

# Business Systems Year in Review

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# Presentation Overview



TRENDS AND  
EVENTS IMPACTING  
ACQUISITION



BUSINESS SYSTEM  
IDEAS



CONTRACT  
CLOSEOUT



DEFECTIVE PRICING



ACCOUNTING &  
ESTIMATING  
SYSTEMS



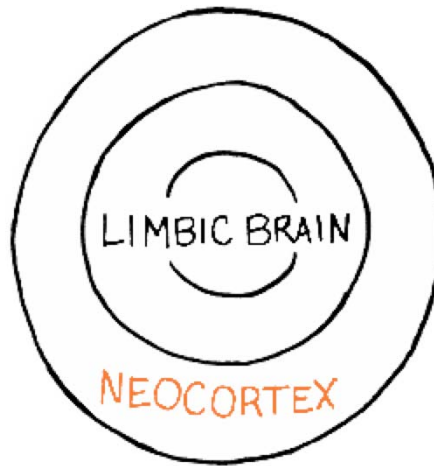
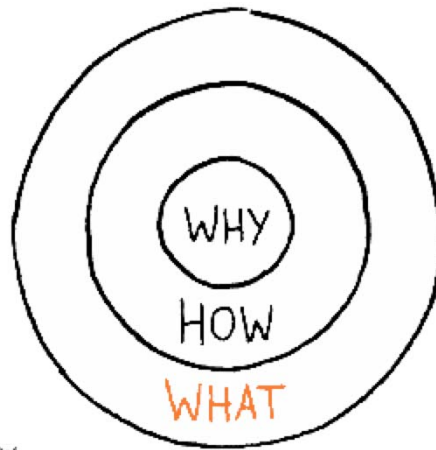
CHANGE  
MANAGEMENT

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## The Golden Circle + Human Brain

### NEOCORTEX

- Rational and Analytical Thinking
- Language



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## The Golden Circle

*One of the recurring themes I've seen in working with companies is that how people feel about business systems and internal controls is the overwhelming cause of the results they experience.*

# What to do and how to do it?

- Everyone knows what to do when it comes to business systems.
  - There's the regulation and specific clauses that covers each system
    - DFARS 242.7001, DFARS 252.215-7002, DFARS 252.234-7002, DFARS 252.242-7004, DFARS 252.242-7006, DFARS 252.244-7001, DFARS 252.245-7003, et al. ad nauseum.
    - But Regulation is boring.
  - OK well DCAA publishes these handy audit programs and DCMA writes guidebooks on how to implement a system
    - That sounds like a lot of reading, isn't there something else.
  - Well there's those folks at Redstone GCI and for some weird reason they like this stuff so much they write about it weekly and teach classes on it.
    - We can help expedite things, but to be effective requires leadership, change management and knowledge transfer

# Why?

- The usual WHY
  - From the frontline...umm I've been a buyer/estimator/accountant here for 10-years  
**why** is this an issue now?
  - From the C-Suite...**Why** are you in my office? Just get it done. Our ACO is scary and if I don't like talking to her about this stuff.
  - From the operations...**Why** are you talking to me that's procurement, estimating, accounting anyone but me's job. I don't have time for this crap. I've got to get my whiz bang doohickey to the warfighter, yesterday.

# What would you like to hear from your CEO?

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Hey Joe Procurement Manager you're doing a really great job buying all this stuff and I know I haven't talked with you like ever except when my stuff doesn't show up on time, but I'd really like for you digest this 120-page CPSR book because DCMA is going to be out here in a month or two and we've got to pass this CPSR. I know you're busy but you've got 4-5 buyers so you should be able to knock it out in no time with your existing folks and budget.

Next week I'm calling a meeting with our operations, supply chain and estimating teams. The topic of discussion will be our upcoming CPSR and the role that each department plays in our Team passing the review. We deliver exceptional products and services to our customers and this is a major opportunity for our organization to illustrate to our customer that our relationship is important to the entire Company. A successful CPSR will provide a differentiator for our company and will provide our company access to new and larger contracts. With growth comes increased responsibility which requires the trust of our customer that we have what it takes to manage and deliver on our commitments as a company.

Let's be  
honest...

1. This isn't new. DFARS Business System Clauses were introduced in 2012 and they were built off of ICAPS that's been around for much longer.
2. DCAA got behind on audits and it took DCMA a while to get their feet under them in reviewing business systems.
3. Contractors have experienced extreme budget tightening as a result of ongoing budget uncertainty and without an audit emphasis valuable time and treasure was invested elsewhere.
4. If your team is confused as to why this is a big deal now, they should be.
5. If you're wondering how you're going to survive business system audits, you're not alone.
6. Software can help, but it does not solve this problem.

# 2009 a year to remember

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- Inauguration of Barack Obama
- AIG near bankruptcy and government bail out; Bernie Madoff
- SOFA and the drawdown of troops in Iraq
- Swine Flu H1N1 Outbreak
- Facebook introduced the “like” feature to their 200M users
- #1 Song? Boom Boom Pow by the Black Eyed Peas
- #1 Movie? Avatar (honorable mention The Hangover)

September 23, 2009 GAO Report: Widespread Problems with Audit Quality Require Significant Reform

*GAO found audit quality problems at DCAA offices nationwide, including compromise of auditor independence, insufficient audit testing, and inadequate planning and supervision.*



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The more things change, the more they stay the same...



July 30, 2009 [www.dcaa.mil](http://www.dcaa.mil)



The Defense Contract Audit Agency, under the authority, direction, and control of the [Under Secretary of Defense \(Comptroller\)](#), is responsible for performing all contract audits for the Department of Defense, and providing accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. These services are provided in connection with negotiation, administration, and settlement of contracts and subcontracts. DCAA also provides contract audit services to some other Government Agencies.

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July 30, 2009 [www.dcaa.mil](http://www.dcaa.mil)

|       |     |                 |  |                      |
|-------|-----|-----------------|--|----------------------|
| 11010 | OAG | 4.2<br>Aug 2006 | Internal Control Matrix -- Billing System Controls                                 | <a href="#">.pdf</a> |
| 11015 | AP  | 7.0<br>Oct 2008 | Audit Program for Annual Testing of Contractor Eligibility for Direct Bill Program | <a href="#">.pdf</a> |
| 11020 | AP  | 5.5<br>Jul 2009 | Audit Program for Budget and Planning System and Related Internal Controls         | <a href="#">.pdf</a> |
| 11020 | OAG | 3.3<br>Sep 2007 | Internal Control Matrix for Audit of Budget and Planning System Controls           | <a href="#">.pdf</a> |
| 11070 | AP  | 7.0<br>Jul 2009 | Audit Program for Control Environment and Overall Accounting Controls              | <a href="#">.pdf</a> |
| 11070 | OAG | 5.0<br>Jul 2009 | Internal Control Matrix for Control Environment and Overall Accounting Controls    | <a href="#">.pdf</a> |
| 11510 | OAG | 4.2<br>Sep 2007 | Internal Control Matrix for IT System General Internal Controls                    | <a href="#">.pdf</a> |
| 11510 | AP  | 5.6<br>Jul 2009 | Audit Program for EDP General Controls   | <a href="#">.pdf</a> |
| 12030 | AP  | 7.4<br>Jul 2009 | Audit Program for Purchasing Controls  | <a href="#">.pdf</a> |
| 12030 | OAG | 4.2<br>Oct 2006 | Internal Control Matrix for CPSR/Purchasing System Audit                           | <a href="#">.pdf</a> |
| 12500 | OAG | 4.1<br>Jun 2006 | Internal Control Matrix for Material Management and Accounting System (MMAS)       | <a href="#">.pdf</a> |

## The more things change, the more they stay the same...

**WHAT?**

**HOW?**

| Version No. 4.2  |  | August 2006  |
|--|--|--|
| CONTROL OBJECTIVES   | EXAMPLE CONTROL ACTIVITIES   | AUDIT PROCEDURES   |
| <p>1. <u>MANAGEMENT REVIEWS</u></p> <p>The contractor should have policies and procedures for periodic monitoring of the billing process, including regular compliance reviews to ensure that billing requests are in accordance with applicable regulations, contract provisions, and related contractor policies and procedures. This must include periodic reconciliations of contract costs, as identified by the accounting system to costs billed.</p> | <p>The contractor conducts periodic internal compliance reviews to reasonably assure that its policies and procedures are being implemented. The following compliance review areas warrant special consideration:</p> <ul style="list-style-type: none"> <li>• Adequacy of written procedures.</li> <li>• Employee knowledge and compliance with policies and procedures.</li> <li>• Consistency with which the policies and procedures are applied and by whom.</li> <li>• Timely follow-up actions.</li> </ul> | <p>a. Verify that periodic reviews of contractor's billing system policies and procedures are conducted to ensure that:</p> <ul style="list-style-type: none"> <li>• Policies and procedures are compliant with applicable Federal regulations and contract terms.</li> <li>• Policies and procedures have been implemented and are working effectively.</li> <li>and</li> <li>• Follow-up actions are taken on recommendations resulting from management reviews.</li> </ul> <p>b. Evaluate the contractor's record of completed internal audits and its current internal audit plan to determine if the billing system is being subjected to periodic review in accordance with established policies and procedures.</p> <p>c. Identify and selectively evaluate documentary evidence and the frequency of the contractor's management reviews to determine whether the scope of such reviews are appropriate, the conclusions sound, and appropriate follow-up actions were taken.</p> <p>d. Identify any reviews which may have an impact on this examination and evaluate the reports and supporting working papers to determine if any system deficiencies were noted, and the extent to which we can rely on the work performed (see CAM 4-1000).</p> |



July 30, 2009 [www.dcaa.mil](http://www.dcaa.mil)

# Is a written policy and procedure enough?

DCAA, DCMA and auditors in general love policies and procedures because...

- It makes life easier...look they said that they do X, Y and Z, so I can check the box on that. Sure does make that risk assessment a lot easier with all this documentation to draw from.

Employees hate policies and procedures because...

- I have a J-O-B and unfortunately reading a 200-page property management system manual isn't getting to the top of my to do list this decade.
- This too shall pass...and I can get back to my day job.

We want our employees to **THINK**, not process.

| Control Objective | Control Activities  | Responsibility  | Outcomes  |
|-------------------|---|---|---|
| SSJ               | <p>Policy describes scenarios where use is acceptable and required documentation</p> <p>SSJ Memorandum to describe unique facts/circumstances of procurement</p> <p>Approval by Procurement Manager</p> | <p>Operations</p> <p>Buyer/SCA</p> <p>Procurement Manager</p> | <p>Use of SSJ shows our customer that as a company we are good stewards of taxpayer dollars.</p> <p>Ensures compliant products/services are used in support of the warfighter.</p> <p>Ensures Product/Service is delivered on time and in accordance with our contract.</p> <p>Business competitive position is improved as a result of compliant processes that will allow the company to grow and reward employees.</p> |

# We want our employees to THINK, not process.

| Control Objective | Regulatory References | Control Activities | Responsible Employees and Roles | Outcomes | Resources |
|-------------------|-----------------------|--------------------|---------------------------------|----------|-----------|
|                   |                       |                    |                                 |          |           |

If an employee can't explain why they do something in their day-to-day job, odds are they aren't going to recognize when issues do arise. Understanding why takes time and regular learning opportunities.

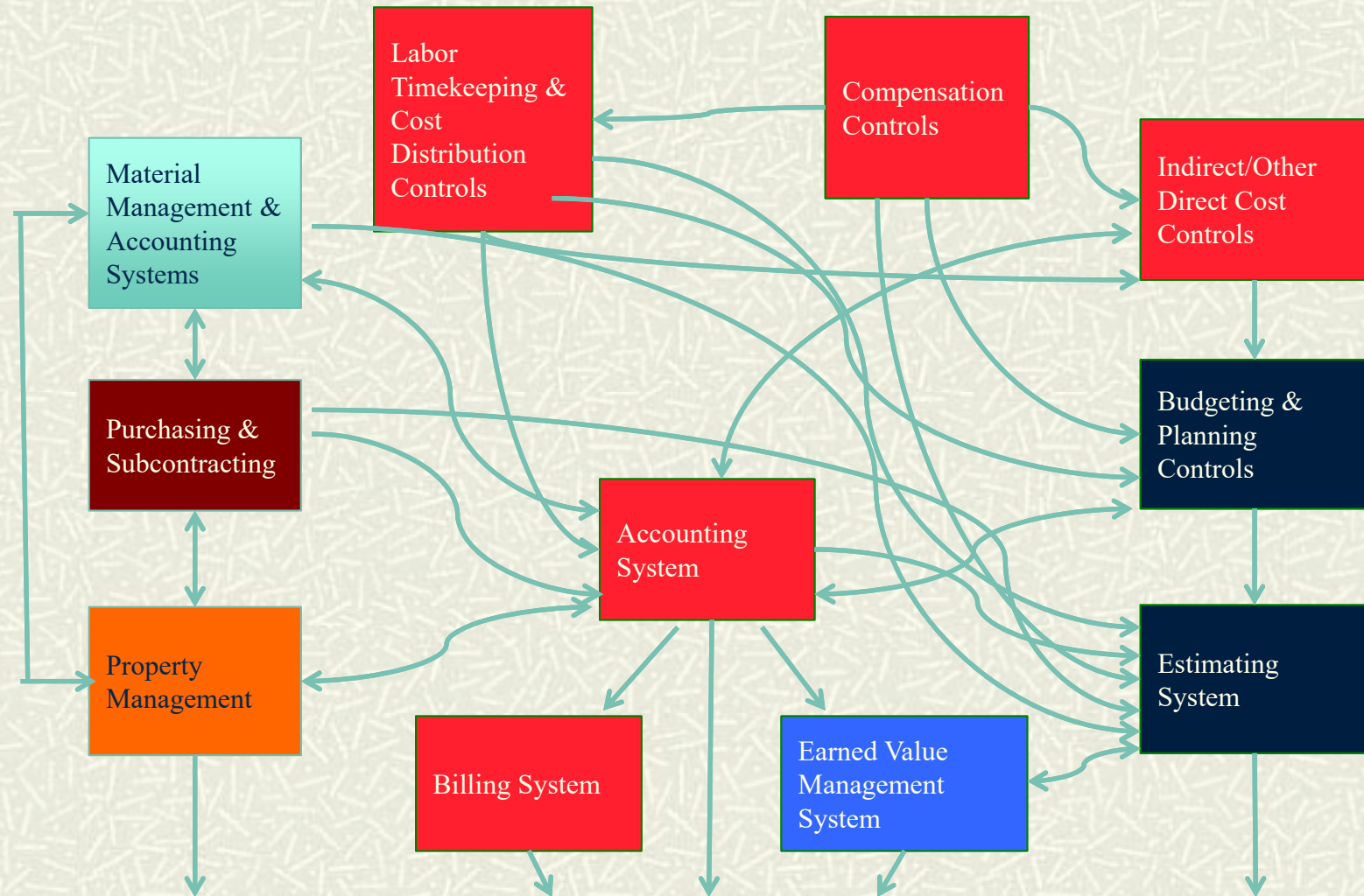
Peer review and topic-based lunch and learn discussions maintain momentum.

Forms/work instructions are needed but good examples to follow are far better for learning. Build your organizational intelligence and highlight great work for others to follow.

Your frontline must be recognized and praised for doing things right. Their job is important to the company and they need to know what they do matters.

# Government Contracting is a Team Sport

## Information Technology Capability & Controls



Cost Representation Reports and Outputs

## Success with business systems requires communication

In order for a team to be successful each person has to communicate and trust those around them to do the right thing.

- Doing the right thing requires understanding why controls exist. Otherwise they're annoyances to more important things.

Some things that can help...

- Cross-training and cross-functional teams and I'm not talking about having AP learn how to enter fixed assets...
- The right organizational structure and players
  - It's really hard to self-police these systems



## FY2020 Outlook

Contract closeout is going to be a major priority for DCMA. More to come on this topic...

TINA and post award audits for defective pricing will resume. TINA Sweeps, identifying cost/pricing data you are certifying and factual information in your proposal pricing is critical.

System reviews beyond Accounting will continue to be emphasized. Property, Purchasing and Estimating are most likely to be reviewed.

Ongoing audits are likely going to be the norm and will be time intensive as contractors and the auditors adjust.