AGENDA

• State of the Agencies - DCAA/DCMA
• Select NDAA provisions
• Other GovCon News - CAS Board, SBA, OFPP, etc
• Industry trends - GAUGE
• Shutdown Facts

• Business System Status
• DOD Audit Findings & Top Mgmt Issues
• FAR & DFAR Rules Looming
• New Year’s Resolutions
REPORTS REFERENCED IN PRESENTATION

- Federal Register Notice 11/23/18
- Federal Register, Rule by the OFPP 07/17/18
- H.R. 5515 - NDAA FY19
- DCAA Report to Congress - May 2018
- SBA Information Notice 12/21/18 Runway Extension Act
- VOX.com articles on Shutdown of 2019
- Professional Services Council Shutdown Resource Center
- GAUGE - 2nd annual October 2018, Unanet & CohnReznick
- DCAA presentation to MACPA 2018 Government Contractors Conference
- DOD Agency Financial Report, November 15, 2018 signed by General Mattis
- DCAA & DCMA FY 2019 President’s Budget February 2018
- Top 10 DOD Management Challenges identified and reported by IG, 10-15-18
- Section 809 Panel Volume 3
STATE OF THE AGENCIES
– DCMA/DCAA
DCMA AND DCAA DIRECTORS
# DCMA AND DCAA BY THE NUMBERS

<table>
<thead>
<tr>
<th>Date as of</th>
<th>Civilians (47% Veterans)</th>
<th>Number of Military (5%)</th>
<th>Total</th>
<th>Avg Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/31/18</td>
<td>11,212</td>
<td>5,901</td>
<td>11,802</td>
<td>$114.7k</td>
</tr>
<tr>
<td></td>
<td>Corporate Operation Directorates</td>
<td>3</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Contract Management Offices</td>
<td>50</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Serviced Contractor Locations</td>
<td>19,145</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Number of Active Contracts</td>
<td>347,435</td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date as of</th>
<th>Auditors</th>
<th>Support Staff</th>
<th>Total</th>
<th>Avg Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>9/30/17</td>
<td>4,167</td>
<td>473</td>
<td>4,640</td>
<td>$123.5k</td>
</tr>
<tr>
<td></td>
<td>Corporate Audit Directorates</td>
<td>3</td>
<td></td>
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<tr>
<td></td>
<td>CPAs</td>
<td>1,130</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Other Professional Certifications</td>
<td>508</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Advanced Degrees</td>
<td>1,949</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## DCAA AND DCMA BUDGETS 2017 - 2019

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DCMA</td>
<td>1,353,381</td>
<td>25,684</td>
<td>59,945</td>
<td>1,439,010</td>
<td>10,616</td>
<td>15,720</td>
<td>1,465,354</td>
</tr>
<tr>
<td>DCAA</td>
<td>621,115</td>
<td>11,366</td>
<td>-34,645</td>
<td>597,836</td>
<td>4,347</td>
<td>23,450</td>
<td>625,633</td>
</tr>
</tbody>
</table>
DCAA STRUGGLES/SUCCESSES

- Staffing / budget issues - 24% of workforce licensed (down 3%)
- Increased pressure from Congress who are skeptical about
  - Audits closed without audit
  - Multiyear auditing
  - Materiality
- Updates to Accounting & Estimating system workprogram complete
- Results of the Realignment
- Significant increase in reported percentage of agreed to dates met
- NDAA Impacts and focus on DCAA
- Incurred Cost Portal development and demo is underway
DCMA STRUGGLES/SUCCESES

• CBAR System shows interesting changes in aging approvals and withholds
• Shift from Seasoned Highly-skilled personnel to Highly-Educated, yet relatively inexperienced Newcomers
• Reduce overall facility footprint by 30% by FY2022
• Initiative on Contract Closeouts
• Reduction of Headquarters Management Overhead by FY2020
• IT Network Inadequacies
• Use of Fixed Price Contracts
UPDATE ON INCURRED COST INITIATIVE
INCURRED COST – UPDATE ON PROGRESS

Figure 3 – Incurred Cost Years Closed and Dollars Examined
## AUDITS COMPLETED

<table>
<thead>
<tr>
<th>DCAA Audit Reports Issued</th>
<th>FY16</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward Pricing</td>
<td>873</td>
<td>761</td>
</tr>
<tr>
<td>Special Audits</td>
<td>981</td>
<td>936</td>
</tr>
<tr>
<td>Incurred Cost</td>
<td>2,103</td>
<td>1527</td>
</tr>
<tr>
<td>Other Audits - Business Systems Audits</td>
<td>312</td>
<td>357</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,269</strong></td>
<td><strong>3,581</strong></td>
</tr>
</tbody>
</table>
## AUDITS COMPLETED – METHODS CLOSED

Table 6 – Incurred Cost Closed by Method and Dollars (billions) Examined

<table>
<thead>
<tr>
<th>Incurred Cost Years Closed</th>
<th>Number</th>
<th>Dollar Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reports</td>
<td>1,527</td>
<td>226.1</td>
</tr>
<tr>
<td>Memos</td>
<td>3,358</td>
<td>25.4</td>
</tr>
<tr>
<td>Closed for Other Reasons</td>
<td>1,901</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,786</td>
<td><strong>251.5</strong></td>
</tr>
</tbody>
</table>
INCURED COST AVERAGE DAYS TO COMPLETE

Figure 7 – Incurred Cost average elapsed days
## COST QUESTIONED

### Table 2 – Questioned Cost Sustained (billions)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Questioned Costs</td>
<td>$ 8.5</td>
<td>$ 9.6</td>
<td>$ 12.3</td>
<td>$11.7</td>
<td>$ 9.0</td>
<td>$7.1M</td>
</tr>
<tr>
<td>Questioned Costs Sustained</td>
<td>$ 4.5</td>
<td>$ 5.1</td>
<td>$ 5.7</td>
<td>$ 5.9</td>
<td>$ 4.7</td>
<td>$3.6M</td>
</tr>
<tr>
<td>Percent Sustained</td>
<td>52.2%</td>
<td>52.8%</td>
<td>46.4%</td>
<td>50.6%</td>
<td>52.5%</td>
<td>50.4%</td>
</tr>
</tbody>
</table>

DCAA attributes the increase in savings and sustention rates over the past two years to the success of its initiatives to better engage contracting officers before, during, and after the audit. Continually engaging with contracting officers allows DCAA to provide timely, relevant, audit expertise throughout the audit, which assists the contracting officer during all phases of the procurement cycle, including negotiations.
Table 3 – Sustention by Amount and Percentage of Audit Exceptions (millions)

<table>
<thead>
<tr>
<th></th>
<th>Audit Exceptions</th>
<th>Exceptions Sustained</th>
<th>Percent Sustained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward Pricing</td>
<td>3,958,037</td>
<td>2,620,227</td>
<td>66.2%</td>
</tr>
<tr>
<td>Incurred Cost</td>
<td>2,686,011</td>
<td>767,740</td>
<td>28.6%</td>
</tr>
<tr>
<td>Special Audits</td>
<td>345,309</td>
<td>144,506</td>
<td>41.8%</td>
</tr>
<tr>
<td>Other Audits</td>
<td>181,708</td>
<td>78,866</td>
<td>43.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7,171,065</strong></td>
<td><strong>3,611,339</strong></td>
<td><strong>50.4%</strong></td>
</tr>
</tbody>
</table>
• DCAA requested early DCAA engagement on congressional proposals.

• Noted they are working with Team 4 (Barriers to Entry) and Team 9 (CAS) of the 809 panel recommendations

• 400 new hires once hiring freeze was lifted in April

• Working to implement the provision set out in the 2018 NDAA
THE RESULTS OF REALIGNMENT

The realignment to four major contractors CADS and three geographic regions resulted in:

• Reduced Inadequate Submissions
• Reduced Unsupported Costs
• Reduced CAS Issues
• Improved Sustention Rates
• Improved Efficiencies
<table>
<thead>
<tr>
<th>Date</th>
<th>MRD Number</th>
<th>Subject</th>
<th>CAM Ref</th>
<th>5-Digit Activity Code</th>
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<tbody>
<tr>
<td>01/11/2019</td>
<td>19-PIC-001 (R)</td>
<td>Audit Guidance on Revised Policies and Procedures for Auditing Incurred Subcontract and Inter-Organizational Transfer Costs</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>11/27/2018</td>
<td>18-PSP-006 (R)</td>
<td>Audit Guidance on Revised Treatment of Incomplete or Inadequate Prime Contractor Cost or Price Analyses</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>10/19/2018</td>
<td>18-PIC-005 (R)</td>
<td>Audit Alert on Tailoring Standard Audit Program Steps</td>
<td>NA</td>
<td>NA</td>
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<tr>
<td>2/15/2018</td>
<td>18-PSP-002 (R)</td>
<td>Audit Alert on Auditing Long Term Agreements (LTAs)</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>1/29/2018</td>
<td>18-PIC-001 (R)</td>
<td>Audit Alert on 2018 NDAA Section 603 Timeliness Requirement for Incurred Cost Adequacy Reviews and Audits</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>
NEW WORK PROGRAM!

- DCAA posted a new Accounting System Audit workprogram under DFARS 252.242-7006 which will be used for all contractors regardless if the DFARS clause is in the contract AND regardless if the contractor has DoD work...

CONTRACTS THAT DO NOT HAVE THE DFARS 252.242-7006, CLAUSE:

Contractors that do not have DoD contracts (i.e., contractors that are 100 percent reimbursable) are not contractually required to comply with the DFARS criteria. Nevertheless, the DFARS criteria are suitable standards to use in determining the acceptability of any Government contractor’s system for the accumulation and billing of cost under Government contracts.

If this audit program is used for contractors that have only non-DoD contracts, the language in the audit report shell will need to be tailored accordingly. FAOs needing assistance in tailoring the audit report should coordinate with the regional/CAD technical programs division and Headquarters PAS.
Incurred Cost

- Utilize a multi-pronged approach to working down backlog in an effective manner
  - Multi-year audit techniques
    - Request for multi-year audits for 2016 and 2017
      - MultiYear@dcaa.mil
  - Low-risk sampling approach to performing incurred cost audits

With certain exceptions, multi-year auditing is allowed only for incurred cost submissions submitted more than 12 months prior to enactment of the 2018 NDAA.
CAS BOARD ACTION

Federal Register Notice 11/23/18 CAS Board Meeting Scheduled & Closed to the Public
• Meetings on November 27, 2018 and January 24, 2019

Agenda
• Pension Adjustments for Extraordinary Events CAS 412 Composition and Measurement of Pension Costs and CAS 413, Pension Adjustments for Extraordinary Events (i.e., plan terminations, plan curtailments, and segment closings)
• CAS Conformance to GAAP (Section 820 of the FY17 NDAA)
• CAS Applicability Thresholds, 809 Panel of 16 NDAA asked they be increased
• DCAS (Defense), 809 Panel of 16 NDAA asked that it be repealed
OTHER CAS NEWS

Federal Register Notice, OFPP Rule 7/17/18

- CAS Revision of the Exemption From Cost Accounting Standards for Contracts and Subcontracts for the Acquisition of Commercial Items

Highlights

- Years and years of confusion due to inconsistencies in the list of permissible contract types between 48 CFR 9903-201-1(b)(6) “commercial item exception” and FAR 12.207.

- This ruling removes specific contract type reference in (b)(6) and points to FAR 12.207 for the definition of commercial items.

- Contracts entered into post August 16, 2018 that are commercial per the FAR 12.207 definition should not have CAS clauses.
PREFERENCE OF FIXED-PRICE CONTRACTS TO COMPLY WITH NDAA 829

• Memorandum dated 11/27/18

• Office of Under Secretary of Defense directive incorporated into DFARS

• “shall” first consider FP contracts, including Incentive FP, for contract type and “shall” not award cost-type contracts as follows without approval of contract activity:
  – >$50M awarded after 10/1/18-10/1/19
  – >$25M awarded after 10/1/19

• Cost-type contracts are approved for R&D valued >$25M with a written determination of program risk, realistic pricing and equitable and sensible allocation of risk between Govt and Contractor
CERTIFIED COST OR PRICING DATA THRESHOLDS

Several class deviations in response to FY18 NDAA Section 811 for all applicable contracts after 7/1/18, increasing the threshold from $750,000 to $2,000,000.

- DoD 2018-O0012 - May 31, 2018 (still pending in FAR 2018-005)
- NASA 2018-N015 - July 1, 2018
- GSA CAAC Letter 2018-03 - May 3, 2018

Remember OFPP says CAS threshold = certified cost or pricing data threshold
NDAA FOR FY 2017 FOR DCAA SECTION 803 HAS SIGNIFICANT IMPACT

New Faces
- The DoD shall use qualified private auditors to perform a sufficient number of incurred cost audits.
- DoD must submit a plan for implementing this direction to Congress by October 1, 2018, and must issue contracts to at least two audit firms by April 1, 2019.
- The Secretary of Defense must use private auditors to perform incurred cost audits to eliminate any backlog of incurred cost audits by October 1, 2020.

New Timelines
- Within 60 days after receipt of an ICS, the contractor must be notified whether the submission is a qualified submission (i.e., acceptable for audit). In addition, audit findings must be issued for an incurred cost audit no later than one year after the date of receipt of a qualified ICS. This started Dec 12, 2017.
- Incurred cost audits are completed within one year after the date of a qualified submission. Contractors must be notified within 60 days of submission if qualified. This also started Dec 12, 2017.
FY19 NDAA IMPACT FOR DCAA AND DCMA


A joint review of both agencies functions to include:
• A validation of the missions and functions of each
• An assessment of the effectiveness of each
• An assessment of the adequacy of resources
• Assessment of cost savings or avoidance of attributable to the conduct of each

A determination whether functions performed by either agency could be performed more appropriately and effectively by
• The other agency
• Any other agency
• Commercial providers

A validation of the continued need for two separate agencies
Impact on Small Business Size Limit

- Lengthens the measurement of business size
- *Average of 3 years to average of 5 years of gross receipts*
- Reduce the impact of rapid-growth years
- Reduce prematurely ejecting small business out of their size standards
- Spearheaded by Montgomery County Chamber of Commerce, GovConNet Council, Bloomberg Government, House and Senate Small Business Committee
RUNWAY EXTENSION ACT

Impact on Small Business Size Limit

• Signed into Public Law and signed by Trump on 12-17-18
• Amends Sec 3 Definition of the Small Business Act
• Not effective immediately; there is no effective date until the Administrator approves
• Not applicable to present contracts, offers, or bids
• Must be implemented thru the standard rulemaking process
• Reporting must remain on the 3-year average until regs are changed
Volume 3 Section 6 Streamlining and Improving Compliance

• Quite a few recommendations to limit bid protest

• Rec. 71 Adopt a professional practice guide to support the contract audit practice of DoD and the independent public accountants DoD may use to meet its contract audit needs, and direct DoD to establish a working group to maintain and update the guide.

• Rec.72 Replace 18 system criteria from DFARS 252.242-7006, Accounting System Administration, with an internal control audit to assess the adequacy of contractors’ accounting systems based on seven system criteria.

• Rec 73: Revise the definition of business system deficiencies to more closely align with generally accepted auditing standards.
Secretary of Defense should charter a PPGWG

- A representative of the DCAA appointed by the Director of DCAA.
- A representative of the DCMA appointed by the Director of DCMA.
- A representative of the U.S. GAO appointed by the Comptroller General of the United States.
- A representative of industry nominated by CODSIA and agreed on by a majority of the representatives from DCAA, DCMA, and GAO.
- A representative from the American Institute of Certified Public Accountants and agreed on by a majority of the representatives from DCAA, DCMA, and GAO.
Risk Assessment

- Sampling Risk Assessment would change, much more robust

- “Although, DCAA has historically used a risk-based approach to determine which contractors are subject to incurred cost audits, as part of the PPG working group, DCAA has embraced an expanded risk model to include additional risk factors that further refine and improve the process.”
PPG has new materiality thresholds

- Addresses qualitative and quantitative risks
- Impacts materiality and questioned cost for government participation
- Has new materiality numbers based on size that they don’t explain
809 PANEL UPDATE – REC 72 REPLACE 18 ASR CRITERIA WITH INTERNAL CONTROL AUDIT

- Direct costs and indirect costs are classified in accordance with contract terms, FAR, Cost Accounting Standards (CAS) and other regulations, as applicable.
- Direct costs are identified and accumulated by contract in accordance with contract terms, FAR, CAS and other regulations, as applicable.
- Methods are established to accumulate and allocate indirect costs to contracts in accordance with contract terms, FAR, CAS and other regulations, as applicable.
General ledger control accounts accurately reflect all transactions recorded in subsidiary ledgers and/or other information systems that either integrate or interface with the general ledger including, but not limited to, timekeeping, labor cost distribution, fixed assets, accounts payable, project costs, and inventory.

- Adjustments to the general ledger, subsidiary ledgers, or other information systems bearing on the determination of contract costs (e.g. adjusting journal entries, reclassification journal entries, cost transfers, etc.) are done for reasons that do not violate contract terms, FAR, CAS, and other regulations, as applicable.

- Identification and treatment of unallowable costs are accomplished in accordance with contract terms, FAR, CAS, and other regulations, as applicable.

- Billings are prepared in accordance with contract terms, FAR, CAS, and other regulations, as applicable.
The FY 2011 NDAA and the DFARS regulations provide for only a significant deficiency, but in reality, the contractor business system could have a number of deficiencies that range from trivial to severe. Reporting deficiencies by different levels of severity, and in a manner that aligns with established auditing standards, will allow contracting officers to make informed decisions on the acceptability of the business system.
809 PANEL UPDATE – REC 73 REVISE DEFINITION OF CONTROL DEFICIENCY IN BUSINESS SYSTEM

- **Material Weakness**: A deficiency, or combination of deficiencies, in internal control over risks related to Government contract compliances or other shortcomings in the system, such that there is a reasonable possibility that a material noncompliance will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible, meaning the chance of the future event occurring is more than remote but less than likely, or is probable.

- **Significant Deficiency**: A deficiency, or combination of deficiencies, in internal control over risks related to Government contract compliance or other shortcomings in the system that is less severe than a material weakness yet important enough to merit the attention of those charged with governance.

- **Other Deficiency**: A deficiency, or combination of deficiencies, in internal control over Government contract compliance or other shortcomings in the system that have a clearly trivial, or inconsequential, effect on the ability of the business system to prevent or detect and correct, material noncompliances on a timely basis.
809 PANEL UPDATE – REC 73 REVISE DEFINITION OF CONTROL DEFICIENCY IN BUSINESS SYSTEM

- Material Noncompliance: A misstatement in the information provided to the Government (e.g., billings, incurred cost submissions, pricing proposals, etc.) that will materially influence, and may adversely impact the economic or management decisions of the users of the information.

- Misstatement: Information provided to the Government does not comply with contract terms and applicable federal regulations such as the Federal Acquisition Regulations (FAR) and Cost Accounting Standards (CAS).

- Acceptable Contractor Business System: Contractor business systems that comply with the criteria of applicable business system clauses and does not contain a material weakness that would affect the ability of officials of the Department of Defense to rely on information produced by the business system that is needed for management purposes.
INDUSTRY TRENDS FROM SURVEYS – 2018 GAUGE
YEARNING OVER YEAR AUDIT TRENDS

- Incurred Cost Submission
- Forward Pricing
- SF1408
- Labor Floor Check
- Accounting System
- Purchasing System
- Other

PERCENTAGE OF RESPONDENTS

Year 2017
Year 2018
DCAA AUDITS BY RESPONDENTS

- Incurred Cost Submission: 35%
- Forward Pricing: 11%
- SF1408: 15%
- CAS: 6%
- Internal Controls: 5%
- Labor Floor Check: 5%
- Property System: 4%
- Accounting System: 8%
- Estimating System: 10%
- Purchasing System: 1%
QUESTIONED COST

- $0-$10K: 66%
- $10-$50K: 17%
- $50-$100K: 13%
- $100K or more: 4%
WRAP RATES
RELATIONSHIP WITH ACO

- 36% (Yellow) - Neutral
- 33% (Dark Blue) - Good
- 1% (Light Blue) - Inflexible
- 30% (Orange) - Non-existent
SHUTDOWN FACTS
### Longest government shutdowns

_As of January 13, 2019_

<table>
<thead>
<tr>
<th>Year</th>
<th>President</th>
<th>Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 2018</td>
<td>Trump</td>
<td>23 days</td>
</tr>
<tr>
<td>Dec. 1995</td>
<td>Clinton</td>
<td>21 days</td>
</tr>
<tr>
<td>Sept. 1978</td>
<td>Carter</td>
<td>17 days</td>
</tr>
<tr>
<td>Sept. 1979</td>
<td>Carter</td>
<td>16 days</td>
</tr>
<tr>
<td>Sept. 1977</td>
<td>Carter</td>
<td>12 days</td>
</tr>
<tr>
<td>Sept. 1976</td>
<td>Ford</td>
<td>11 days</td>
</tr>
<tr>
<td>Oct. 1977</td>
<td>Carter</td>
<td>10 days</td>
</tr>
<tr>
<td>Nov. 1977</td>
<td>Carter</td>
<td>8 days</td>
</tr>
</tbody>
</table>

Source: New York Times

35 days as the longest consecutive shutdown days in history. Will another happen on Feb 15th? Has this happened before? Take a look at Carter admin. 

- Balanced Budgets
- Nuclear Powered Aircraft Carrier
- Obamacare
- Abortion
- Higher Pay & Abortion
- Health & Education
- Abortion
- Abortion
SHUTDOWN IMPACTS

Federal employees affected by the shutdown per 100,000 residents

Source: The Washington Post
SHUTDOWN SAVED $1.2B OFF OF GDP EACH WEEK...or does it?

Cost in GDP of the partial shutdown

$7.1B Projected as of January 25

$3.6 billion as of January 11

Trump's demand for funding of a border wall

$5.7 billion

Source: S&P Global Rating
DCMA CBAR UPDATE

• CBAR (Contractor Business Analysis Repository)

• A secure system to share information between DOD procurement and DCMA

• Information about each and every government contractor

• Supports price negotiations and awards

• Ask for your CBAR results and often
TYPES OF INFORMATION IN CBAR

- Established at the request of Director, Defense Pricing
  - Positioned DCMA amongst other world-class organizations with respect to information sharing among our acquisition professionals

- Indirect and Direct Rates
  - Forward Pricing Rate Agreement (FPRA)
  - Forward Pricing Rate Recommendation (FPRR)
  - Indirect Expense History
  - IR&D and B&P data - past and future
  - Cost Estimating Relationships
    - Status of Business Systems - CAGE and corporate level
    - Cost Accounting Standards Status - Disclosure and Standards
    - Business Clearance Data
    - Parent Corporation information
    - DCMA and DCAA Points of Contact
BUSINESS SYSTEMS DFARS 252.242.7005
WHY ARE THEY CRITICAL?

• PCO should insert the clause or delegate authority to do so (if missing)
  – DCMA - INST 131

• Accounting, Property and Purchasing are the top 3 reviewed

• Significant deficiency - a shortcoming that materially affects the DOD to rely upon the information produced by the system

• DCMA HQ CBS REVIEW PANEL -
  – Meet to review the disapproval before the contractor is notified in writing
  – 401 disapprovals since September 2011
  – Final determination 30 days after contractors reply
  – Corrective action
  – Provide withhold instructions
### APPROVAL CHANGES – WHAT IS THIS SAYING?

<table>
<thead>
<tr>
<th></th>
<th>As of Nov 2017</th>
<th>As of Jan 2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>3,707</td>
<td>3,747</td>
<td>40</td>
</tr>
<tr>
<td>Property</td>
<td>2,389</td>
<td>2,440</td>
<td>51</td>
</tr>
<tr>
<td>Purchasing</td>
<td>890</td>
<td>857</td>
<td>(33)</td>
</tr>
<tr>
<td>Estimating</td>
<td>727</td>
<td>686</td>
<td>(41)</td>
</tr>
<tr>
<td>EVMS</td>
<td>323</td>
<td>267</td>
<td>(56)</td>
</tr>
<tr>
<td>MMAS</td>
<td>354</td>
<td>311</td>
<td>(43)</td>
</tr>
<tr>
<td></td>
<td>8,390</td>
<td>8,308</td>
<td>(82)</td>
</tr>
<tr>
<td>Withholds</td>
<td>$200M</td>
<td>$293M</td>
<td>$93M</td>
</tr>
</tbody>
</table>
## WHAT BUSINESS SYSTEM IS MOST COSTLY?

<table>
<thead>
<tr>
<th>System</th>
<th>Withhold 11/17</th>
<th>Withhold 1/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting</td>
<td>$10 K</td>
<td>$130 K</td>
</tr>
<tr>
<td>Estimating</td>
<td>$200 M</td>
<td>$275.2M</td>
</tr>
<tr>
<td>Earned Value Management</td>
<td>$ - M</td>
<td>$1.2 M</td>
</tr>
<tr>
<td>Material Management and Accounting</td>
<td>$ - M</td>
<td>$5.6M</td>
</tr>
<tr>
<td>Property</td>
<td>$ - M</td>
<td>$4 M</td>
</tr>
<tr>
<td>Purchasing</td>
<td>$423 K</td>
<td>$6.4 M</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$200.4 M</strong></td>
<td><strong>$292.5 M</strong></td>
</tr>
</tbody>
</table>
**BUSINESS SYSTEMS UPDATE – YEAR OVER YEAR – THEY ARE AGING**

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2019</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approved</td>
<td>8390</td>
<td>8308</td>
<td>-1%</td>
</tr>
<tr>
<td>Disapproved</td>
<td>71</td>
<td>83</td>
<td>17%</td>
</tr>
<tr>
<td>Not Evaluated</td>
<td>233</td>
<td>259</td>
<td>11%</td>
</tr>
</tbody>
</table>
DCMA PRIORITIES AND UPDATES & DOD CHALLENGES
WE ARE............THE NATION’S WARFIGHTER
PRODUCT DELIVERY ORGANIZATION

From the FACTORY FLOOR to the FRONT LINE

DCMA is, first and foremost, a product delivery organization. Our nation’s warfighters expect our defense industry to deliver the equipment and systems they need to fight, survive and win. We are the DoD agency tasked, on the factory floor, to make sure this happens.

DEFENSE CONTRACT MANAGEMENT AGENCY
PROJECTED FY18 ROI 4 to 1

In the first three quarters of FY18, DCMA saved, recovered or cost avoided $4.23 billion against an annual $1.4 billion budget. For the entire year, that’s a projected 4 to 1 return on taxpayer investment.

RECOVERED
$1.45 billion – Litigation, contract terminations and property claims

SAVED
$1.22 billion – Earned value streamlining efforts, final incurred cost rate settlements

COST AVOIDED
$2.46 billion – Commercial pricing, workers’ compensation claims and ECO settlements
### ROI Comparison of 2017 to 2018

<table>
<thead>
<tr>
<th></th>
<th>2018 (thru August)</th>
<th>2017 (full year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings to Govt</td>
<td>$4.23B</td>
<td>$2.8B</td>
</tr>
<tr>
<td>Budget</td>
<td>$1.4B</td>
<td>$1.4B</td>
</tr>
<tr>
<td>ROI</td>
<td>3 : 1</td>
<td>2 : 1</td>
</tr>
<tr>
<td>Cost Recovered</td>
<td>$1.45B</td>
<td>$946M</td>
</tr>
<tr>
<td>Cost Saved</td>
<td>$322 M</td>
<td>$250M</td>
</tr>
<tr>
<td>Cost Avoided</td>
<td>$2.46B</td>
<td>$1.6B</td>
</tr>
</tbody>
</table>
FY19 DCMA PRIORITIES

• Hiring 133 FTE’s
  – 50 FTEs Contract Administrators
  – 30 FTEs for Contract Closeouts
  – 22 FTEs Commercial Pricing Centers of Excellence
  – 31 FTEs Joint Strike Fighter, Long Range Missile, and FIAR

• Cost Reduction FY2022 by moving to
  – Federal Buildings
  – DOD Facilities - Bases
  – Convert IT Network to DISA
  – Reduce HQ Management by 146 by FY2020
DOD FULL-SCOPE FINANCIAL STATEMENT AUDIT FY18 RESULTS –FIRST EVER!

• Disclaimer of Opinion

• #20 Material Weaknesses (increased from FY17 @ #13)

• IG was provided the FS 11/14/18 and issued the disclaimer opinion on 11/15/18

• DOD Management identified all but 3 of the material weaknesses but concurred with the IGs conclusions

• Sample of weaknesses such as - unreliable military pay information; insufficient contractor/vendor pay policies; missing transactions between Treasury and DOD GL; ineffective controls around military equipment values and quantities
DOD TOP CHALLENGES FOR 2019

1. Implementing DoD Reform Initiatives
2. Countering China, Russia, Iran, and North Korea
3. Countering Global Terrorism
4. Financial Management: Implementing Timely and Effective Actions to Address Financial Management Weaknesses Identified During the First DoD-Wide Financial Statement Audit
5. Improving Cyber Security and Cyber Capabilities
6. Ensuring Ethical Conduct
7. Enhancing Space-Based Operations, Missile Detection and Response, and Nuclear Deterrence
8. Improving Readiness Throughout the DoD
9. Acquisition and Contract Management: Ensuring that the DoD Gets What It Pays For On Time, at a Fair Price, and With the Right Capabilities
10. Providing Comprehensive and Cost-Effective Health Care
DFARS OR FAR STANDARDS
FAR & DFAR RULES PENDING

- 2018-018 / 091 - Commercial Item Definition and Commercial contract clause requirements and Flowdowns
- 2018-010 - prohibits the use of Kaspersky Lab products and services
- 2018-004 - increase Micro-purchase to $10k and Simplified Acquisition Threshold to $250k
- 2018-D10 - Restrictions and prohibitions on Use of LPTA source selection
- 2018-D009 - Enhanced Postaward Debriefings for contracts >$10M
- 2017-019 - Joint Ventures must be SBA approved before award of 8(a)contract
- 2017-D042 - Expediting Contract Closeout w/o reconciliation of low dollar residual amounts
NEW YEARS RESOLUTIONS

• Size Standard Reassessment

• Review Business System Policies and CBAR
  – Use the business system cklist

• Update Training
  – Unallowables
  – Code of Conduct
  – OCI

• Fill out Survey for GAUGE
  – Compare yourself to other using the 2018 GAUGE Report

• Eat more Chocolate and don’t go to the Gym
## BUSINESS SYSTEM APPLICABILITY RULES CKLIST

<table>
<thead>
<tr>
<th>SYSTEM</th>
<th>FAR, DFARS, PROVISIONS, and CLAUSES</th>
<th>CRITERIA</th>
</tr>
</thead>
</table>
| ACCOUNTING (AS) | FAR 16.301-3 Cost Reimbursement Contracts - Limitations | 1. Does your company have a Government cost-reimbursement contract? **AND**  
2. Did the ACO determine a need for accounting system audit based on significant cost-reimbursement contracts, change in cost accounting practices, billing or invoicing issues, audit recommendation, or other rationale? |
| C0D | DFARS 242.7502(b), DFARS Clause 252.242-7006 | 1. Is your Company a DoD prime contractor or subcontractor?  
2. Does any prime contract or subcontract contain a similar DFARS clause or language requiring an adequate accounting system?  
3. Was the Contractor awarded or executed any of the following contract types:  
   (a) Cost-reimbursement contract (FAR 18)  
   (b) Incentive contract based on cost information  
   (c) T&M (both Commercial FAR 32 and non-commercial FAR 15)  
   (d) Labor hour contracts  
   (e) Contracts with progress payments made on the basis of costs incurred or on % completion |

### BUSINESS SYSTEM APPLICABILITY RULES

<table>
<thead>
<tr>
<th>SYSTEM</th>
<th>FAR, DFARS, PROVISIONS, and CLAUSES</th>
<th>CRITERIA</th>
</tr>
</thead>
</table>
| ESTIMATING (E3) | FAR 15.407-5 Estimating, Systems | 1. Did the Company's CO under a prime contract determine a need for an estimating system review?  
2. Is your Company (DoD contractor or subcontractor) considered other than small as defined in the Small Business Administration? **AND** |

<table>
<thead>
<tr>
<th>CRITERIA</th>
<th>DETERMINE OVERALL SYSTEM APPLICABILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔</td>
<td></td>
</tr>
</tbody>
</table>
EXECUTIVE COMPENSATION LIMITS

- Analyze Compensation of the top 5 highly paid - NOT JUST EXECs
- Document the analysis with survey findings, resumes, financial benchmarks
- Voluntarily delete the amounts before sending trial balance to auditors or before filling out ICE
- Amounts:
  - $512,000 for 2017
  - $525,000 for 2018
STAY TUNED – THERE IS NEVER A DULL MOMENT!

• Stay tuned to see what happens with DCAA/DCMA
  – 2020 NDAA - what could be in store with CAS?
  – How will DCAA fair in its implementation of the NDAA requirements?
  – How will the impact of implementing the FY17 NDAA impact business system audit and the related goal to ramp up per DCAA?

• Stay tuned to see what’s next for Government Contractors
  – Shutdown Conundrums/Numbness
  – Will M&A pick up?
  – Top 10 DOD Challenges - how can you help with these?
  – Hot items: Commerciality, Cybersecurity, and OTAs
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Tysons, VA

Kristen Soles, CPA
Partner & Industry Practice Leader
Government Contracting Industry Practice
Tysons, VA
THANK YOU FOR ATTENDING!

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