

What should you know about the Section 809 Panel Volume 3 Report?

Authored by [Pat Fitzgerald](#), [Brent Calhoon](#) and [John Hindman](#)

On January 15, 2019, the Section 809 Panel announced the release of its [Volume 3 Report](#), the third and final set of recommendations to Congress for streamlining DoD acquisition. The report recommendations are designed to simplify DoD's buying practices and improve the speed and efficiency with which the government accesses the commercial market.

For more than two years, Baker Tilly worked closely with the Panel, most recently participating in a Panel working group that included talented representatives from DCAA, DCMA, GAO, AICPA and industry. This working group collaborated to develop the audit and compliance recommendations included in the Volume 3 Report. Below is a brief overview:

Ground-Breaking Auditing Guide

The Volume 3 Report contains a ground-breaking new Guide that provides information on how to interpret and apply specific auditing concepts to audits of government contract costs and compliance-related internal controls. Until now, these topics have lacked clarity and consistent application. This Guide will assist government auditors, private sector auditors, contracting officers, contractors and other stakeholders better understand the contract auditing process.

- **Chapter 1** of the Guide recognizes that a more robust risk assessment process will allow DoD to deploy its limited resources more effectively when auditing costs incurred by contractors on flexibly-priced defense contracts. This chapter implicitly acknowledges that (1) DCAA is an important element of DoD's system of acquisition internal controls, (2) DCAA does not have sufficient resources to audit every DoD contractor, and (3) adding additional oversight resources would likely produce diminishing returns relative to the increased cost. The

risk assessment process also incentivizes larger contractors to achieve or maintain compliant cost accounting and effective accounting system internal controls, so that they can reduce their assessed risk profile and thus, audit frequency.

- **Chapter 2** recognizes that DoD can deploy its resources more efficiently, without harming effectiveness, by having a common understanding of materiality. This Engagement Materiality Framework sets forth clear materiality guidelines that help auditors plan their work and provide information contracting officers need to manage DoD's risk, rather than avoid it. The cost of DoD's oversight, including adverse effects on the timeliness of decision making, must be balanced with expected benefits of that oversight.
- **Chapter 3** recognizes that systems of internal control are rarely designed to provide absolute assurance and that the costs of attaining absolute assurance are generally greater than the benefits attained. It introduces an internal control audit framework-based body of professional standards developed to address the requirements of Sarbanes-Oxley Act (SOX) Section 404(b). These audits are well established and understood in the private sector. They will also provide more useful, relevant information to the acquisition team, contracting officer and contractor.

Internal Controls Audit Recommendations

To facilitate adoption of an internal controls audit set forth in Chapter 3 of the Guide, the 809 Panel recommends replacing the current 18 DFARS accounting system criteria with seven objective criteria. The Panel also recommends conforming the current statutory definition of "significant deficiency" with a private-sector definition of "material weakness." The current regulations provide for only a significant deficiency, but in reality, contractor business systems could have a number of deficiencies that range from trivial to severe. Reporting deficiencies by different levels of severity, and in a manner that aligns with established auditing standards, will allow contracting officers to make better, more informed decisions on business system acceptability.

Next Steps

Section 809 Panel will be working with Congress in the coming months to review the recommendations and take action. In the meantime, we encourage you to:

- **Learn More:** [Read the full January 2019 Volume 3 Report](#), as well as the Panel's Volume 1 and Volume 2 Reports, available on the [Section 809 Panel website](#)
- **Engage in the Conversation:** Reach out to colleagues in industry associations to learn more together and engage in hearty conversations about what's next with DoD acquisition.
- **Show Your Support:** Contact your senator or representative to show your support of acquisition reform and the Section 809 Panel Reports.

For more information on this topic, or to learn how Baker Tilly government contractor advisory specialists can help, [contact our team](#).