

Defense Contract Audit Agency (DCAA)

Capitalizing on DCAA Services – Contractor Business Systems

Presented by

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Topics of Discussion

- **DFARS 252.242-7006 – Accounting System Administration**
 - Pre-award Act system
 - Post-award Act system
 - Major accounting system
 - Benefits of Audit

- **DFARS 252.215-7002 - Cost Estimating System Requirements**
 - DoD Policy
 - Contract Clause Applicability
 - Examples of Noncompliances
 - Benefits of Audit

- **DFARS 252.242-7004 - Material Management and Accounting System (MMAS)**
 - Business System Complexities
 - Customer and Contractor Engagement
 - Benefits of Audit

Requesting Contractor Business System Audits

- Consider DFARS business system applicability
- Identify the cognizant DCAA office and hold discussions on initiating a request for audit
- Send a request for audit to the cognizant DCAA office

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Contractor Accounting Systems

NASCAR and Accounting Systems

Pre-Award Considerations

- The Department's goal is to attract contractors with innovative solutions to DoD challenges
- A contractor can only be awarded a cost-reimbursable contract when the contractor's accounting system is adequately designed for accumulating and billing costs by contract
- Contracting Officers require a Pre-award Survey (examination of the design of the contractor's accounting system) when information on hand is not readily available
- Risk of not performing timely pre-award audits:
 - DoD will not have access to the best solutions/technologies to address the Department's challenges, and
 - Contract awarded to contractor with inadequate accounting system

FAR Part 9

Contractor Qualifications

FAR Part 9 Contractor Qualifications

- Applies to all proposed contracts with any prospective contractor
- Purchases shall be made from, and contracts shall be awarded to, responsible prospective contractors only
- To be determined responsible, a prospective contractor must have the necessary organization, experience, accounting and operational controls, and technical skills, or the ability to obtain them

Pre-Award Accounting System Audit

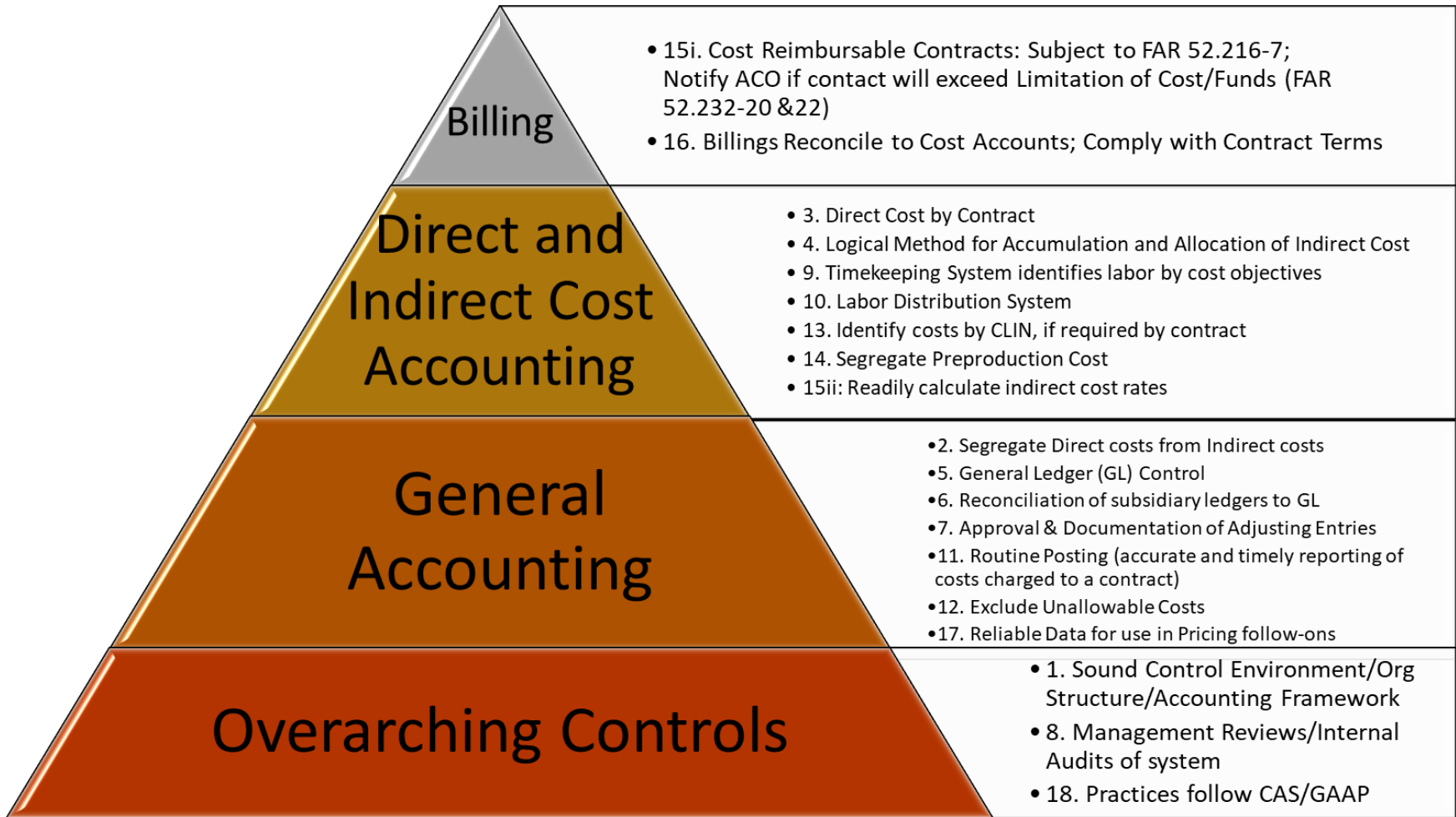
- DCAA will evaluate the design of the accounting system to determine if it meets the minimum requirements to:

- Segregate direct from indirect costs
- Accumulate direct costs by contract
- Consistent allocation of indirect costs
- Accumulate costs under general ledger control
- Timekeeping system that identifies employee labor to appropriate cost objectives
- A labor distribution system that charges labor to appropriate cost objectives

- Interim determination of costs charged to a contract through routine posting of books
- Exclusion of unallowable costs
- Identification of costs by contract line item and by units (if required by the proposed contract)
- Segregation of preproduction costs from production costs
- Provide financial information required by contract clauses concerning limitation of costs or payments -OR- required to support progress payments
- Able to provide reliable data for follow-on contracts

DFARS 252.242-7006 ACCOUNTING SYSTEM ADMINISTRATION

Accounting System Criteria Visualization



Post Award Accounting System Audit at Nonmajor Contractor

The post award accounting system audit is conducted to examine a non-major contractor's compliance with the system criteria as prescribed in DFARS 252.242-7006(c), Accounting System Administration. As a part of the examination, auditors will:

- Obtain an understanding of the contractor's internal controls over compliance with DFARS 252.242-7006(c)
- Determine if the contractor is compliant with the accounting system criteria prescribed in DFARS 252.242-7006(c)
- Report both significant deficiencies/material weaknesses and less severe than significant deficiencies/material weaknesses but require the attention of those charged with governance

Accounting System Audit of Major Contractors

- The accounting system audit at a major contractor evaluates the contractor's compliance with the 18 DFARS criteria
- The audit program is designed to provide better coverage for larger, more complex contractor accounting systems and sub-systems

DFARS 252.242-7006 Noncompliances

- When DCAA identifies a noncompliance, the audit report will include the following:
 - Description of the condition (nature of the deficiency)
 - Identification of the criterion
 - Identification of the cause
 - Description of the effect
 - A recommendation to correct the noncompliance
- After report issuance, the auditor will continue to provide support to the contracting officer

DCAA Audit Report vs. ACO Determination of System Adequacy

- DCAA system audits express an opinion on whether a system complies in all material respects with the applicable DFARS system requirements for the period of time covered by the audit
- DCAA does not determine the acceptability of a contractor's system or approve/disapprove a contractor's system. That is the job of the Contracting Officer

Benefits of Accounting System Audits

Government

- Basis for acquisition stakeholder's system determination
- Swift and enduring corrective action/system improvements
- More accurate understanding of process flows
- Establish information reliability
- Leads to compliance with other acquisition regulations

Contractor

- System Improvements
- Approved System/DFARS Compliance – key factor in DCAA's risk assessment and planning for other audit types (possible reduction in audit work)
- Differentiator for competitive bids
- Facilitates compliance with other acquisition regulations

DFARS 252.215-7002

Cost Estimating System Requirements

DoD Policy

- **DFARS 215.408 Solicitation provisions and contract clauses**
 - 1) Use the clause at 252.215-7002, Cost Estimating System Requirements, in all solicitations and contracts to be awarded on the basis of certified cost or pricing data

- **DFARS 252.215-7002 Cost Estimating System Requirements**
 - b) General. The Contractor shall establish, maintain, and comply with an acceptable estimating system

Acceptable Estimating System

- **DFARS 252.215-7002 Cost Estimating System Requirements**

a)

“Acceptable estimating system” means an estimating system that complies with the system criteria in paragraph (d) of this clause, and provides for a system that—

- 1) Is maintained, reliable, and consistently applied
- 2) Produces verifiable, supportable, documented, and timely cost estimates that are an acceptable basis for negotiation of fair and reasonable prices
- 3) Is consistent with and integrated with the Contractor’s related management systems
- 4) Is subject to applicable financial control systems

Estimating System Disclosure

- **DFARS 252.215-7002 Cost Estimating System Requirements**

- d) System Requirements

- 1) The Contractor shall disclose its estimating system to the Administrative Contracting Officer (ACO), in writing
- 2) An estimating system disclosure is acceptable when the Contractor has provided the ACO with documentation that—
 - i. Accurately describes those policies, procedures, and practices that the Contractor currently uses in preparing cost proposals
 - ii. Provides sufficient detail for the Government to reasonably make an informed judgment regarding the acceptability of the Contractor's estimating practices

Examples of Noncompliances

- DFARS 252.215-7002(d)(4):
 - iv. **Identify and document the sources of data and the estimating methods and rationale** used in developing cost estimates and budgets
 - vii. Provide for **detection and timely correction of errors**
 - ix. Provide for the **use of historical experience, where appropriate**
 - xiii. Provide for **internal review** of the acceptability of the estimating system, including the budgetary data supporting indirect cost estimates **and comparisons of projected results to actual results, and an analysis of any differences**
 - xiv. **Procedures to update cost estimates and notify the Contracting Officer in a timely manner throughout the negotiation process**

Key Conversations

- **Beginning of the Audit**
 - Discuss Concerns
 - Proposal Adequacy
 - Timely Updates throughout Negotiation
 - System Walkthroughs / Live Demonstrations
- **End of the Audit**
 - Discuss findings / Consider the Impact
 - Corrective Action Plans and Monitoring

Benefits of Estimating System Audits

Government

- On time adequate proposals
- Increases reliability and accuracy of forward pricing rate proposals and individual price proposals
- Faster Audits

Contractor

- Swifter award of contracts and delivery orders
- Provide adequate support for cost estimates
- Reduced resources needed to “support” the audit

DFARS 252.242-7004

Material Management and Accounting System (MMAS)

MMAS Business System Complexities

- **Interpreting the DFARS requirements:**
 - Some of the DFARS business system requirements are not detailed
 - For example, DFARS 252.242-7004(2) lacks detail on how the percentage of accuracy should be calculated
- **Combatting Complexities:**
 - Communication
 - Judgement

MMAS Business System Complexities, Cont'd

- **DFARS 252.242-7004(d)(2):**

Ensure that costs of purchased and fabricated material charged or allocated to a contract are based on ***valid time-phased requirements*** as impacted by minimum/economic order quantity restrictions

(i) A 98 percent bill of material accuracy and a 95 percent master production schedule accuracy are ***desirable as a goal*** in order to ensure that requirements are both valid and appropriately time-phased

MMAS Business System Complexities, Cont'd

- **What happens if the accuracy percentage is below the desirable goals?**
 - DFARS 252.242-7004(d)(2)(ii) states, the Contractor shall provide adequate evidence that—
 - (A) There is no material harm to the Government due to lower accuracy levels, and
 - (B) The cost to meet the accuracy goals is excessive in relation to the impact on the Government

Communication and Transparency

- Upfront and ongoing communication with key stakeholders:
 - Walk-thru/demonstrations
 - Recurring/impromptu meetings – contractor and ACO

Benefits of MMAS Audits

Government

- First line of defense
- Increased efficiency (leveraging) and understanding of business system practices
- reliability of the cost produced by the system

Contractor

- In depth view of business System practices
- Real-time notifications of identified deficiencies/internal corrective actions
- Recommendations on ways to improve system

QUESTIONS?