

Hi there, readers. It's been awhile, hasn't it? Truth be told, I basically took off the month of July. No consulting work, no blog. Why? Because I needed to! And I could.

And—speaking frankly once again—I don't know how productive I will be the rest of this year, in terms of blog output. If I see something that compels me to write an article, then I will. But if nothing calls to me, then I'll be doing other things.

You may want to adjust your expectations accordingly.

Now, on to the topic at hand: the business system narrative.

As you may know, we've been deeply involved in business system audits and/or reviews since the beginning. We now have roughly a full decade of experience with pretty much all of the six systems—building them, evaluating them, supporting them through governmental testing. What we've experienced in that decade is that the government's approach to system audits/reviews has evolved over that timeframe.

Before going further, we perhaps should clarify that there are six business systems. DCAA is the lead agency for Accounting, Estimating, and Material Management/Accounting (MMAS), while DCMA is the lead agency for Purchasing, Property, and Earned Value (EVMS). DCAA *audits*

business systems while DCMA *reviews*

business systems. Regardless of who takes the lead, it is always a DCMA contracting officer that makes the final determination of system adequacy.

DCMA's approach to reviewing EVMS has evolved in the sense that it's gotten more automated—or, as DCMA calls it—more “data-driven.” A contractor is expected to provide the DCMA EVM specialists with various datasets, which are analyzed and evaluated for anomalies. To a large extent, once a contractor has passed the basics (e.g., adequate system description), it lives or dies by the data it provides. Here's

[a link](#)

to a DCMA EVMS website, in case you want to dive in a bit deeper.

DCAA has evolved its audits of both Accounting and Estimating systems by requiring contractors to provide a system “narrative” for review. The narrative is the basis of what DCAA audits. The narrative is in addition to a system description and a formal walkthrough slide deck. It’s kind of duplicative, at least in our view, but your auditor will likely tell you that the narrative is your company’s “assertion” that will be tested.

The auditor may request that you or a knowledgeable company executive sign-off on the narrative. This request is a bit controversial. Some of the larger contractors have pushed back on that request, at the recommendation of their attorneys. They argue that there is nothing in FAR or DFARS that require such a sign-off, and they believe that having an executive sign the narrative exposes the company and/or the executive to downstream litigation risk, should there be an (inadvertent) error in the narrative.

We disagree and recommend that the narrative be signed if the auditors request it. In our view, if the company has done its diligence (as we would expect it to do) and the narrative is accurate, then the risk the attorneys worry about is minimal. In our view, the better relations with the auditors who are looking at your business system is worth the minimal risk involved.

The entire concept of a business system narrative seems a bit weird to us, frankly. If the company has a robust system description, and its walk-through package is detailed, then we really don’t see what value is added by a narrative. Still, DCAA will expect one.

Another concern we have is that the narrative is really the auditor’s job to prepare, not the contractor’s responsibility. The narrative should not be a contractor assertion; it should be a working paper prepared by the auditor in order to document the auditor’s understanding of the business system being audited. In support of our position, we note that the DCAA Contract Audit Manual (at 5-106e) states:

Once the auditor has gained an adequate understanding of the contractor’s business system and applicable sub-systems it should be documented in the audit working papers and related permanent files. This documentation will typically take the form of system flowcharts, narrative descriptions, and copies of relevant documents and reports.

Thus, in our view, having the contractor prepare the narrative is basically asking the contractor to prepare the auditor's working papers. By no means is this unheard of! However, when we add the narrative's perceived lack of value to the audit to the fact that the contractor is basically being asked to do the auditor's job, we find the concept of a system narrative just rubs us the wrong way.

But don't let our feelings in the matter stop you from doing what makes sense in the context of your audit. If your auditor expects a narrative, it's almost certainly in your best interest to provide one.

As we noted, we are aware of DCAA system narrative templates for both Accounting and Estimating systems. As far as we know, there is not a similar template for MMAS. Maybe one is one the way? We don't know.

Looking at the Estimating System narrative template, there are two options available to a contractor. One option is tied explicitly to the DFARS system adequacy criteria, and the other option focuses on cost elements rather than adequacy criteria. There is no right template; there is only the one that works best for your company. Either one works.

If you've done your job with your system description and related command media, and if you've done your job identifying work flows and related internal controls, then preparing the narrative (and the walk-through slide deck) should be relatively painless. Of course, if your company has slacked-off (or if this is your first business system audit/review), then you'll have a fair amount of work ahead of you.

Business system audits and/or reviews are a critical part of being a government contractor. It's important to invest sufficient time and resources into documenting your systems and supporting them through audit. If you make the smart investments, you'll find that you do well in the inevitable governmental oversight activities.