

Corrective Action Requests (CAR) from DCMA – Why They are Issued and Implications to Contractors

What is the DFARS Business system rule

DFARS Business Systems Rule requires government contractors have 6 business systems in place:

The six business systems include the following:

- **Accounting (252.242-7006)**
- **Estimating (252.215-7002)**
- **Material Management & Accounting System (MMAS) (252-242-7004)**
- **Earned Value Management (EVM) (252.234-7002)**
- **Purchasing (252.244-7001)**
- **Government Property (252.245-7003)**

The business system rule also includes a Business Systems Administration clause, DFARS 252.242-7005 which includes provisions for withholding contract payments in the event that a contracting officer determines a system to have one or more significant deficiencies.

DFARS 252.242-7005 (FEB 2012)

(d) Significant deficiencies

“...a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon information produced by the system that is needed for management purposes.”

(e) ...the CO will withhold 5% of amounts due from progress payments and performance-based payments **(for the current contract)**, and direct the contractor to withhold 5% from its billings on interim cost vouchers on CR, labor-hour, and T&M **(for ALL contracts)** until the CO has determined that the contractor has corrected all significant deficiencies...

What is Corrective Action Request (CAR)

During the business system audit, sometimes, Corrective Action Request (CAR) are issued. There are 4 levels of CARS, with each level carrying different types of ramifications. If they are not addressed promptly, CARs can be escalated. The most serious, Level IV, can result in "contractual remedies such as suspension of progress payments."

CORRECTIVE ACTION REQUEST (CAR) LEVELS

Level I: Issued for a nonconformity that can be corrected on the spot and where no further corrective action response is necessary

Level II: Issued when a contractual nonconformity cannot be corrected on the spot.

Level III: Issued to the supplier's top management to call attention to a serious contractual nonconformity. Repeat nonconformities found within one year for the same single point failure characteristics shall be issued as a Level III CAR. A Level III CAR may be coupled with contractual remedies such as reductions of progress payments, cost disallowances, or business management systems disapprovals, etc. A Level I or II CAR need not be issued before a Level III CAR is generated. All Level III CARs shall be coordinated with the Contracting Officer.

Level IV: Issued to the supplier's top management when a Level III CAR has been ineffective or the contractual nonconformity is of such a serious nature to warrant contractual remedies such as suspension of progress payments or product acceptance activities, in accordance with applicable FAR/DFARS policies and procedures.

Some DCMA Findings in Level 3 CARs

DCMA on BAE Systems, Sep. 5, 2010 –
the CARs result from BAE system’s
failure to identify and control non-
conforming material in a timely manner

DCMA on Lockheed Martin, May 10, 2010 – Facility has obtained 8
level 3 CARs over the past 7 years indicating a systematic failure to
follow procedures

DCMA on Lockheed Martin, Oct. 5, 2009 –
Four serviceable nacelles removed from an
aircraft, that should have been retained for
future use, were destroyed

You can find more about level 3 CARs issued to contractors in the past and the link to DCMA findings here on this link. (<http://pogoblog.typepad.com/.a/6a00d8341c68bf53ef0168ec12fe4c970c-pj>).

What Contractors should expect in the Business System Audit

FAR Clause 52.245-1(g) Specify what contractors need to prepare:

- Provides detailed guidance as to the Government's authorities and the contractor's responsibilities regarding a Property Management System Audit (PMSA)
- The Government shall have access to the contractor's premises and all Government property, AT REASONABLE TIMES, for the purposes of reviewing, inspecting, and evaluating the contractor's property management plan(s), systems, procedures, records, and supporting documentation that pertain to government property.

The accounting firms Cohn & Reznick has provided a list of key audit components in Government Property Management system audit (<https://govcon360.com/wp-content/uploads/2015/10/Keys-to-An-Acceptable-Government-Property-Management-System.pdf>)

Government Property Management Audit components:

1. Policy and Procedure Review
2. Conduct entrance conference
3. Process review and testing
4. Establish sampling plan
5. Analyze defect
6. Conduct exit conference
7. Prepare business system analysis summary (BSAS)
8. Issue Corrective Action Request (CAR) and Monitor Contractor Corrective Action
9. Property to Record Review

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We provide out of box Government Property Management system to help government contractors to meet FAR/DFARS requirements. To find out more, please call our sales team at 1-866-845-2416, or visit www.e-isg.com.