

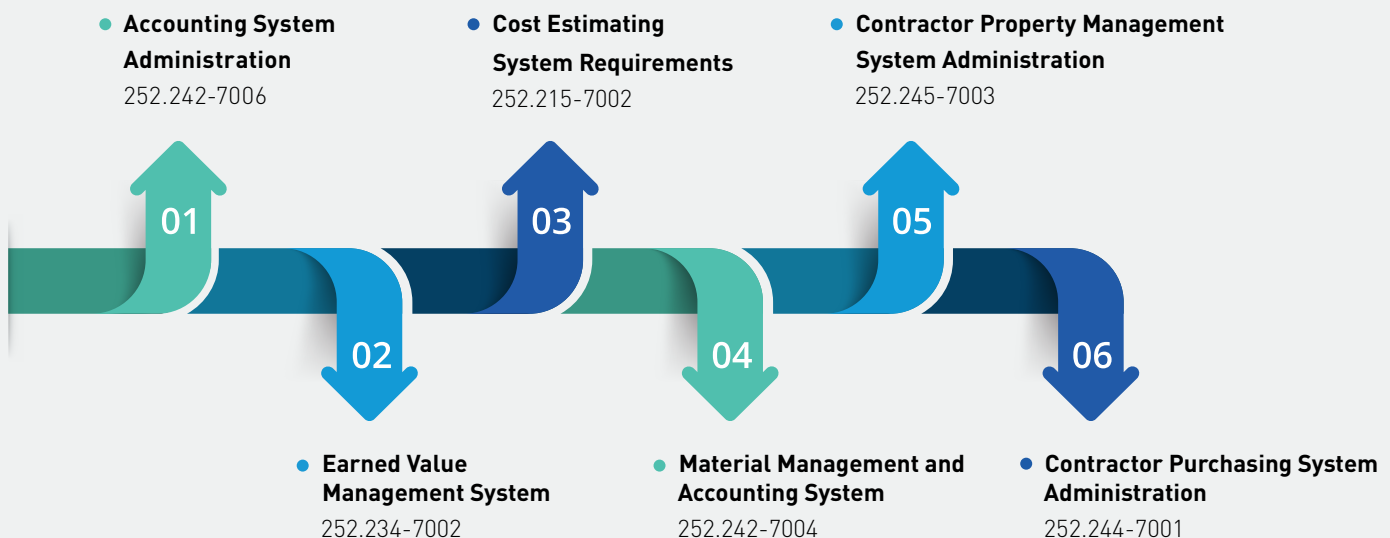


Navigating Compliance and Contractor Business Systems

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Whether you are pursuing a new contract or have extensive experience in the industry, having the proper contractor business systems in place can ensure that your business is on the path to profitability and compliance. An adequate business system is based on the extent in which the overall system allows the organization to comply with regulations, adhere to internal control frameworks such as the Integrated Internal Controls Framework issued by the Committee of Sponsoring Organizations (COSO) and/or Standards for Internal Control in the Federal Government. A business system encompasses more than software - it comprises documented policies and procedures, organizational culture, leadership conduct, and the operating effectiveness of preventative and detective controls. Furthermore, it is critical to consider how management assesses and monitors potential risks.

The Department of Defense (DoD) may require government contractors to maintain contractor business systems that comply with [DFARS 48 CFR § 252.242-7005 – Contractor Business Systems](#). The regulation defines the following six acceptable business systems that comply with the terms and conditions of the applicable business system clauses listed in the definition of “contractor business systems”:



IMPACTS OF AN ERP SYSTEM

Many often ask if an [enterprise resource planning \(ERP\) system](#) is required to have an acceptable business system. The answer is no – an ERP system can be implemented and still be deemed unacceptable.



However, implementing an ERP system can result in many benefits, including streamlining processes, reducing latency and redundancy, implementing automated controls, and can reduce the overall maintenance and administrative cost of operating your systems. There is an optimal time for every business when the initial investment in an ERP system results in increased returns through lower operating costs and additional time to invest in activities to capture more revenue-generating opportunities.

Consulting with a subject matter expert to run a cost-benefit analysis to determine the trigger point for implementation, support the evaluation of selecting a system that can handle 80% of the organization's business, data, and reporting requirements off-the-shelf can result in a lower implementation cost and an expedited go-live date. Additionally, they can assist with acting as a liaison between the organization's key stakeholders and system developers to ensure that business language is effectively translated into the system's coding.

STAYING COMPLIANT AND COMPETITIVE

Next, we are going to unpack the complexities of compliance. Who must comply and what must the contractor comply with? Compliance is a broad topic. In government contracting, the level of compliance is determined by the contract. Do you read your contract before signing? Do you understand what part of the contract is negotiable? Do you know what FAR clauses are applicable or should not be applicable to the contract? Do you understand the order of precedence in the contract? Are you now in deep thought? The regulations start with the Code of Federal Regulations (CFR), Federal Acquisition Regulations (FAR) further expands upon CFR, and the Defense Federal Acquisition Regulations Supplement (DFARS) expands further upon FAR. Note: The Department of Defense is not the only agency with supplemental regulations.

Are you aware of regulations a contractor must comply with even if not evoked in the contract? Ever heard of False Claims Act or Truthful Cost or Pricing Data (TINA)? What about Internal Revenue Code and ERISA? Failure to comply with non-contract specific regulations is a quick way to disqualify an offeror, disallow costs or become debarred from doing business with the Federal Government.

Not-for-profits and state and local agencies are not exempt from compliance. If you receive federal awards, whether a grant or commercial contract, you are a government contractor and are subject to cost principles. As a result, you may be subject to cost accounting standards and acceptable business systems. Compliance is critical for government contractors, and implementing the best practices for business systems is essential for success in this industry.

Are your wheels turning yet? Did I stir up burning questions? Are you asking yourself "do I fully grasp what I got myself into doing business with the federal government?" It's important to have a subject matter expert who can walk you through the contract acquisition process, answer questions about allowability, design an acceptable system, certify an acceptable system, define your indirect cost pools, and identify the appropriate drivers for direct initiatives to absorb indirect costs. [Withum's Government Contractors team](#) can support, advise, augment, and train your organization to navigate the federal contracting space successfully.



For questions, please contact a member of Withum's Government Contractors Services Group.