

Inadequate Business Systems

Written by Nick Sanders

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You might remember, as [we do](#), the time when DCAA blasted “inadequate” contractor business systems, and blamed those systems for “millions of dollars” of contractor overbillings to the Department of Defense. Of course, DCAA was talking about LOGCAP contractors in Southwest Asia (including Iraq and Afghanistan) but – as we predicted – very few people caught that nuance and, instead, the unsupported comments were taken to apply to all defense contractors.

Thus, it wasn’t long before we had a series of proposed rules and public law revisions that led to the current DFARS contractor business system oversight regime, a regime about which we’ve written at length.

Maybe those LOGCAP contractors had deficiencies in their business systems; maybe not. That was more than a decade ago and times were different. In particular, at the time DCAA had been under intense criticism for poor quality audits, and there is no reason to think that the audits they performed on LOGCAP contractors’ business systems were of any better quality than the audits they performed of other contractors’ business systems. We’ll likely never know the truth of the assertions made by the DCAA Director at the time—which were made under oath.

What we do know is that, today, almost all contractor business systems audited by DCAA (or “reviewed,” if performed by DCMA) are found to be adequate.

We know this because, from time to time, DCMA publishes statistics on the status of contractor business systems. These statistics aren’t published in the Federal Register. For the most part, the average Joe doesn’t get to see them. However, sometimes they get handed out to industry groups and passed around within the membership. (We’ve written before about the benefits of joining an industry group such as AIA or NDIA. You really should.) Sometimes one of our clients gets a copy and gives it to us as an FYI.

The last set of contractor business system statistics we have seen was dated April, 2021. That’s a bit dated now but, if you have nothing, then even a bit dated view of business system status is interesting. But before we recap the stats, let’s talk about the methodology. First, DCMA measures contractor business systems by CAGE Code. Basically, a CAGE Code is issued at the intersection of a facility and a geographic location. As you might guess, some contractors only have one CAGE Code while other contractors have dozens of them. (Government entities

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have CAGE Codes too, but that's not relevant to this article.)

The point is, you can't correlate CAGE Codes to contractors. So when we report that DCMA is tracking roughly 8,900 CAGE Codes in its contractor business system reporting, don't think that that means DCMA is tracking roughly 8,900 individual contractors. They're not.

Also, remember that the focus of the DFARS business system oversight regime is on the largest defense contractors. Mandatory payment withholds for system inadequacies will only be implemented on contractors that are subject to Full CAS coverage. Thus, don't over generalize the data to the entire defense industrial base.

Now, having set the stage, we know that, as of April 30, 2021, DCMA was tracking 8,871 contractor business systems by CAGE Code. That is to say, DCMA reported business system status for 8,871 individual CAGE Codes.

Of the 8,871 CAGE Codes, only 62 had disapproved business systems. That's a vanishingly small percentage.

Note, however, that those 62 disapproved contractor business systems had generated \$45.4 million in cumulative payment withholds.

Which systems had the most disapprovals?

The Accounting System was, by far, the system with the most disapprovals (27/62). That said, disapproved Accounting Systems only drove \$90,000 in payment withholds. That implies the disapprovals were being experienced by smaller contractors—i.e., those not subject to Full CAS coverage.

Next was the Estimating System (15/62). Payment withholds associated with disapproved Estimating Systems were, cumulatively, \$3.4 million.

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No other contractor business system broke double-digits, in terms of disapprovals. But we did note that Earned Value Management (EVMS) accounted for 62 percent of all cumulative payment withholds, even though there were only 9 CAGE Codes with disapproved EVM Systems.

The point of this article is that, unlike the asserted findings within the 2010 DCAA testimony about LOGCAP contractors, today's contractor business systems are very much adequate. That is a factual statement based on reported DCMA statistics.

Was the 2010 DCAA testimony inaccurate?

Or has the past decade of focus on contractor business systems led to significant improvements by contractors?

It's not likely that anybody reading this blog article will ever know the answers to those questions for sure. But what we do know is that DCAA and DCMA continue to audit, and review, contractor business systems. Payment withholds continue to be levied against the largest contractors, and sometimes those payment withholds reach high levels, significantly impacting contractor cash flow.

If you are a larger defense contractor—or want to become one—then you need to focus on your business systems.