

Lack of Adequate Accounting System Costs Contract Award

Written by Nick Sanders

Tuesday, 27 November 2018 00:00

Two things about this article that are not new: (1) Courts (and too many contracting officers) think DCAA approves a contractor's accounting system; and (2) joint ventures are at competitive risk if they do not clearly explain how they will operate after contract award. We've discussed these issues before, notably in this [article](#) and in our lengthy analysis article available to site members. (Membership costs nothing, poses no risk, and has benefits!)

The new thing is a recent bid protest [decision](#) at the Court of Federal Claims, in the matter of Metrica Team Venture (MTV). MTV was a joint venture of six team members, led by Metrica. MTV was bidding on the Alliant 2 Small Business GWAC. The solicitation required bidders to submit a "self-scoring worksheet" in which bidders were permitted to claim points for meeting specific criteria. Among the points available, bidders could claim 5,500 points for having a "certified Cost Accounting System" (called a certified "CAS" in the judicial decision—but not to be confused with the Federal Cost Accounting Standards).

According to the bid protest decision, the Alliant 2 solicitation stated that, in order to claim the points, bidders were required to—

... provide verification from the Defense Contract Audit Agency ['DCAA'], Defense Contract Management Agency, or any Cognizant Federal Agency of an acceptable accounting system that has been audited and determined adequate for determining costs applicable to the contract or order in accordance with [Federal Acquisition Regulation ('FAR')] 16.301-3(a)(3).

Metrica was the leader of the JV and it *did* have a certified CAS. Unfortunately, however, none of the other five team members met the requirement. No problem! The JV team executed an agreement that stated that Metrica would do the accounting for the JV. That would solve the problem, right?

Wrong.

As Chief Judge Sweeney explained in her decision—

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... the CO deducted 5500 points from the total claimed by MTV because it only provided evidence that one member—Metrica—had a certified CAS, and those points were available only if the offeror provided evidence of a certified CAS in the name of each member or the name of the joint venture. At the end of his review, the CO concluded that MTV's validated score was 62,700, which was 5100 points below the cutoff.

(Internal citations omitted.)

Had MTV been allowed to claim the 5,500 points associated with a certified CAS, it was probable that it would have been awarded an Alliant 2 GWAC; but because it wasn't granted those points, the JV lost out on a potentially lucrative contract award.

MTV protested but Judge Sweeney didn't buy it. She wrote: "The crux of the parties' disagreement is whether, under the terms of the solicitation, a joint venture possesses a certified CAS in its name when one member has such a CAS and is contracted to perform accounting for all of the other members." In this situation, she found that the Alliant 2 solicitation was unambiguous and required that "... the credential must be issued to the joint venture—not one member acting on behalf of the other members." She concluded that—

... offerors are only entitled to points for having a certified CAS if that credential is possessed by the joint venture or each member of the joint venture. Because neither MTV nor each member possessed a certified CAS, the CO did not err when he deducted points from the total claimed by MTV for MTV not substantiating the points it claimed for having such a CAS.

Clearly, the decision turned on the language of the solicitation. Another solicitation with different language may have not been as restrictive, and may have permitted the approach to accounting system adequacy envisioned by Metrica. On the other hand, why would you risk it?

The message here is clear. If you are a Federal contractor and you want to grow your business, one of the most important needs you have is an accounting system that DCAA (or DCMA) can determine to be adequate. We are at a loss to understand why any business—large or small—would conclude otherwise. Yet, as shown by this bid protest decision, five out of six Federal contractors didn't have the necessary policies, procedures, and/or controls. Five out of six is 83 percent. That's a high percentage.

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So our advice now is the same as it's always been. If you are a Federal contractor (or want to be one) then you really *must* invest in your accounting system. It's not sexy. It's not immediately revenue-generating. It may require spending money at a time when cash is tight. We get all that. Those are great reasons for procrastinating in this area. But then again, if you procrastinate for too long, then you risk running into a situation where you don't have what you need when you need it. And then you lose a major contract award and you'll get to see all that potential revenue go to your competitors.

At that point, all those rationalizations for putting off the investment in your back office are going to ring hollow. They are not going to seem like smart cash flow or management focus decisions; they are going to look like failed leadership.

At that point: it's on you.