firms. The cost per employee of workplace regulations falls most heavily on medium-sized firms.” (Crain, Mark)

Regulation Nation: Drowning in Rules, Businesses Brace for Cost and Time for Compliance

The information below in this article only shows more regulation increase from the previous report to this article written in September 2011. We can only state that from our experience in helping our clients become more compliant with regulation increase, we have witnessed the same scenario. We have seen an increase, less preparation, more audits/assessments, less understanding, more areas to comply to, less resources, and more than anything else a lack of not knowing how to handle this challenging area. The good news is companies can do many things to be more compliant, have sound systems, and not be surprised (which almost always ends up with the business paying monies and utilizing a lot more of their resources).

The purpose of this article is to show you compliance and regulation is not going away. In fact, it is becoming more prevalent than ever before, especially as the U.S. Federal Government, State Governments, County and City Governments need more income. Because of this, it is critical that any long-term business create, plan, prepare, and sustain a sound compliant and regulation plan for all areas in the business.

“From financial services to farming, plumbing to computer repair, business owners say new regulations have them so bogged down in compliance that it is hindering their ability to plan and expand for the coming years.”



"Even though President Obama recently acknowledged the need to minimize regulations, the number appears to be growing. Obama administration regulations on new business rose to 3,573 final rules in 2010, up from 3,503 in 2009 -- the equivalent of about 10 per week. Indeed, the 2010 volume of the Federal Register, the "newspaper" of regulatory agencies, stands at an all-time record-high 81,405 pages composed of final rules, proposed rules, meeting notices and regulatory studies."

"There is something like 180 million words of binding federal law and regulation. It would take a lifetime just to read it," said Philip K Howard, founder of Common Good. Susan Dudley, former administrator of the Office of Information and Regulatory Affairs, noted that regulation has been increasing, but said that uptick has been trending since the last two years of the Bush administration.

"The 'midnight year' of any administration is aggressive, and this administration has picked up at that same pace and continued it in the beginning of the administration," she said. According to House Speaker John Boehner, the Obama administration has publicly listed a total of 219 new regulatory actions under consideration for the upcoming year that would each have an estimated cost of \$100 million or more. That's on top of the conservative Heritage Foundation's estimate, which found that the administration has imposed more than 75 new "major" regulations since 2009 whose annual cost of compliance is \$38 billion.

The U.S. Small Business Administration reports that the average regulatory cost burden on U.S. firms of any size was approximately \$161,000, not including costs passed on to the consumers for the goods and services rendered.

Manufacturing is the industry hit the hardest by regulatory costs, with per-firm costs at \$688,944. But all small businesses pay a steep price -- \$10,585 for every employee. Howard said that regulations in the U.S. are, at best, "semi-effective" while also "horribly expensive."

"No one has the time to read all the rules. So instead of focusing, for example, on worker safety, which is a very useful regulatory goal, it focuses on little detail nits that end up basically tripping everyone up, because they end up spending all their time complying with the nits instead of making the factory safe," he said.

Among the industries facing massive regulations is farming, whether it is dustups over dirt to the fallout from manure.



"It's a big concern; I'm worried they're going to regulate us right out of farming," said Calvin Haile, of Dunnsville, Va., a grain farmer whose five employees must keep check on the runoff to the Chesapeake Bay. "Since we're so close to the bay and you know, we just won't be able to farm profitably and comply with all the regulations, that's my concern for the future."

Steve Baker, a swine farmer and owner of Baker Farms in Shenandoah County, Va., said he's doing what he can to be a responsible business owner. He spent \$15,000 five years ago to build a transfer pump for any pigpen runoff, so it flows to a holding tank. He said he chose to do this before regulations came out to deal with runoff water into the Chesapeake Bay. "We want to do what absolutely needs to be done because this is our livelihood, this is what puts a roof over our heads," Baker said.

Americans appear to be concerned by the impact of regulation on business. A poll conducted by the Tarrance Group for Public Notice, an independent, nonprofit group that provides information on how government policy affects financial well-being, found that 74 percent of those surveyed say that the U.S. is creating too many rules. The poll of likely voters in 10 states taken Sept. 6-8 also found that 47 percent fear the rules will result in job losses while 22 percent think it will increase the price of goods and services. Seventy percent said they believe increasing the number of regulations on American businesses will result in jobs moving overseas. Howard said he believes in legitimate regulatory goals, but the rules need to be practically applied and enforced.

"You can tell a factory owner that it can't pollute, and it needs to meet certain guidelines for pollution, but if you give them a thousand pages of rules that tell them exactly how to catch the pollution. Chances are they'll waste huge amounts of money catching the pollution in the wrong place and it probably won't be effective," he said. (FoxNews.com)

The Hidden Cost of Regulation/Interpretation

As we have conducted business with the Federal Government, several Federal Contractors, and many companies over the years, the one thing that is consistent – regulation continues to increase in almost all areas, the Federal Acquisition Regulations (FARs), Defense Federal Acquisition Regulations (DFARs), Federal Guides, Federal Policy Handbooks (in certain agencies), the Internal Revenue Service (IRS), and many other areas.

The Office of Inspector General (OIG) who is tasked with auditing Federal Agencies and Federal Contractors has been conducting an increased number of audits to ensure greater compliance.



Yet, the problem that plagues the Agencies, the OIG, the Federal Contractors, Companies, and all those involved in the process of each audit is the INTERPRETATION of all these regulations.

From our several years of experience, we have seen new auditors say one thing, whereas the Federal Agency interprets another way. We have witnessed certain Contractor's rebuttal FAR meanings, with expensive legal counsel, skirmish out of policies and procedures that are noticeably clear. We have seen Contractor Purchasing System Review (CPSR) Contractor's audit with minimal experience and must be directed by the Federal Agency/Contractor so that they knew what they were doing. We have seen ethical people and contractors do the right things and end up being penalized, whereas other's who have not complied, get away with no penalty or little.

What are we saying?

There will not be hard, fast, cut, and dry rules in certain cases. The rules can be noticeably clear, but if the person interpreting rules, who is conducting the audit/assessment, interprets one way, the company/contractor is on the hook.

As you read the information below, written by James Hammerton, you will clearly see the situation and understand that you must prepare, have a plan, and consistently update and monitor your compliance and regulation plan. Even with the best plan, if you get someone who does not know what they are doing (which is happening a lot more), or they are utilizing their power as an auditor to move up the ladder, at least you will have minimized your risk.

Federal Register

The *Federal Register* is the document that compiles all the federal rules and regulations that businesses are required to comply with. As of 2010 the *Federal Register* was 81,405 pages long. Federal regulations serve as a hidden tax on the economy. Costs imposed by regulation do not end up on any Federal budget, nor do they add to the national deficit. However, 81,405 pages of regulations strain the economy by creating huge costs that business are obligated to meet.

It is not just large corporations but the entire economy that ends up bearing the cost of regulation. Complying with regulations is not cheap. The cost of complying with federal regulation increases businesses' expenses by billions of dollars every year. Some of the compliance cost associated with federal regulation comes out of businesses' profits, but much of the costs are passed down to consumers in the form of higher prices. Compliance costs associated with regulations cut into businesses' profits, while higher prices increase the day-to-day expenses of all consumers. Because regulations create artificial costs that must be paid by



both producers and consumers, they cost the economy money and act as a drag on economic growth.

Just how much money are federal regulations costing our economy?

The answer appears to be quite a lot. Every year economist Clyde Wade Crews of the Competitive Enterprise Institute releases a report, entitled “The Ten Thousand Commandments” analyzing federal regulations and their costs. Crews’ analysis found that in 2010 the federal government spent around \$55.4 billion dollars funding federal agencies and enforcing existing regulation. But these costs barely compare to the compliance costs that regulation imposes on the economy. Crews’ report cites the work of economists Nicole V. Crain and W. Mark Crain, whose study of the net cost of regulations determined that in 2009 federal regulation cost businesses and consumers \$1.75 trillion, or nearly 12% of America’s 2009 GDP. As a comparison, in the same year, corporate pre-tax profits for all businesses totaled about \$ 1.46 trillion.

Government regulations are also used by the government to hide spending programs. Instead of creating expensive government initiatives, the government can create new regulations requiring businesses to carry out and bear the cost of the same initiatives. For example, rather than creating additional, expensive programs incentivizing the use of more fuel-efficient cars, the government creates emission standards that auto manufacturers are forced to meet at high cost to themselves and to car buyers. Because regulation expenses do not appear on any federal budgets, the government is not held responsible for the true cost of their regulations. The costs are still there, they are just not as easily traced to the government. However, these costs are borne by businesses and passed down to consumers in the form of higher prices.

In his report, Crews suggests pursuing a policy of deregulation as an economic “stimulus”. Crew’s makes a valid point. Removing regulations that constrain the economy would lessen the \$1.75 trillion cost that federal regulation places on the economy, instantly freeing up resources that businesses could use to invest, expand, create new jobs, and lower prices. Unfortunately, the government seems to be pursuing a policy of increased regulation. Between 2001 and 2011, 38,700 new regulations were added to the Federal Register. Of the over 4000 new regulations that are currently being developed by various government departments and agencies, 224 are estimated to cost the economy more than \$100 million each. And the Obama administration appears to be doubling down on regulation, with massive new regulations in the works at the Environmental Protection Agency, new health care regulations, and a host of yet to be written regulations covering financial services.



Overregulation imposes enormous hidden costs on our economy. It creates huge compliance costs on businesses, which in turn slows economic growth and constrains job creation. As America's mountain of federal rules and regulations continues to grow, the cost on the economy increases. Considering the persistent economic recession and growing national deficit, our nation needs to be pursuing policies that encourage real growth. Unfortunately, Obama's bureaucrats continue to crank out new expensive regulations at an incredible rate. Continued overregulation will only drag the economy down. On the other hand, pursuing a policy of deregulation would free up the economy to grow and prosper. (Hammerton, James)

Costly Federal Regulations for Small Businesses

Why does small business pay more than medium sized and large companies? Because many costs are fixed, small businesses pay about a third more per employee than larger companies, finds the SBA. **The cost** for small businesses to comply with federal regulations is higher than that of large ones, says a new report from the U.S. Small Business Administration.

Businesses with 20 employees or fewer pay 36 percent more than their larger counterparts (defined as those with 500 or more employees), says the report -- called "The Impact of Regulatory Costs on Small Firms" -- from the SBA's Office of Advocacy. This is because a lot of costs are fixed -- the same whether you have two employees or 2,000. Total annual cost of following the rules for a small business: \$10,585 per employee, or about \$2,830 more than big business. Businesses with 20 to 499 employees paid about \$7,454 per employee, or about \$300 less than the largest companies.

"That is an unfair burden to place on American small business," said Winslow Sargeant, the SBA's chief counsel for advocacy. The report estimates that 89 percent of all firms in the U.S. employ fewer than 20 workers. By comparison, large firms account for only 0.3 percent of all U.S. firms.

The report says: "If federal regulations place a differentially large cost on small business, this potentially causes inefficiencies in the structure of American enterprises, and the relocation of production facilities to less regulated countries, and adversely affects the international competitiveness of domestically produced American products and services." The SBA adds: "All of these effects, of course, would have negative consequences for the U.S. labor market and national income."

Complying with environmental regulations was the biggest wallop to small business's wallet: It costs 364 percent more for small firms than large ones, or about 4 times more per employee.



Small companies spend \$4,101 per employee, compared to \$1,294 at medium-sized companies (20 to 499 employees) and \$883 at the largest companies. The cost of tax compliance is 206 percent higher for small firms. (Rubin, Courtney)

How are you being proactive?

- Are you allowing compliance and regulation to grow you and your organization, or is it reactive?
- What is your internal procurement process and compliance audit system? Do you have a plan, system, process, oversight, and expertise?
- What you do not know can cause problems or even cause your business to cease to exist!
- How can we help you today to become best in practice?!

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30+ years growing people, procurement, and projects!