In late February, 2018, DCMA briefed industry on the status of contractor business systems, from the government's point of view.

Here's what our readers need to know:

There are 8,826 individual contractor business systems being tracked in the DCMA CBAR database. (The number is calculated by individual CAGE code, so to the extent contractors have multiple CAGE codes, they may be counted more than once). Of that total, 8,529 business systems are currently approved. Of that total, 73 business systems are currently disapproved. And 224 business systems are currently "not evaluated."

Thus, less than one percent of contractor business systems are disapproved.

Contractors must *really* have focused on improving their business systems since June 10, 2009, when the Commission on Wartime Contracting in Iraq and Afghanistan told Congress and the public that "roughly 30 percent of contractor business systems audited by [DCAA] contained significant deficiencies. The same analysis reveals that contractor billing systems and estimating systems were deficient at even greater rates—50 and 42 percent, respectively." (Source: *Commission on Wartime Contracting in Iraq and Afghanistan Interim Report to Congress*, Page 27.)

Things must have *really* improved in the past nine years, because having less than one percent disapproved business systems is a lot better than the horror story that DCAA was testifying to (under oath) and that the Commission on Wartime Contracting was stating in an official report to Congress, one funded by taxpayer money.

Regardless of the accuracy (or veracity) of testimony and reporting, the rules were revised in 2012, and now significant deficiencies in any of the six business systems lead to *mandatory* payment withholds for those lucky contractors whose DoD contracts contain the DFARS contract clause 252.242-7005 ("Contractor Business Systems").

That same DCMA briefing stated that the 73 disapproved contractor business systems have generated $206 million in payment withholds. In fact, the eleven (11) disapproved contractor estimating systems have, all by themselves, generated $200 million in payment withholds – meaning that the other 62 disapproved business systems have generated about $6 million in payment withholds.

Let's stop for a second to consider the situation. Eleven disapproved estimating systems have generated $200 million in cumulative payment withholds. *Those systems must really be bad, right?* They must generate such bad estimates that the Pentagon (and Fort Lee) feels it is fair and reasonable to hold back nearly a quarter billion dollars of contractor cash flow.

Moreover, the data indicates that 15 percent (11/73) of the business systems generated 97 percent (200/206) of the total payment withholds. Those disapproved estimating systems must be very important to the Department of Defense—otherwise, somebody might think the situation is inequitable. The word "punitive" might even be tossed into the conversation.

On the other hand, the DCMA briefing didn't focus on contractor estimating systems. Instead, it focused on contractor purchasing systems and contractor property management systems. Consequently, we don't have anything more to say about the single contractor business system that generates 97 percent of the payment withholds.

With respect to contractor purchasing systems – which have generated (cumulatively) $5.65 million in payment withholds (as of the date of the briefing) – we have lots of stuff to report. Although only 21 contractor purchasing systems are currently in a disapproved state, there are 129 individual deficiencies associated with those systems. According to DCMA, by far the most common deficiency associated with purchasing system disapproval is an inadequate purchasing system manual (91/129). Not the actual practices themselves; the policies and procedures that guide those practices. The next most common deficiency is a failure to properly perform (and document) the check of the debarred/suspended contractor list (EPLS). Other deficiencies included a lack of file documentation (57/129), inadequate cost/price analyses (59/129), and improper administration of DPAS (54/129). Finally, another common deficiency is a failure to implement internal reviews and self-audits (34/129). Everything might be humming along just fine, but if you're not checking (and documenting those checks), then you're going to have a system deficiency.

With respect to contractor property management and control systems – which have generated (cumulatively) a paltry $480,000 in payment withholds – the briefing stated that there were many deficiencies, ranging from deficient procedures (91/978) to a lack of self-assessments (56/978) to inadequate records (89/978).

When your company grows to the point where it is subject to full CAS coverage, you also get to be covered by the DFARS business systems clause (assuming you are a defense contractor). You will probably have had individual business systems clauses in your contracts before reaching that point in time, but you probably haven't paid too much attention to system "adequacy" once you passed your initial DCAA accounting system adequacy reviews. Then you hit that point and suddenly you need to really focus on CAS and business system adequacy. It can be overwhelming, but the price you pay for failing to focus on those compliance issues can be measured (and is being measured) in the millions of dollars of lost cash flow.

It seems to us that what you want to do is to get a bit ahead of things. You want to start to think about CAS compliance and business system adequacy before you actually get penalized for not focusing on them. The word "proactive" comes to mind. You might consider assessing things *now*, especially if you see a milestone looming ahead. Look out about two or three years and start to get your house in order today. Invest a little bit today to avoid a large, time-crunched, investment in the future.

Otherwise, when you do hit that point in time, you are likely to join the "payment withhold club." And while you will be welcomed into that club (because misery loves company), you would very much seem to be better off staying out of it.