

The Difference Between DCAA and DCMA is More than a Single Letter

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Overview



The Government Team

“The Acquisition Team consists of all participants in Government acquisition including not only representatives of the technical, supply, and procurement communities....”

FAR § 1.102-2(c)

Defense Contract Management Agency

DCMA provides contract administration services for the Department of Defense, other federal organizations and international partners, and is an essential part of the acquisition process from pre-award to sustainment.

Defense Contract Management Agency

- DCMA has approximately 12,000 employees who deploy to 15,000 contractor locations worldwide.
- DCMA reports to the Under Secretary of Defense for Acquisition and Sustainment, or USD(A&S)

DCMA – Varied Role

The ACO, as the cognizant contracting officer, determines “the acceptability of a contractor’s account system.”

DFARS § 242.7502(b)

DCMA – Varied Role

The PCO may retain responsibility for quality assurance resulting in DCMA providing support services.

DFARS § 242.201

DCMA – Varied Role

“The DCMA Chief Trial Attorney and trial attorneys assigned to the CDRC represent DCMA and defend the appeals of Contracting Officer final decisions/determinations before the ASBCA.”

DCMA Manual 2501-09

Defense Contract Audit Agency

Provides audit and financial advisory services to the Department of Defense and other federal entities responsible for acquisition and contract administration.

Defense Contract Audit Agency

- DCAA has approximately 4,500 employees located in about 300 locations.
- DCAA reports to the DOD Comptroller

DCAA – Advisory Role

“The DCAA audit report is advisory only. In deciding BAE's claim, it is within the CO's prerogative to accept or reject DCAA's advice.”

BAE Systems San Francisco Ship Repair,
14-1 BCA ¶ 35642, ASBCA No. 58809

DCAA – Advisory Role

“To the extent that the contracting officer in the instant case has construed her warrant or other instructions as binding her to accept the findings of the auditor, the FAA has erred in its processing of GS & L's claim. Such an interpretation would deprive a contractor of the independent final decision of the contracting officer to which it is entitled as a matter of law.”

G.S. &L Mechanical & Constr., 82-7 BCA ¶ 19882
DOTCAB 1856

FAR 52.215-2

“If this is a cost-reimbursement, incentive, time-and-materials ... contract ... the Contracting Officer, or an authorized representative of the Contracting Officer, shall have the right to examine and audit all records and other evidence sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred directly or indirectly in performance of this contract.”

DCAA Report to Congress

Audit Type	Aggregate Annual Cost
Forward pricing	\$120,051,000
Incurring Cost	\$279,118,000
Special Audits	\$45,505,000
Other Audits	\$224,130,000
Total	\$668,804,000

DCAA Incurred Costs Audits

According to Redstone Government Consulting, the top five DCAA issues arising from incurred cost audits are:

1. Contractor compensation
2. Labor categories (do billed personnel meet experience & education)
3. Allocability
4. Bonus / Severance cost
5. Adequacy of accounting system

DCAA Report to Congress

In FY 2019, “DCAA examined \$365 billion in contract costs, identified over \$11.7 billion in audit exceptions, reported \$3.7 billion in net savings, and produced a return on investment of about \$5.50 to \$1.”

<https://www.dcaa.mil/Portals/88/FY2019%20DCAA%20Report%20to%20Congress.pdf?ver=2020-06-08-105608-830>

DCAA – Outsourcing

Section 803 of the 2018 National Defense Authorization Act required DCAA to “acquire and maintain private sector capacity to meet current and future needs for the performance of incurred cost audits.” In FY 2019 DCAA contracted with 7 independent public accounting firms who completed 101 incurred cost audits.

DCAA – Observation

“We note parenthetically that this is one of the few occasions when we have seen a Defense Contract Audit Agency audit report which did not question something.”

AT&T Technologies, Inc., DOTCAB 2007, 89-3 BCA ¶ 22104 fn 19 by Administrative Judge Robertory

DCAA – Overreaching

DCAA disallowed \$103M in subcontractor costs alleging LM had a duty to:

- (1) reviewed subcontractor resumes to confirm personnel qualifications;
- (2) reviewed subcontractor timesheets to confirm the accuracy of invoiced hours;
- (3) tried to obtain incurred cost submissions from its subcontractor

DCAA – Overreaching

ASBCA held the found there was no statutory or contractual authority that required the particular duties alleged by the government. The Board held that DCAA's disallowance was based on "nothing more than a plainly invalid legal theory."

Lockheed Martin Integrated Systems, Inc.,
17-1 BCA 36597, ASBCA No. 59508

DFARS § 252.242-7005

Contractor business systems means:

- (1) Accounting system ...**
- (2) Earned value management system ...**
- (3) Estimating system ...**
- (4) Material management system ...**
- (5) Property management system ...**
- (6) Purchasing system ...**

DFARS § 252.242-7005

“Significant deficiencies” in a “contractor business systems” can result in withholding of 5% of payments due.

Primary Responsibility

- (1) Accounting system ... **DCAA***
- (2) Earned value management ... **DCMA**
- (3) Estimating system ... **DCAA***
- (4) Material management ... **DCMA**
- (5) Property management ... **DCMA**
- (6) Purchasing system ... **DCAA***

**Categorized as a special audit.*

Frequency of Reviews

Business System	Frequency of Business System Reviews
Accounting	Every 3 years
Estimating	Every 3 years unless a risk assessment deems otherwise
Material Management and Accounting	Every 3 years unless substantiated evidence suggests that the contractor's systems are adequate
Purchasing	Every 3-5 years based on an assessment of risk completed by DCMA administrative contracting officer
Property Management	Every 1-3 years based on a risk assessment completed by DCMA property administrator
Earned Value Management	Every 3 years based on results of annual surveillance; full system reviews are performed based on an administrative contracting officer's determination or at the time of initial contract award

DCMA



Defense Contract Management Agency

- ACOs are assigned to DCMA
- FAR § 42.302 Contract Administrative Functions identifies 71 functions which the PCO “normally delegates” to the ACO.

Defense Contract Management Agency

Business systems oversight

(1) Purchasing

(2) Government Property

(3) Earned Value Management

DCMA - Purchasing

- **Purchasing systems involve**
 - **make-or-buy decisions**
 - **the selection of vendors**
 - **analysis of quoted prices**
 - **negotiation of prices with vendor**
 - **placing and administering of orders**
 - **achieving the delivery of materials.**
- **A component of a purchasing system is assuring that subcontracts include FAR clauses that are required to be flown down.**

DCMA - Purchasing

If a contractor does not have an approved purchasing system:

- Government consent to subcontract is required for cost-reimbursement, time-and-materials, labor-hour, or letter contracts.
- Cannot enter into unpriced actions (including unpriced modifications and unpriced delivery orders) under fixed-price contracts that exceed the simplified acquisition threshold.

Contractor Purchasing Systems Reviews (CPSRs)

- 1. The results of market research accomplished;**
- 2. The degree of price competition obtained;**
- 3. Pricing policies and techniques, including methods of obtaining certified cost or pricing data, and data other than certified cost or pricing data**

Contractor Purchasing Systems Reviews (CPSRs)

- 4. Treatment accorded affiliates and other concerns having close working arrangements with the contractor;**
- 5. Policies and procedures pertaining to small business concerns.**

DCMA – Govt Property

Contractors obtains possession of government property when:

- **it is furnished to the contractor by the Government.**
- **the contractor acquires the property at Government expense but title vests in the Government.**

DCMA – Govt Property

Under the FAR § 52.245-1

Government Property clause a contractor will not be liable for the loss of government property unless the loss “is the result of willful misconduct or lack of good faith on the part of the Contractor’s managerial personnel.”

DCMA – Govt Property

DCMA expects a contractor's systems for maintaining government property to be, at a minimum, equivalent to the contractor's own systems for maintaining of contractor-owned property.

DCMA – Govt Property

The DFARS § 252.245-7003

Contractor Property Management System Administration clause requires contractors to have acceptable property management system.

DCMA – Earned Value Management (EVM)

“For cost or incentive contracts and subcontracts valued at \$20,000,000 or more, the earned value management system shall comply with the guidelines in the American National Standards Institute/Electronic Industries Alliance Standard 748, Earned Value Management Systems (ANSI/EIA-748).”

DFARS § 234.201

DCMA – EVM

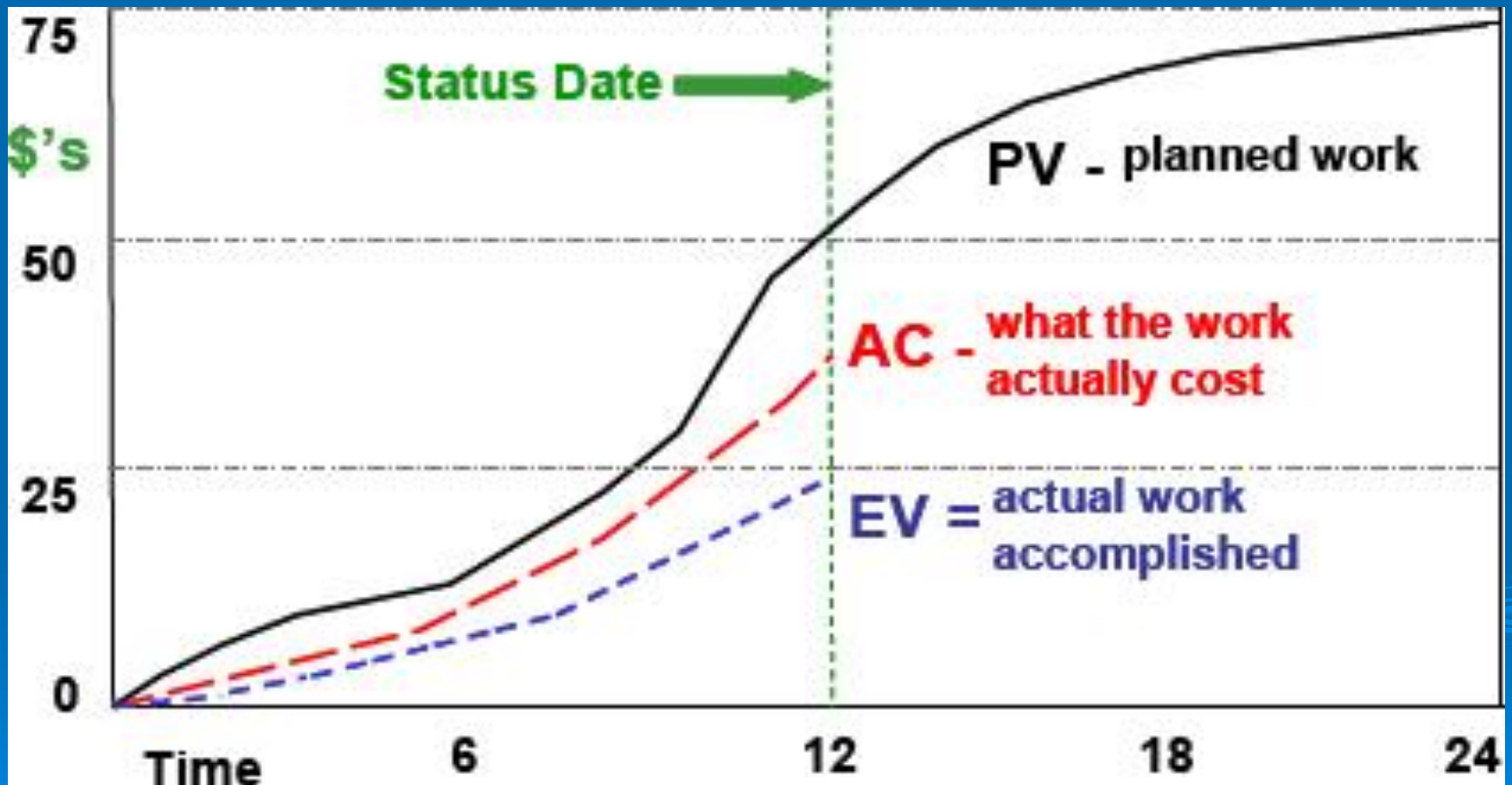
The major features of an EVM system are:

- A project plan that identifies work to be accomplished.**
- A valuation of planned work, called planned value (PV) or budgeted cost of work scheduled (BCWS).**
- Pre-defined “earning rules” to quantify the accomplishment of work, called earned value or budgeted cost of work performed (BCWP).**

DCMA – EVM

EVM provides timely, reliable, and verifiable information for the Contract Performance Reports (CPR) which provide contract cost and schedule performance data to identify problems early.

EVM Graph



DCAA



Defense Contract Audit Agency

Business systems oversight

(1) Accounting

(2) Estimating

(3) Material Management & Accounting

DCAA – Accounting

An accounting system consists of methods, procedures, and controls to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for establishing contract compliance

DCAA – Accounting

**“Acceptable accounting system”
means...**

- (i) Applicable laws and regulations are complied with;**
- (ii) The accounting system and cost data are reliable;**

DCAA – Accounting

- (iii) Risk of misallocations and mischarges are minimized; and**
- (iv) Contract allocations and charges are consistent with billing procedures.**

DFARS § 252.242-7006

DCAA – Accounting

FAR §16.301-3(a)(3) states that a cost reimbursement contract can only be awarded if “the contractor’s accounting system is adequate for determining costs applicable to the contract or order.”

DCAA – Accounting

The GAO denied a protest challenging elimination from competition where the agency found the protester's proposal failed to provide verification of an adequate cost accounting system.

Shivoy, Inc., B-413104, April 8, 2019

DCAA – Accounting

FAR § 32.503-3(a)(2) only allows progress payments if the contractor possess “an adequate accounting system.”

DCAA – Accounting

DCAA has responsibility to
“Approve, suspend, or disapprove
costs on reimbursement vouchers
received directly from contractors,
under cost-type contracts,
transmitting the vouchers to the
cognizant Disbursing Officer.”

DoDD 5105.36 1/4/2010 at ¶ 5.d

DCAA – Accounting

- FAR § 31.201-3: “the burden of proof shall be upon the contractor to establish that such cost is reasonable.”
- “When the government disallows costs on the basis of a FAR cost principle, the burden is on the government to prove that the costs are unallowable.” See *SRI International*, 11-1 BCA ¶ 34694, ASBCA No. 56353.

Accounting - Subcontractor

“The prime contractor is primarily responsible for subcontract award, technical and financial performance monitoring, ensuring that indirect rate proposals and annual rate adjustments are submitted on a timely basis.... To accomplish this responsibility, the prime contractor should have adequate internal controls to identify and notify the Government of auditable type subcontracts ... and to assure that subcontract /intracompany costs are allowable, allocable, and reasonable.”

DCAAM § 6-802.2

DCAA – Estimating

“Using an acceptable estimating system for proposal preparation benefits both the Government and the contractor by increasing the accuracy and reliability of individual proposals.”

FAR § 15.407-5

DCAA – Estimating

DFARS § 252.215-7002

- Requires a contractor to “establish, maintain, and comply with an acceptable estimating system.”
- The clause is required for all contracts awarded on the basis of certified cost and pricing data

DCAA – Estimating

An “estimating system” is a contractor's “policies, procedures, and practices for generating estimates of costs and other data included in proposals submitted to customers in the expectation of receiving contract awards.”

DCAA – Estimating

Criteria for an acceptable estimating system:

- (1) Is maintained, reliable, and consistently applied;
- (2) Produces 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; and
- (4) Is subject to applicable financial control systems.

DFARS § 252.215-7002(a).

DCAA – Estimating

A DCAA review includes a contractor's organizational structure, established lines of authority and responsibility, internal controls, estimating methods (including accumulation of historical costs), and the analyses used to generate the estimates.

DFARS § 252.215-7002(a).

DODIG Indicators of Possible Defective Pricing

- “Ignoring established estimating practices”
- “Utilization of unqualified personnel to develop cost or pricing data used in the estimating process”

DCAA – MMAS

- A Material Management & Accounting System (“MMAS”) is a system for ensuring the accurate allocation of inventory costs.
- The MMAS clause is mandatory for DOD contracts in excess of the simplified acquisition threshold that are either cost-reimbursement or fixed-price with progress payments.

DFARS § 252.242-7004

DCAA – MMAS

The purpose of a material management is to:

- Reasonably forecast material requirements;
- Ensures that costs of purchased and fabricated material charged to a contract are based on valid; and
- Maintains a consistent, equitable, and unbiased logic for costing of material transactions.

DFARS § 252.242-7004(b)(1). .”

DCAA – MMAS Review

- Contractor has \$40M in qualified sales in preceding year.
- Risk assessment by ACO of past experience and current vulnerability
- The ACO does not approve the MMAS but has authority to disapprove.

DFARS § 242.7203

TEST

What do DCMA and
DCAA have in
common other than
three letters?

ANSWER

They support the warfighter.



