

Strategic control improvements for growth in the US government marketplace

EY Government Contract Services

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Over the past several years, the government contracting regulatory environment has changed substantially. Not only are contractors subject to government-specific business system requirements, but they also are being held to increasingly higher standards of compliance. Meanwhile, internal and external stakeholders continue to seek cost savings. While the government does not mandate the use of specific software systems or applications, contractors are expected to have fundamental processes and controls in place to meet specific contract business system requirements.

As organizations develop and enhance their government market strategy, specific attention should be given to control requirements such as those mandated by the U.S. Department of Defense (DoD). Developing, maintaining and assessing controls for these and other contract requirements go beyond an exercise of compliance. Effective controls and systems are often prerequisites for contract eligibility. In these situations, the successful pursuit of an award is contingent upon the ability to demonstrate system and control requirements. After the contract is awarded, government-approved systems and controls provide an added benefit of decreased scrutiny as government auditors are able to rely on an organization's controls. Finally, once implemented, effective systems and controls provide organizations with greater efficiencies in government operations – eliminating redundancies and managing risks through a clear delineation and assignment of requirements to organizational functions, processes and roles.

The DoD implements the rules related to contractor business systems through Defense Federal Acquisition Regulation Supplement (DFARS) contract clause 252.242-7005. This includes contract withhold for contractors found to have significant deficiencies within one or more of their applicable business systems.

Per the clause, defense contractors may be subject to one or more of the following six systems:

Business system	Description	Common financial control areas
Estimating (DFARS 252.215-7002)	Provides process and controls that enable a contractor to submit compliant proposals, which can serve as the basis of negotiation for fair and reasonable pricing.	Bids, estimates, proposals, audits of estimates
Earned Value Management (DFARS 252.234-7002)	Provides process and controls that enable a contractor to produce reliable and verifiable contract performance data consistent with DFARS contract program management.	Revenue recognition reporting and scheduling requirements.
Material Management (DFARS 252.242-7004)	Provides process and controls that enable a contractor to reasonably forecast material requirements and ensure costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements.	Inventory control and year-end counts
Accounting (DFARS 252.242-7006)		Financial reporting and audits
▪ Indirect and other direct costs		Depreciation, allocations
▪ Compensation		Pay authorizations, HR compensation assessments
▪ Billing		Cash
▪ Labor		Payroll, timekeeping, employee verification
▪ Information technology		Sarbanes-Oxley Act of 2002 IT controls
Purchasing (DFARS 252.244-7001)	Provides process and controls that enable a contractor to spend government funds in accordance with the FAR.	Reviews of payables, accruals, vendor master files, authorizations
Property (DFARS 252.245-7003)	Provides process and controls that enable a contractor to manage (i.e., control, use, preserve, protect, repair, maintain) government property in its possession.	Asset control and physical verifications

In addition to the DFARS business system requirements, contractors are expected to have internal controls in place to address the unique requirements of government contracting. These controls should govern the entire lifecycle of a government contract, from making a bid/no-bid decision to contract closeout. While a standard commercial financial control framework will address many of the financial aspects of accounting for government contracts, it will not address the risks and controls that stem from the additional statutory and regulatory requirements related to the pricing, administration and accounting of government contracts.

It is important to have approved business systems in order to increase award eligibility, process efficiencies and trust from the government customer. Disapproved business systems could subject the business to payment withholdings and ineligibility to submit bids, which may impact cash flow and lead to a damaged reputation. EY Government Contract Services professionals have experience in advising companies on the development and maintenance of contract business systems and internal control requirements. Our tailored and phased approach includes providing, as appropriate, design and implementation of controls, health checks, full gap assessments, detailed transaction testing services and monitoring services. Additionally, we have helped companies prepare for systems demonstration and audits by the government and developed action plans to correct deficiencies detected during audits. The EY Government Contract Services team has extensive prior public sector experience, such as former Defense Contract Audit Agency executive management and contract auditors, and private sector experience, such as business and financial executives.

Our business systems service offerings include:

- Developing internal controls to address specific system requirements to enable further growth in the government marketplace.
- Performing business systems evaluations, including risk assessments and gap analyses between existing systems and government regulatory requirements.
- Customizing business system compliance assessments to meet company-specific needs, with each business system test cross-referenced to its corresponding observations and findings as well as the business system regulatory criteria.
- Evaluating the business system requirements as part of software implementations and integration efforts.
- Serving as technical subject-matter resources to aid companies in preparing for audits under the DFARS criteria.
- Assisting companies in developing corrective action plans based on noncompliances identified internally or by the government.
- Codeveloping continuous monitoring plans and providing training.
- Assisting with dispute resolution with regard to systems deficiencies alleged by the government, including taking steps to help resolve payment withholdings.



Contacts



Sajeev Malaveetil

Partner and Americas Government
Contract Services Leader
Ernst & Young LLP
+1 703 862 0543
sajeev.malaveetil@ey.com



Courtney Black

Principal
Ernst & Young LLP
+1 214 969 9604
courtney.black@ey.com



Ed Morley

Principal
Ernst & Young LLP
+1 617 585 0425
edward.morley@ey.com



Shohei Takagi

Senior Manager
Ernst & Young LLP
+1 571 565 8677
shohei.takagi@ey.com



Mustafa Zuwawa

Senior Manager
Ernst & Young LLP
+1 949 437 0703
mustafa.zuwawa@ey.com



Efrain Gutierrez

Senior Manager
Ernst & Young LLP
+1 949 437 0814
efrain.gutierrez@ey.com



John Gault

Senior Manager
Ernst & Young LLP
+1 803 606 6953
john.gault@ey.com



Blake McKelvy

Senior Manager
Ernst & Young LLP
+1 949 437 0212
blake.w.mckelvy@ey.com

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