



ALASKA REGIONAL CONFERENCE

JUNE 20-23, 2022 — ANCHORAGE

Business Systems Status and the Impact on Your Business

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Overview & Background

History of the Business Systems

Accounting system requirement arises out of FAR Part 16, Types of Contracts

- Requires an affirmative determination of adequacy by the contracting officer
- Determination is required pre-award, but can be satisfied multiple ways



History of the Business Systems

Purchasing system requirement arises out of FAR Part 44, Subcontracting

- Only system that can achieve an “approved” status
- Contractors with approved systems are not required to obtain consent to subcontract



History of the Business Systems

Four other systems are recognized by the federal government

- Material Management Accounting System (MMAS)
- Estimating system
- Earned Value Management System
- Government Property Management System



Between 2009 - 2011 the world changed

2009- DCAA experienced a scandal over audit reports that did not meet GAGAS standards

DOD began solidifying the ACO as the sole authority over the adequacy of contractors' business systems

2011- (May) DOD issued the interim Business Systems Rule, final February 2012, and it established definitive criteria for acceptability of six systems

- Accounting Systems
- Estimating Systems
- Material Management Accounting Systems (MMAS)
- Purchasing Systems
- Government Property Management Systems
- Earned Value Management Systems



Only one system acts as a “gate”

Accounting Systems are special

- FAR 16.301-3 requires an affirmative determination by the contracting officer that “the contractor’s accounting system is adequate for determining costs applicable to the contract or order”
- The determination is required prior to award of any instrument that calls for reimbursement of actual costs
- There is a FAR Standard Form, SF 1408, that may serve as the mechanism for documenting the basis for the contracting officer’s determination

Accounting Systems are transaction-based and are subject to audit

- Most often by DCAA on behalf of DOD and occasionally on behalf of other agencies
- Sometimes an audit component of a civilian agency or a commercial audit firm

Much more on Accounting Systems in a minute or two...



Two Other Systems are also subject to audit

Material Management Accounting Systems are also transaction-based

- Concerned mostly with accounting for and valuation of inventory and work in process for manufactured subassemblies and components
- Most often *audited* by DCAA
- Occasionally audited by a commercial audit firm under contract to the government

Estimating Systems are derived from accounting system transactions its factors and calculations are often based on those transactions

- Most often *audited* by DCAA
- Occasionally audited by a commercial audit firm under contract to the government



Systems that are not audited - purchasing

Purchasing Systems are considered to be records systems

- The purchasing system documents the steps taken in the procurement process, the basis for the decisions made and the result
- Purchasing Systems are reviewed, not audited, through a process called the Contractor Purchasing System Review (CPSR)
 - Usually done by industrial specialists at the Defense Contract Management Agency (DCMA)
 - Sometimes reviewed by a commercial audit or consulting firm
- The transactions to record the purchase order, inspection and acceptance or rejection of receipts and payments to vendors and subcontractors are considered accounting

Purchasing Systems are approved by the Administrative Contracting Officer (ACO) at DCMA



Systems that are not audited - Gov't Prop

Government Property systems are also considered to be records systems

- The government property Management Systems documents the value, location, custody and protection of government assets in the possession of contractors
- Government Property Management Systems are *reviewed*, not audited
 - Usually done by industrial specialists at the Defense Contract Management Agency (DCMA)
 - Sometimes reviewed by a commercial audit or consulting firm
- The transactions to record the purchase of CAP are considered accounting
- Transfers of custody are performed via specialized government forms



Systems that are not audited - Earned Value

Earned Value Management Systems are considered records and reporting systems

- Earned Value Management Systems track the actual cost and schedule of work performed against the planned cost and schedule of that work
- Earned Value Management Systems are *reviewed*, not audited
 - Usually done by industrial specialists at the Defense Contract Management Agency (DCMA)
 - Sometimes reviewed by a commercial audit or consulting firm
- The specialize calculations and reports of an EVM system utilize the transaction data from an accounting system



Business Systems as “gates”

FAR makes accounting systems a gate only for cost-type contracts

- Solicitation requirements can make it a gate for other types
- Special provisions sometimes require documentary evidence of accounting system adequacy in order to respond

Purchasing, Estimating and EVM systems also sometimes show up as requirements or gates in solicitation provisions

- Nothing prevents a PCO from making GovProp or MMAS a requirement but...

Any of the systems could show up as evaluation criteria (points)

Why and what can you do?

- Proposal volume
- Not much to change the solicitation requirements (protests usually don't work)
- Work to get a determination of adequacy for as many of your systems as possible



Business Systems One by One

To be covered:

- The criteria for adequacy
- The examination process and alternatives
- The expected result and the benefits
- The duration of the determination
- The re-examination trigger and process

Let's start with Accounting...

We'll go into a little more detail on Accounting than the others because of its special status...





Accounting

Overview

Criteria: DFARS 252.242-7006

- <https://www.law.cornell.edu/cfr/text/48/252.242-7006>

Process: DCAA audit program for Preaward Survey (SF1408)

- <https://www.dcaa.mil/Portals/88/17740%20Preaward%20Survey%20of%20Prospective%20Contractor%20Accounting%20System%20AP%20%28508F%29.pdf>

OR: DCAA audit program for Post Award Audit at Nonmajor Contractors

- <https://www.dcaa.mil/Portals/88/17741%20Post%20Award%20Accounting%20System%20Audit%20at%20Nonmajor%20Contractors%20AP%20%28508F%29.pdf>

Result: Determination of adequacy by the ACO

Duration: 3 years (no “automatic expiration”)

Re-exam: By DCAA initiative or KO request



Background

What is the DCAA Accounting System Audit?

Formally “Form SF-1408 Pre-award Survey of Prospective Contractor Accounting System” (not really an audit at all)

Objective is to determine whether the accounting system is capable of being operated in such a manner as to properly accumulate costs under a cost-type contract as required under by FAR 16.301-3

Referred to by DCAA as an “accounting system review,” but to a CPA firm it would be an examination engagement (still not an audit)



Who performs the examination engagement?

DCAA

When requested by DOD KO and DCAA initiates the engagement

When requested by another agency and DCAA accepts the engagement

When bidding on DOD contracts and solicitation requires formal ACO determination

CPA Firm

When bidding to a prime as a sub
When bidding on non-DOD contracts

When you want the comfort of passing the examination before DCAA comes in (can also perform “mock” examinations)

When the contracting officer will accept an independent CPA’s report



Pros & Cons of Using a CPA Firm

Pros

More timely (2-3 weeks vs. several months)

Less adversarial (more willing to advise)

Done at your request
(DCAA does not accept requests from contractors)

Cons

May not be accepted for certain future solicitations

Contractor pays for the examination



What the review will examine

The internal company documents that will govern the operation of the accounting system:

- Policies
- Procedures
- Practices documentation (if separate from procedures)

People (peripherally, to ascertain that the company will be able to operate the tools they have selected)

Tools (software & other aids)



A Few Cautionary Notes...

Higher Risk

QuickBooks / Excel

Internal payroll

Separate/weak timekeeping process or manual timesheets

“Execs are G&A only so no timesheets and no receipts” *

Poor documentation

Lower Risk

Integrated ERP systems

Outsourced payroll

Strong internal controls and employee training

Robust process documentation

Good segregation of duties (very difficult in smaller firms)





ESTIMATING

Estimating Overview

Criteria: DFARS 252.215-7002

- <https://www.law.cornell.edu/cfr/text/48/252.215-7002>

Process: DCAA audit program for Estimating System

- <https://www.dcaa.mil/Portals/88/24010%20Audit%20Program%20for%20Estimating%20System%20AP%20%28508F%29.pdf>

Result: Determination of adequacy by the ACO

Duration: 3 years “unless a risk assessment deems otherwise”

Re-exam: By DCAA initiative or KO request





Material Management Accounting Overview

Material Management Accounting

Criteria: DFARS 252.242-7004

- <https://www.law.cornell.edu/cfr/text/48/252.242-7004>

Process: DCAA audit program for Material Management Accounting System

- <https://www.dcaa.mil/Portals/88/12500%20Material%20Management%20and%20Accounting%20System%20%28MMAS%29%20AP%20%28508F%29.pdf>

Result: Determination of adequacy by the ACO

Duration: 3 years “unless substantiated evidence suggests that the contractor’s systems are adequate”

Re-exam: By DCAA initiative or KO request





Purchasing Overview

Purchasing

Criteria: DFARS 252.244-7001

- <https://www.law.cornell.edu/cfr/text/48/252.244-7001>

Process: DCMA CPSR in accordance with the guidebook (June 2019)

- https://www.dcma.mil/Portals/31/Documents/CPSR/CPSR_Guidebook_062719.pdf

Result: System approval by the ACO

Duration: 3-5 years “based on an assessment of risk completed by DCMA ACO” – approval good until withdrawn

Re-exam: By DCMA based on risk assessment – may be limited or complete





Property Management

Government Property Management System

Criteria: DFARS 252.245-7003

- <https://www.law.cornell.edu/cfr/text/48/252.245-7003>

Process: DCMA review in accordance with the guidebook (OCT 2020)

- https://www.dcma.mil/Portals/31/Documents/Contract%20Property%20Guidebook/Contract_Guidebook_Oct2020.pdf

Result: Adequacy determination by the ACO

Duration: 1-3 years “based on a risk assessment completed by DCMA property administrator” – very inconsistent

Re-exam: By DCMA based on risk assessment – may be limited or complete





Earned Value

Earned Value Management System

Criteria: DFARS 252.234-7002

- <https://www.law.cornell.edu/cfr/text/48/252.234-7002>

Process: DCMA review IAW 16-step review process & various docs

- Defense Acquisition Guidebook (DAG)
- DoD Earned Value Management Interpretation Guide – Jan 2018
- EVM Contract Requirements Checklist
- NDIA “Program Management Systems Committee (PMSC) EVMS Intent Guide” – May 2011
- ANSI/EIA 748 “EVM System Acceptance Guide” – 23 Jan 2006
- ANSI EIA 748 “EVMS Intent Guide” – Jan 2005

Result: Letter of Acceptance by the ACO

Duration: 3 years based on results of annual surveillance

Re-exam: By DCMA based on annual surveillance reports



Other Resources

DCAA Guidebook on Business Systems:

- https://www.dcaa.mil/Portals/88/Documents/Guidance/CAM/Chapter%205%20DFARS%20Business%20Syst%2020_20_2020.pdf?ver=2020-05-06-152732-987

DCMA Guidebook on CPSR

- https://www.dcma.mil/Portals/31/Documents/CPSR/CPSR_Guidebook_062719.pdf

GAO Report on Contractor Business Systems

- <https://www.gao.gov/assets/gao-19-212.pdf>





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