

The Ultimate Guide to Corrective Action Requests (CARs) for Government Contractors



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Chapter 1: DFARS and CARs

By Jackie Luo

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
- Estimating
- Material Management & Accounting System
- Earned Value Management
- Purchasing
- Government Property

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 a Corrective Action Request (CAR)?

During a business system audit, sometimes a Corrective Action Request (CAR) is 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 to higher, more serious levels.

The most serious, Level IV, can result in "contractual remedies such as suspension of progress payments."

Some Examples of 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.

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 IICAR 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.

What Contractors Should Expect in a Business System Audit

The FAR Clause 52.245-1(g) specifies 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 firm Cohn & Reznick has provided [a list of key audit components](#) in Government Property Management system audit, shown below.

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

Chapter 2: How to Avoid Getting a CAR

By Richard Wilson

If you corner a property manager that has received a dreaded Corrective Action Request (CAR) for a property system deficiency and ask them to candidly answer the question, “Did you see this coming?” my bet is more than 90% would answer “Of course.”

Preceding the issuance of the CAR, the government property manager likely endured for months or even years the feeling of impending doom.

Efforts to relieve themselves of this anxiety were just not productive. Maybe management shrugged off pleas for help. Perhaps issues were observed, but the property manager could not identify the true root cause.

Regardless, the Defense Contract Management Agency (DCMA) now has a spotlight on the property system and the property manager is on the hot seat.

If you found this article because you are trying to Google a way out of the CAR, I suggest reading Chapter 3 on how to respond to a CAR and submitting a [request to discuss the situation with an expert](#). This article is going to focus on ways to avoid getting hit with a CAR.

Do your procedures need a tune-up?

The Corrective Action Request is a tool that the DCMA uses to notify contractors of contractual non-compliances. The non-compliances are usually observed during a Property Management System Analysis (PMSA). This is when the contract/DCMA Property Administrator (PA) comes on site to evaluate the contractor’s property management system.

Over the years the scrutiny of the PMSAs has increased and so has their complexity.

As [Deena Day of the DCMA](#) pointed out during her education session at 2018 NPMA NES, there are 22 property elements that the PA may audit during the PMSA. The sheer volume of potential pitfalls is enough to justify frequent heartburn for government property managers.

However, of all these elements one is guaranteed to be scrutinized during every PMSA: the written property management system procedures. The Defense Acquisition University (DAU) makes it clear to all those that conduct PMSAs: [“Review of the Contractor’s written property management system procedures are critical to performing a PMSA”](#).

If you often feel like things are out of hand, this is your brain giving you a signal that its time for a property management tune-up. Start with your procedures.

If you are a government contractor that has or is bidding on a contract with government property and you don’t have

written property management procedures in place, take care of this right now. The National Defense Industrial Association (NDIA) has a template you can [download](#).

Written procedures are the key

During a PMSA, the PAs are instructed to ensure your written procedures “identify pertinent details such as what outcome is being addressed, who is responsible for performance of the procedure when certain tasks are performed (e.g. frequency) and the steps involved.”

The upside of the written procedure review during the PMSA is that it’s an open book test. We know the PA will list out the requirements of [FAR 52.245-1\(f\)](#), then identify the sections/pages of your written procedures that cover each requirement.

Knowing this, we can evaluate our own written procedures by reviewing written procedures during a self-assessment.

Performing a self-assessment

When was the last time your company completed a self-assessment which also included a comprehensive review of your written procedures?

(Just skimming the document doesn’t count.)

Because you know how the PA will review your property management plan, you should replicate the PA review method to ensure a thorough self-assessment.

Certified Professional Property Managers (CPPMs) Rosanne Green and Tara Miller [penned a great article](#) on how to prepare for a property audit. In this article, they agree with the above strategy and provide some additional insight:

“...do a self-assessment (internal audit) by comparing the procedure to the actual process being followed. This may seem like a no-brainer, but often in the quest to perform more efficiently, processes are enhanced, streamlined, or changed in some way. It is not unusual to find procedures do not match processes.”

A quick note: a thorough annual review is a good start, but the written procedures should also be analyzed each time your company is awarded a contract with any government property management clauses.

Don’t forget to identify any agency-specific property clauses like those seen in the DFARs, NSF (NASA Far Supplement), and the Department of State Acquisition Regulation (DOSAR).

Self-assessments in written procedures

The self-assessment is not just something your team performs. It also is a procedure that must be clearly defined in your written procedures.

The NDIA Government Property Management Systems Committee [assembled guidelines for self-assessments](#) and identified 7 concepts that should be addressed in the written procedures.

To summarize, they are:

1. The assessment methodology must be defined
2. The utilized processes and FAR outcomes to be reviewed should be defined
3. Parties performing the assessment should be impartial (when practical) and identified in the written procedures
4. The organizational scope of the assessment should be identified and should include the contractor's entire property management system
5. The assessment frequency should be documented and based on the contractor's risk level
6. The procedures should define a "defect" and subsequent corrective action requirements
7. Reporting requirements of self-assessments should be documented and identify who gets the report and when

Obstacles to successful self-assessments

I have observed that many contractors neglect to complete self-assessments or fail to leverage them as a true opportunity for improvement.

Understandably, government property managers can feel like all of their available moments are consumed trying to support the operational property needs of the organization. Many people also prefer to shy away from examinations, so self-administered reviews may be packed with confirmation bias.

The reality is every aspect of any business can be improved. Professionals that want to enhance their teams' abilities regularly analyze for adjustments that can be made to improve productivity and efficiency.

Have you determined that using spreadsheets to manage the government property inventory just can't cut it any longer? Are you finding that assets are constantly "growing legs" and require leadership support to correct the culture? Does your team need to hire another person to maintain compliance, but you just can't seem to get the budget?

Completing self-assessments will arm your team with the documented facts required to communicate your needs to management.

In the end, it's better for the business and your job if you tell management what is needed after a self-assessment rather than after a Corrective Action Request.

Writing your procedures

You should avoid being tempted to generalize your written procedures. All components should be as specific as possible. This will help provide the appropriate guidance to your internal team and establish the required expectations for the PA.

When contractors are vague on who is doing what and when, this gives the PA the ability to arrive at expectations that your team is not fulfilling.

For example; [DFARS 252.211-7007 \(g\)\(3\)](#) specifies: “The contractor shall update the IUID Registry as transactions occur or as otherwise stated in the Contractor’s property management procedure.”

This means if your written procedures do not specify when you will report changes to the IUID registry, then the PA will expect your team to update the registry immediately after the qualifying life-cycle event has occurred.

Holy cow, who actually does that!?

That’s why you need to include as much detail as possible when creating written procedures.

Conclusion

Written property management system procedures are easy to ignore, at least until you receive a CAR.

You can avoid getting hit by that CAR by examining your written procedures, both during self-assessments and after winning a major government contract.

You’ll look through all written procedures with a close eye, ensuring they’re specific enough to protect you from a CAR. Once you recognize any potential issues, you can give your written procedures a tune-up to better avoid Corrective Action Requests.

Chapter 3: How to Respond to a CAR

By Stacey Kramer

Most government contractors dread receiving a Corrective Action Request from the DCMA.

That's understandable. After all, higher-level Corrective Action Requests (CARs) carry not only contractual but also financial consequences, with payment withholding for up to 5%.

A Government Property Management system is one of the 6 required business systems for government contractors. A shortcoming in the system will have significant contractual and financial implications for a government contractor.

So, how do you respond to a CAR once you have received one?

Well, to some extent this depends on what level CAR you have received.

[This chart from the DCMA lists CAR Response requirements by CAR level.](#)

Table 3. CAR Response Requirements Matrix

Requirements	Level I	Level II	Level III	Level IV
Root cause of the noncompliance		X	X	X
Corrective Action taken or planned to eliminate the cause(s) and prevent recurrence of the noncompliance, to include addressing people, process, and/or tools as indicated		X	X	X
Actions taken to correct the specific noncompliance		X	X	X
Determination of whether other processes are affected by the identified root cause(s)		X	X	X
Determination of whether other products/services are affected by the identified root cause(s), including product already delivered to the customer		X	X	X
Action taken to correct the weakness which allowed deficient products/services to be provided to the government for acceptance		X	X	X
Target date(s) for implementation of planned actions		X	X	X
Note: See Chapter 4 for information specific to CAR and CAP requirements for noncompliances identified in DFARS 242.70, Contractor Business Systems covered contracts.				

Based on this chart, we know that you are not required to respond if you have received a Level I CAR. However, if you have received a Level II CAR or above, you are required to:

- Determine the root cause of the non-compliance
- Take Corrective Action or create a Corrective Action Plan to prevent reoccurrence and fix non-compliance
- Determine if other processes are affected by the root cause
- Determine if other products or services are affected by the root cause
- Take action to correct quality assurance
- Specify the dates for implementing planned actions

Let's walk through some of these requirements.

Understand the Corrective Action Request

While this isn't an official requirement, it can be helpful to clarify what non-compliance led to the Corrective Action Request.

Be sure to read through the CAR thoroughly, and review any additional documents. Take notes on anything that may help you to fix the non-compliance later.

It may be necessary to review the CAR with the CAR issuer in order to fully understand the non-compliance. This will not only help you to learn more about the CAR, but is also a great opportunity to

show your willingness to fix the issue. Doing so will go a long way to repairing any loss of trust between you and the issuer.

Now that you know what you're dealing with, it's time to get to the root of the issue. You'll need to perform a Root Cause Analysis to truly understand the problem in your government property management system.

Perform a Root Cause Analysis

A Root Cause Analysis (RCA) is helpful for pinpointing a problem and its cause. A RCA is required for non-compliances that are Level II and higher.

The [DCMA Manual on Corrective Action Plan Processes](#) states that an "effective RCA will identify the basic cause or causes that when corrected will prevent reoccurrence of the finding."

You need to define what's wrong in a very detailed manner. You can't correct something and prevent further problems unless you know exactly what the problem is.

This is the time to be as thorough as possible. Depending on what's wrong, the cause may not be clear when you first start investigating. It's important you find out the problem, its scope, its history, and what business processes it may have affected.

Ask workers if they noticed the problem, and if so, when they first noticed it.

You may also need to inspect equipment and work spaces.

Once you have a detailed understanding of the problem that caused non-compliance, you can easily perform a Root Cause Analysis.

For a more detailed explanation on [how to perform Root Cause Analysis, we have a blog post guide here.](#)

Create a Corrective Action Plan

With what you have learned in the previous steps, you can create a Corrective Action Plan. A Corrective Action Plan is:

“...a detailed plan identifying management controls, tactics, techniques, procedures, training, resources, and working environment changes likely to preclude future non-compliance.”

Essentially, anything your business will do to prevent non-compliance is included in the Corrective Action Plan.

According to a [presentation from the DCMA by Dave Ryan](#), this includes:

- The Root Cause of non-compliance
- A description of all actions taken to eliminate the Root Cause
- A description of all corrective actions to prevent reoccurrence
- A determination of whether other processes are affected by the identified root causes
- The target date(s) for implementation of the planned actions

[The DCMA Manual on Corrective Action Plan Processes](#) contains full details on exactly how to document your CAP, including required tools and methodologies, as well as time frames for completing the CAP.

A Corrective Action Plan is important to the issuer because it shows that you have found the cause of non-compliance (from your Root Cause Analysis) and have specific plans to fix the cause and prevent it from happening again. A Corrective Action Plan also, ideally, provides a clear path to compliance for your organization.

After responding to a CAR

After you respond to a Corrective Action Request with your Corrective Action Plan, the issuer of the CAR will determine if your response is acceptable. This can be seen in the flowchart below or in [this DCMA document](#).

They will then verify that you performed the actions from the CAP. Once they have been verified, the Corrective Action Process is finally complete.

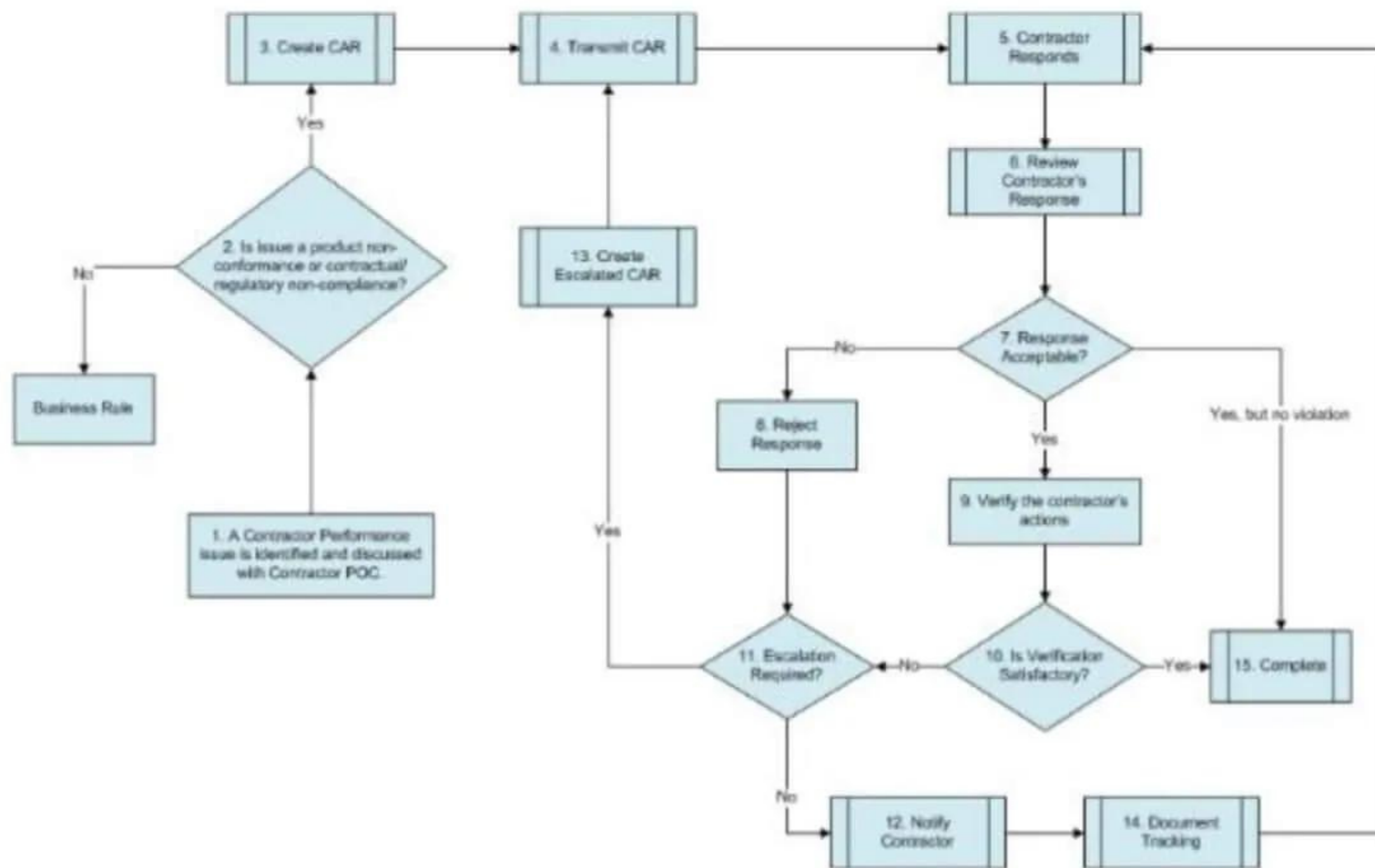
Now that you know how to go through the Corrective Action process, we hope CARs won't fill you with the same dread they might have before.

If you respond well to a Corrective Action Request from DCMA, it's possible to minimize damage for all parties. A Corrective Action Plan, in conjunction

with a Root Cause Analysis will help prevent future non-compliance. In addition, a good CAP can ultimately lead to greater efficiencies that will save your business time and money.

While it's likely you will come out on the other side of a CAR with stronger internal processes and a good relationship with your DCMA auditor, our best advice is still to try to avoid the CAR altogether. You can take a proactive approach to government property management by [conducting a contractor self-assessment](#) and ensuring you have a [robust property system](#) in place.

Appendix A. Corrective Action Process Flowchart



Conclusion

While receiving a Corrective Action Request can be a stressful experience, it doesn't have to be. With the right education and the right tools, you can respond to CARs quickly and easily, and may even be able to avoid CARs in the first place.

About eEquip!

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Our solution is trusted by thousands of users across North America, from small businesses to large, international organizations. Whether you work with government property, enterprise assets, intellectual property, or emergency equipment, eEquip can be configured to meet your needs.

