Recently we noted that DCAA has reinvigorated its audits of contractor business systems. We wrote "it's becoming clear that DCAA is getting serious about performing more contractor business system audits. We continue to doubt that they will perform as many as they have promised; however, we're pretty sure they will be performing more than they have in recent years (which is a grand total of 'very few')."

Government oversight of contractor business systems ("CBS" in government acronymese; "BusSys" in our vernacular) has evolved since Congress got hornswoggled by DCAA and the Commission on Wartime Contracting back in 2010 – 2011. In some respects, Congress saved contractors from a worse oversight plan, as proposed by DCAA and the DAR Council, by limiting implementation of payment withholds to the largest of defense contracts. But that small bit of grace did not overcome the reality of the final rule: it was unenforceable.

It was unenforceable because neither DCMA nor DCAA had sufficient resources to perform the necessary BusSys reviews. Congress directed, and the DAR Council promulgated, a rule that could not be enforced at the current staffing levels.

And perhaps that was the strategy. Perhaps DCAA and/or DCMA thought that their inability to perform the required audits/reviews would give them good grounds for getting additional budget for additional heads. If that was the plan, it didn't work. Staffing levels haven't changed all that much over the past seven years at DCAA.

In addition, Congress' attention has been focused on the lack of DCAA audits of contractor proposals to establish final billing rates. BusSys audits have faded into the background because everybody has been looking at the incredible backlog of final billing rate proposals DCAA let build up over the same time period. Thus, DCAA was performing neither of the audits to the required levels and Congress still didn't give the audit agency more money.

Since budgets and staffing haven't significantly increased, other bureaucratic responses had to be enacted. Many of those responses have been documented in this blog.

With respect to the unaudited contractor proposals to establish final billing rates, DCAA implemented new procedures that led to the majority of those submissions being deemed to be acceptable *without performing the required audits*. You'd think somebody somewhere would be concerned about that approach, but it turned out not to be the case. Certainly, the contractors who were told their final billing rates would be accepted os submitted without audit were not going to complain.

In fairness, DCAA did some other things that accelerated their audits. They started to perform multi-year audits, where more than one (sometimes as many as three or four) proposals to establish final billing rates were audited at the same time. That helped. (Unless you were the contractor that had to staff up to support them.) Another thing DCAA did was to create "virtual Incurred Cost audit teams" at the Regional level. This helped ensure that sufficient resources and urgency were devoted to the issue.

Finally, Congress "helped" by passing a law that required DCAA to perform its audits of contractor final billing rate proposals within 12 months of receipt. (In recent years, DCAA has been taking roughly three years to audit one year's worth of indirect cost rates.)

In sum, DCAA "risked-away" the majority of its required audits and focused on performing the remaining few more efficiently. It worked to a very great extent. Problem solved.

While DCAA was working on reducing its "incurred cost" backlog, rule-makers were working hard to make sure that the number of required BusSys reviews were being reduced.

In 2015, DOD issued Class Deviation **2015-O0017** to raise the threshold at which Earned Value Management System (EVMS) reviews were performed from $50 million to $100 million. More specifically, although the EVMS clause is required to be included in cost-type or incentive-type contracts and subcontracts valued at $20 million or more, "no EVMS surveillance activities will be routinely conducted by the [DCMA] on cost or incentive contracts and subcontracts valued from $20 million to $100 million."

More recently (May 31, 2019), a proposed DFARS rule revision was published in the Federal Register that would, if implemented as a final rule, raise the threshold at which Contractor Purchasing System Reviews (CPSRs) are performed from $25 million to $50 million of qualifying government sales. The rationale for the proposed change was to "appropriately account for inflation, reduce burden on small contractors, and allow a more efficient and effective use of CSPR resources to review larger contractors where more taxpayer dollars are at risk."

While the BusSys review thresholds are being raised to exempt smaller contractors from the need to be subject to them, DCAA is also preparing to perform more of them. It is important to note that, in the minds of DCAA and Congress, DCAA has solved its embarrassing backlog of unperformed “incurred cost” audits. Thus, the focus has moved to the embarrassing lack of performance of other important audits, such as CAS compliance, defective pricing, and contractor business systems.

One means of increasing the throughput of BusSys audits is to create “virtual business system review teams” at the regional level. This will help to ensure that sufficient resources and urgency are devoted to these audits.

The parallels between the focus on contractor “incurred cost” audits and contractor business system are striking. We see the same strategies being employed.

1. Whittle-down the universe of required audits to focus on the bigger contractors.
2. Create focused groups of resources to efficiently perform the remaining few.

We expect it will work—at least for DCAA. (We have no information about any DCMA changes; our impression is that DCMA and contractors are largely happy with how DCMA is handling its BusSys reviews.)

But how will the creation of “virtual business system review teams” impact contractors?

Obviously, feedback is limited with such a new approach—but we’ve heard from one contractor that has experienced a BusSys review from a regional team. The feedback was decidedly mixed. Again: just one data point so take that into account. But that one data point is that the regional team did not take the time to gain a deep understanding of the contractor’s operations, which created audit challenges. In order to overcome those challenges and related inefficiencies, the contractor had to get its regular auditors (who did understand its operations) together with the regional auditors to get the “outsiders” comfortable with how things worked there.

So: focused resources but also not a lot of time devoted to depth. A superficial "check-the-box" audit performed in small increments over a long time. Not what that contractor expected (or wanted) to see.

Meanwhile, for the rest of us, we'll have to wait and see for ourselves how DCAA will be performing its BusSys audits under its new management focus.

Edited to add: Also DCAA has recently republished Contract Audit Manual Chapter 5, which covers audits of BusSys. You might want to check it out to see what has changed.