



[← Home](#) [← Insights](#) [← Industries](#) [← Government Contracting](#)

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September 29, 2023

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A Government Shutdown and How Government Contractors Can Respond

A United States Federal Government Shutdown occurs when Congress fails to pass legislation funding the federal government by October 1 - the beginning of the new fiscal year. Often the Congress will pass a temporary extension, also called a "continuing resolution", to allow the government to continue operating as normal. However, when no funding legislation is enacted and no extension is put in place, federal agencies must stop all nonessential work and multiple functionalities within the government will be severely curtailed. Some government entities and

functions will be exempt, such as the U.S. Postal Service, Social Security and Medicare. Though millions of federal employees, including military personnel, won't receive their normal paychecks during the shutdown.

Government Contractors Will Have to Pick Up the Pieces

Government contractors may also be impacted. Many Government contracts may be modified to reduce payments that contractors would have received if there was no shutdown, and some contracts may be terminated. Contractors may be forced to furlough or lay off employees due to the shutdown as well. New contracts may not be awarded to contractors, requests for proposals may not be released, and procurement activities may cease.

Government contractors find themselves in a unique situation when shutdowns occur. Contracts that are already funded are expected to be carried out during a shutdown unless a contracting officer issues a stop work order, or the contracting officer terminates the contract. However, the impact of the shutdown may vary from contractor to contractor for a multitude of reasons. Whether contracts are already funded, if the work performed under a contract is considered excepted, and if access to federal facilities is required under the contract are some of the circumstances that may impact each contractor differently. Additional complications may arise on contracts that will continue to be worked during a shutdown as federal employees who would normally accept deliverables or authorize contract modifications or options may not be working.

How to Mitigate the Damage

There are things that Federal contractors can do to plan for and mitigate the impact of a shutdown:

- ▶ Review the [Office of Management and Budget Agency Contingency Plans](#) to see how agencies affiliated with their contracts will be impacted during the shutdown.
- ▶ Communicate with their contracting officers and government clients before the shutdown to ask important questions and gain clarity on what contractual operations are considered

essential, and if access to government facilities will be impacted, and communicate that information to subcontractors as appropriate.

- ▶ Coordinate internally with core functions like human resources and legal counsel to ensure compliance with shutdown rules and understand any impacts to their employees.
- ▶ Identify what current contracts in their portfolios will be executable during the shutdown and what the financial implications are of those that are not.
- ▶ Assess which staff are at risk for furlough and how to prepare those employees for unplanned time off.
- ▶ Be on the lookout for required notices and timeliness rules so funds can be recovered promptly if funds can be recovered at all. Contractors should carefully document all costs incurred during and/or as a result of the shutdown to support potential recovery of those costs.

For further perspective on what a government shutdown means for contractors please visit:

[Impacts of a Government Shutdown: Government Contractors](#)

To speak to a member of BDO's Government Contracting Consulting Team on any questions in how to prepare for a government shutdown, please contact us.

Have Questions? Contact Us