

The Difference Between DCAA and DCMA is More than a Single Letter

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Newcomers often confuse DCAA and DCMA because of the similarity of the names—Defense Contract Audit Agency and Defense Contract Management Agency. With experience comes an understanding of the different roles each entity plays as a member of the Government Acquisition Team.¹ According to DCAA's web site, DCAA "provides audit and financial advisory services to the Department of Defense and other federal entities responsible for acquisition and contract administration." DCAA has approximately 4,500 employees located in approximately 300 locations. According to DCMA's web site, DCMA "provides contract administration services for the Department of Defense, other federal organizations and international partners, and is an essential part of the acquisition process from pre-award to sustainment." DCMA has approximately 12,000 employees who deploy to 15,000 contractor locations worldwide.

Put in perspective, the Federal Acquisition Regulations (FAR) require certain contractors who do business with the Government to maintain acceptable business systems that reduce risk to the Government and taxpayers. Government contractors may have up to six vital business systems that require Government reviews depending on a variety of factors such as size of the company, type of contract, and nature of the work.² For three of these business systems, DCAA has primary oversight responsibility: (1) Accounting; (2) Estimating; and (3) Material Management & Accounting. For another three systems, DCMA has primary responsibility: (4) Purchasing; (5) Property Management; and (6) Earned Value Management. Each of these six contractor business systems is separately discussed below:

(1) Accounting

This contractor business system is for accounting methods, procedures, and controls to gather, record, classify, analyze,

¹ See generally, FAR § 1.102-4 Role of the Acquisition Team.

² The six contractor business systems are listed in DFARS § 252.242-7005(b).

summarize, interpret, and present accurate and timely financial data for establishing compliance. Compliance is generally dictated by applicable laws, regulations, and contractual provisions. Accounting systems often include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and unallowable costs. The risks which concern the Government generally arise in the administration of cost-reimbursement, incentive type, time-and-materials, or labor-hour contracts. The Government also has an interest in assuring that progress payments are properly accounted for.

FAR §16.301-3(a)(3) states that a cost reimbursement contract can only be awarded if "the contractor's accounting system is adequate for determining costs applicable to the contract or order." Similarly, FAR § 32.503-3(a)(2) only allows progress payments if the contractor possess "an adequate accounting system." The criteria for an acceptable accounting system is identified in DFARS § 252.242-7006(c).

(2) Estimating

The contractor business system for estimating involves policies, procedures, and practices for budgeting controls to generate estimates of costs and other data for use in proposals in response to Government solicitations. As explained in FAR § 15.407-5, "using an acceptable estimating system for proposal preparation benefits both the Government and the contractor by increasing the accuracy and reliability of individual proposals." An acceptable estimating system encompasses a contractor's organizational structure, established lines of authority and responsibility, internal controls, estimating methods (including accumulation of historical costs), and the analyses used to generate the estimates.³

DFARS § 252.215-7002(b) requires a contractor to "establish, maintain, and comply with an acceptable estimating system." The DFARS § 252.215-7002 clause is required for all contracts awarded on the basis of certified cost and pricing data. DFARS § 215.408. The criteria for an acceptable estimating system is:

- I. Is maintained, reliable, and consistently applied;

³ DFARS § 252.215-7002(a).

- II. Produces verifiable, supportable, documented, and timely cost estimates that are an acceptable basis for negotiation of fair and reasonable prices;
- III. Is consistent with and integrated with the Contractor's related management systems; and
- IV. Is subject to applicable financial control systems.

DFARS § 252.215-7002(a).

(3) *Material Management & Accounting*

The purpose of a material management and accounting system (MASS) is to:

- Reasonably forecasts material requirements;
- Ensures that costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements; and
- Maintains a consistent, equitable, and unbiased logic for costing of material transactions.

DFARS § 252.242-7004(b)(1). See also DFARS § 242.7202(a).

A MASS is defined as:

[T]he contractor's system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.

DFARS § 252.242-7004(a)(1).

There are ten "system criteria" for an adequate MMAS as set forth in DFARS § 252.242-7004(d). The following two of the ten criteria are especially noteworthy:

- A 98 percent bill of material accuracy and a 95 percent master production schedule accuracy are desirable as a goal in order to ensure that requirements are both valid and appropriately time-phased.
- Maintain a consistent, equitable, and unbiased logic for costing of material transactions.

(4) *Purchasing*

Purchasing systems involve make-or-buy decisions, the selection of vendors, analysis of quoted prices, negotiation of prices with vendors, placing and administering of orders, and achieving the delivery of materials. A component of a purchasing system is assuring that subcontracts include FAR clauses that are required to be flown down. If a contractor does not have an approved purchasing system, Government consent to subcontract is required for cost-reimbursement, time-and-materials, labor-hour, or letter contracts, and also for unpriced actions (including unpriced modifications and unpriced delivery orders) under fixed-price contracts that exceed the simplified acquisition threshold.⁴

FAR Subpart 44.3 addresses Contractor Purchasing Systems Reviews (CPSR). CPSR reviews give special attention to:

- The results of market research accomplished;
- The degree of price competition obtained;
- Pricing policies and techniques, including methods of obtaining certified cost or pricing data, and data other than certified cost or pricing data;
- Methods of evaluating subcontractor responsibility;
- Treatment accorded affiliates and other concerns having close working arrangements with the contractor;
- Policies and procedures pertaining to small business concerns.

FAR § 44.303. DCMA's [Contractor Purchasing System Review Guidebook](#), June 14, 2019 is a thorough reference.⁵

(5) *Property*

The contractor business system for property involves government property entrusted to the contractor. Generally, contractors come into possession of government property in two different ways. The first is when it is furnished to the Contractor by the Government. The second is when the Contractor acquires the property at Government expense but title vests in the Government. Examples of government

⁴ FAR § 44.201-1(b).

⁵ https://www.dcmamil/Portals/31/Documents/CPSR/CPSR_Guidebook_062719.pdf

property include facilities, material, motor vehicles, special tooling, special test equipment, and R&D equipment.

A key clause is FAR § 52.245-1 Government Property which is required for all contracts in which the Government is expected to furnish property. In a nutshell, contractors are responsible for government property in their possession. Because the clause is required to be flown down to subcontractors, subcontractors have similar responsibilities. However, under the clause, a contractor will not be liable for the loss of government property unless the loss “is the result of willful misconduct or lack of good faith on the part of the Contractor’s managerial personnel.”⁶ Anecdotally, DCMA expects a contractor’s systems for maintaining government property records to be, at a minimum, equivalent to the contractor’s own systems for maintaining records of contractor-owned property.

Another key clause is DFARS § 252.245-7003 Contractor Property Management System Administration. That clause requires contractors to have acceptable property management system. The clause is vague as to what constitutes an acceptable property management system.

(6) Earned Value Management

The contractor business system for Earned Value Management (EVM) is a project management tool which effectively integrates the project scope of work with cost, schedule, and performance elements for optimum project planning and control. EVM allows early insight into potential cost overruns. EVM is primarily used for high value cost reimbursement or incentive contracts.

The essential features of an EVM system are:

- A project plan that identifies work to be accomplished.
- A valuation of planned work, called planned value (PV) or budgeted cost of work scheduled (BCWS).
- Pre-defined “earning rules” (also called metrics) to quantify the accomplishment of work, called earned value or budgeted cost of work performed (BCWP).

⁶ FAR § 52.245-1(h).

The key clause is DFARS §252.234-7002 Earned Value Management System which, when inserted into a contract, requires a contractor to have an acceptable earned value management system. An acceptable earned value management system is nebulously explained as:

- I. An Earned Value Management System (EVMS) that complies with the EVMS guidelines in the American National Standards Institute/Electronic Industries Alliance Standard 748, Earned Value Management Systems (ANSI/EIA-748); and
- II. Management procedures that provide for generation of timely, reliable, and verifiable information for the Contract Performance Report (CPR) and the Integrated Master Schedule (IMS) required by the CPR and IMS data items of this contract.

DFARS §252.234-7002(b). ANSI/EIA-748 identifies 32 guidelines to implement and maintain a EVM systems. The [Department of Defense Earned Value Management System Interpretation Guide](#) of February 1, 2018 can be a helpful resource in gaining insight to the 32 guidelines.⁷ Additionally, PGI 234.2 “Earned Value Management Systems” provides useful guidance.

⁷https://www.acq.osd.mil/evm/assets/docs/DoD_EVMSIG_14_MAR2019.pdf

It is not enough that a Contractor may have to undergo an audit by DCAA for any of the three business systems under DCAA's responsibility. Once the audit is complete, periodic reviews should also be expected. The same is true for the three contractor business systems overseen by DCMA. The table below identified the frequency of reviews which Contractors should expect DCAA and DCMA to perform.

Agency Responsible for Review	Business System	Frequency of Business System Reviews
Defense Contract Audit Agency (DCAA)	Accounting	Every 3 years
	Estimating	Every 3 years unless a risk assessment deems otherwise
	Material Management & Accounting	Every 3 years unless substantiated evidence suggests that the contractor's systems are adequate
Defense Contract Management Agency (DCMA)	Purchasing	Every 3-5 years based on an assessment of risk completed by DCMA administrative contracting officer
	Property Management	Every 1-3 years based on a risk assessment completed by DCMA property administrator
	Earned Value Management	Every 3 years based on results of annual surveillance; full system reviews are performed based on an administrative contracting officer's determination or at the time of initial contract award

In summary, it is beyond contention that employees of DCAA and DCMA are integral members of the Government Acquisition Team. FAR § 1.102-4(c) admonishes:

The Team must be prepared to perform the functions and duties assigned. The Government is committed to provide training, professional development, and other resources necessary for maintaining and improving the knowledge, skills, and abilities for all Government participants on the Team, both with regard to their particular area of responsibility within the System, and their respective role as a team member.

Just as DCAA and DCMA have in-depth expertise in the three contractor business systems under their responsibility, so too contractors need similar expertise to properly perform awarded contracts. Understanding the roles that DCAA and DCMA play in overseeing contractor business systems is essential knowledge for an experienced acquisition professional.

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