

## LEGAL DEVELOPMENTS ALERT

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### GAO Issues Report on DCAA and DCMA Business System Audits

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On February 7, 2019, the U.S. Government Accountability Office (GAO) issued a [Report \(GAO-19-212\)](#) to Congressional Committees on the Department of Defense's (DOD) effectiveness in monitoring and managing contractor business system evaluations. The Defense Federal Acquisition Regulation Supplement (DFARS) requires certain government contractors to maintain up to six major business systems. The Defense Contract Management Agency (DCMA) and Defense Contract Audit Agency (DCAA) are responsible for conducting contractor business system (CBS) reviews. Section 890 of the National Defense Authorization Act for Fiscal Year (FY) 2018 required GAO to evaluate the effectiveness of the CBS review process.

The GAO Report highlights timing and process issues associated with DCAA's performance of CBS reviews. DCAA acknowledged that it has "not been able to conduct audits of contractor business systems within the timeframes outlined in DCMA instructions" and attributed this to its focus on "higher priority areas—such as incurred cost audits." The Report states that in FY 2017, DCAA proposed to perform 76 CBS audits, but ultimately completed only 9 audits after assessing available resources.

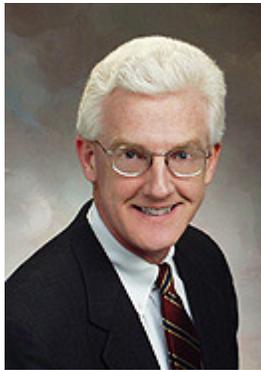
To remedy this, DCAA intends to conduct 285 CBS audits during FYs 2019 through 2022, including 50 audits in FY 2019 and 104 in FY 2020. To achieve its goal, DCAA intends to shift more than 378,000 hours from incurred cost audits to CBS audits between FYs 2018 and 2020. This shift is dependent on several factors, including DCAA's ability to use public accounting firms to perform a portion of the incurred cost audits. DCAA told GAO that it anticipates being "caught up" on CBS reviews by 2022.

The Report further observes that DCMA and DCAA "do not have a mechanism to monitor and ensure that CBS reviews and audits are conducted in a timely manner." Moreover, GAO reviewed six selected CBS reviews and found that it took from 15 months to 5 years or more to resolve deficiencies identified by DCAA or DCMA. Factors contributing to the time it took to resolve these issues included "DCMA or DCAA identifying additional deficiencies in subsequent reviews or audits, and the use of different auditors to conduct the reviews."

Another contributing factor to the delays appears to be the lack of DCMA accountability. The Report concludes: "Despite being the agency responsible for issuing the instructions and whose ACOs are responsible for making final determinations of business system compliance, DCMA officials indicated that it is not their responsibility to monitor or assess DCAA's efforts to complete the reviews in DCAA's area of responsibility." The Report recommends that the Director of DCMA, in collaboration with the Director of DCAA, develop a mechanism to monitor and assess whether CBS reviews are being completed in a timely manner.

Government contractors should expect to see a significant increase in contractor business systems reviews beginning in 2019. The GAO Report highlights DCAA's intent to perform 50 audits in FY 2019 and 104 in FY 2020. Contractors should evaluate the risk factors for business system audit selection, including: current system status, the contractor size in terms of dollars on contract, the number of cost-type contracts, organizational changes including M&A activity, and any outstanding audit requests by a contracting officer or an administrative contracting officer.

Our firm will continue to monitor DCAA and DCMA's performance of contractor business system reviews and is available to assess the impact of the GAO Report. If you have questions, please contact:



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