They met in secret.

Former leaders from government and industry. Acquisition professionals, academics, and accountants. Lawyers and warfighters. Former DCMA folks and former GSA folks and former OFPP folks. Former Congressional staffers. Current Pentagon corridor striders. Current and former Senior Executive Staff.

They met over the past year to try to fix the defense acquisition system.

We've mentioned their activities from time to time – notably **here** .

The Section 809 Panel recently released its first official **report** .

The first Volume of three Volumes. So: more to follow. But right now we have the first Volume.

You should read it. You should read it all.

The Panel told the public that they would be making bold *recommendations for reform*. They did not disappoint.

The Panel made 24 official recommendations (though several of the recommendations had multiple subparts—e.g., Recommendation #24 had 28 individual sub-recommendations.) We liked what we read. We think you will as well.

Volume 1 was organized into eight Sections, as follows:

Section 1 – Commercial Buying

Section 2 – Contract Compliance and Audit

Section 3 – Defense Business Systems: Acquisition of IT Systems

Section 4 – Earned Value Management for Software Programs Using Agile

Section 5 – Services Contracting

Section 6 – Small Business

Section 7 – Statutory Offices and Designated Officials

Section 8 – Statutory Reporting Requirements

Each of the above Sections is worth reading. However, knowing the demographics of this blog's readership, we are going to start with Section 2 (Contract Compliance and Audit).

Section 2 contained several interesting and provocative recommendations. We are going to list them, using the Panel's numbering system.

5 Align DCAA's mission statement to focus on its primary customer, the contracting officer.

6 Revise the elements of DCAA's annual report to Congress to incorporate multiple key metrics.

7 Provide flexibility to contracting officers and auditors to use audit and advisory services when appropriate.

7a Prior to requesting field pricing/audit assistance, contracting officers should consider other available internal resources and tailor their request for assistance to the maximum extent possible.

7b Define the term audit.

7c DCAA should use the full range of audit and nonaudit services available.

7d Direct a review of the roles of DCAA and DCMA to ensure appropriate alignment and eliminate redundancies.

8 Establish statutory time limits for defense oversight activities.

9 Permit DCAA to use IPAs to manage resources to meet time limits.

10 Replace system criteria from DFARS 252.242-7006, Accounting System Administration, with an internal control audit to assess the adequacy of contractors' accounting systems.

11 Develop a Professional Practice Guide for DoD's oversight of contractor costs and business systems.

12 Require DCAA to obtain peer review from a qualified external organization.

13 Increase coverage of the effectiveness of contractor internal control audits by leveraging IPAs.

14 Incentivize contractor compliance and manage risk efficiently through robust risk assessment.

15 Clarify and streamline the definition of and requirements for an adequate incurred cost proposal to refocus the purpose of DoD's oversight.

Before we get into the meat of some of the recommendations above, notice that eleven of the twenty-four recommendations are devoted to contract compliance and audit. That's just about half the Report, in terms of recommendations. (Using the Panel's numbering and ignoring sub-recommendations.) That ought to signal to lawmakers and other policy-makers the importance that the Panel places on this issue, in terms of acquisition reform.

Now let's look at some of the recommendations, using quotes from the Report.

What kind of metrics should DCAA be reporting?

If DCAA is operating effectively, its success cannot be measured only in questioned and sustained costs. As DoD and contractor internal controls improve, there may be fewer costs to question and sustain. In contrast, worsening DoD and contractor internal controls may increase costs questioned and sustained. Similarly, DCAA's success as an organization cannot be measured by the quantity of audits at the expense of quality. Congress's current emphasis on questioned costs and DCAA's emphasis on return on investment alone do not adequately demonstrate performance. DCAA is not, and should not, be considered a profit center. Most importantly, the current DCAA report has no measure of DCAA's primary customers' (contracting officer or acquisition team) satisfaction with the quality and timeliness of DCAA's

work.

The Panel provided a long list of metrics it thought were important. Among the list of metrics, we noted –

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For postaward audits and advisory engagements of contractor costs, the questioned costs accepted by the contracting officers and contractors as a total number and as a percentage of total questioned costs, where questioned costs are expressed as the impact on reimbursable contract[s] (shown separately for the DCAA and qualified private auditors retained by the agency).

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The aggregate cost of performing audits, set forth separately by type of audit.

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The ratio of sustained questioned costs to the aggregate costs of performing audits, set forth separately by type of audit.

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The total number and dollar value of postaward audits that are pending for a period longer than 1 year as of the end of the fiscal year covered by the report, and the fiscal year in which the qualified proposal was received, set forth separately by type of audit.

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A summary of the reasons for the difference between questioned and sustained costs shown in

the statistical tables.

Again, the above list is not inclusive. It is only a sample of the many metrics the Panel recommended DCAA should be reporting to Congress annually.

With respect to Recommendation #8 (Establish statutory time limits for defense oversight activities), the Panel wrote—

Financial and business system oversight of DoD's contractors often starts too late and takes too long. These delays cause problems for both contracting officers and defense contractors and reduce the utility of oversight findings. To be effective and efficient, DoD's system of internal controls must operate in a timely manner. … DCAA's work is untimely, which causes delays in contract awards, as well as other negative effects on the contract life cycle, through and including contract closeout. For example, in FY 2016, DCAA did not begin work on final indirect cost rate proposals until more than 2 years after contractors' submissions. Contracting officers need DCAA's work to close out flexibly priced contracts. DoD's system of acquisition internal controls operates most effectively when controls are applied in a timely way.

It's tough to argue with anything in the paragraph above (though we're sure some will try). The Recommendation contained many time limits for Congress' consideration, including

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30 days to issue a report on a contractor provisional billing rate proposal

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90 days to issue a report on a contractor forward pricing rate proposal

Readers might be wondering about DCAA audits of contractor proposals to establish final billing

rates, commonly called “incurred cost proposals.” That was covered in Recommendation #15 (Clarify and streamline the definition of and requirements for an adequate incurred cost proposal to refocus the purpose of DoD’s oversight). We like this recommendation a lot, and not only because it repeats many of the things we’ve been asserting for years. The Panel wrote—

The term incurred cost proposal is not defined within federal acquisition regulations, the effect of which has been to create unnecessary burdens on both the Government and contractors. Incurred cost proposal is the government contracting community’s shorthand way of referring to a contractor’s *final indirect cost rate proposal*. An annual final indirect cost rate proposal, the elements of which are defined in FAR 52.216 -7(d), is necessary for the contractor and the government to establish final indirect cost rates for purposes of settling provisionally billed (i.e., estimated) indirect costs on flexibly priced contracts. … A final indirect cost rate proposal is not a claim for direct costs incurred and billed during contract performance. FAR 42.702 indicates that an audit of the final indirect cost rate proposal is performed for the sole purpose of negotiating final indirect cost rates. … In recent years, DCAA began auditing direct costs, as well as indirect costs, during its incurred *cost audits*. Before then, DCAA’s audit procedures concerning direct costs were limited to verifying their completeness such that final indirect cost rates are calculated accurately. In general, expanding the scope of incurred costs audits may increase the time it takes DCAA to complete incurred cost audits and increase the time it takes contracting officers to address and resolve the results of DCAA’s audits.

The government added new requirements of an adequate final indirect cost rate proposal to FAR 52.216-7(d)(2)(iii) in 2011. These newly required elements of a final indirect cost rate proposal were directly based on DCAA’s incurred cost electronic model, which DCAA created many years ago to help contractors prepare their final indirect cost rate proposals in a consistent manner and provide appropriate cost detail to make DCAA’s audit oversight more efficient. Many of the required elements of an adequate final indirect cost rate proposal have no bearing on calculating, understanding, auditing, and negotiating final indirect cost rates. This collection of unnecessary data has contributed to DCAA losing its focus on the purpose and scope of contractors’ final indirect cost rate proposal and has created unnecessary work for contractors, DCAA, and especially contracting officers. …

DCAA must refocus on its mission of providing contracting officers with the information they need to do their jobs as prescribed in contracts and by the FAR. DCAA should not be auditing direct contract costs unless requested to do so by the contracting officer as set forth in FAR 52.216-7(g). Several final indirect cost rate proposal schedules that have no bearing on evaluating or settling final indirect cost rates should be removed.

(Footnotes removed; emphasis in original.)

There's more to the Report, Section 2, than we have time or space to discuss here. There is Recommendation #10, which would revamp how DCAA reviews contractors' accounting systems. There is Recommendation #11, which would leverage collaborative input from external sources to define, document, and teach professional standards to DCAA auditors. Et cetera.

Suffice to say, if implemented as drafted, the recommendations in Section 2 would significantly improve contract audit and oversight in the defense acquisition environment. The problem, of course, is that, historically, such recommendations have been bitterly opposed by those who think they have something to lose by their implementation. We will all have to wait and see what DoD leadership and Congress do with these recommendations.

Do we need to tell readers that we endorse them wholeheartedly?