



**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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IN REPLY REFER TO

PPS 730.3.B.2

March 28, 2012  
12-PPS-009(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA  
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Guidance on the DFARS Final Rule Regarding Contractors' Business Systems, dated February 24, 2012

**SUMMARY**

This memorandum provides a summary of the DFARS final rule regarding contractors' business systems. The February 24, 2012 rule finalizes the interim rule issued on May 18, 2011. This rule was established in response to National Defense Authorization Act (NDAA) Section 893, Contractor Business Systems, which set forth statutory requirements for the improvement of contractor business systems to ensure that such systems provide timely, reliable information for the management of DoD programs. The DFARS rule establishes a Contractor Business System clause at DFARS 252.242-7005. This clause defines contractor business systems as the contractor's Accounting System, Estimating System, Purchasing System, Earned Value Management System (EVMS), Material Management and Accounting System (MMAS), and Property Management System. It also defines an acceptable business system based on detailed criteria, and defines a significant deficiency as:

*Shortcomings 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.*

DFARS 252.242-7005 establishes a mechanism that allows the contracting officer to withhold a percentage of payments when the contractor's business system contains significant deficiencies. This clause will only be included in contracts and solicitations that are subject to the Cost Accounting Standards (CAS), and contain one or more of the business system clauses below.

The DFARS rule also established separate business system clauses that identify the specific criteria for an acceptable business system as detailed below. At the beginning of each of these DFARS clauses, there is a reference to the DFARS contract clause that establishes the type of contracts to which each business system clause applies.

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- DFARS 252.215-7002 - Estimating System
- DFARS 252.234-7002 - EVMS
- DFARS 252.242-7004 - MMAS
- DFARS 252.242-7006 - Accounting System
- DFARS 252.244-7001 - Purchasing System
- DFARS 252.245-7003 - Property Management System

## GUIDANCE

DCAA is responsible for the performance of audits for the Accounting System, Estimating System, and MMAS. EVMS audits will be initiated based on requests from DCMA, the designated DoD Executive Agent, per MRD 11-PPS-011(R), dated July 22, 2011. The contract administration office is responsible for the purchasing system; however, auditors should continue to support and provide assistance to the contracting officer as detailed in MRD 11-PPD-018(R), dated September 30, 2011.

DCAA will perform attestation examinations for contractors' compliance with the DFARS system criteria. Based on that examination, DCAA will opine on the contractor's compliance with the system criteria prescribed in DFARS. If significant deficiencies/material weaknesses are identified, a deficiency report will be issued to report the noncompliance with the DFARS system criteria when sufficient evidence supporting the deficiency is obtained.

The previous internal control audits performed by DCAA (commonly referred to as ICAPS audits) have been consolidated based on the new DFARS business system rule as follows:

- **Accounting System** - Auditing procedures from the Labor Accounting System and Indirect and Other Direct Cost System (Activity codes 13010 and 14980) are now included in the accounting system audit assignment consistent with the new DFARS business rule. The new programs and related audit guidance will be finalized and distributed in the near future. The Billing (11010), Control Environment (11060) and Information Technology General System Control (11510) subsystems will be performed as separate audit assignments, and the applicable work done in those audits will be incorporated into the accounting system audit assignment. The 11510 audit program will be revised to tie to the new DFARS criteria in the near future.
- **Estimating System** - Auditing procedures from the Budget and Planning System Internal Controls (11020) are now included in the Estimating System audit assignment to be consistent with the new business system rule. The Estimating System audit program will be revised to tie to the new DFARS criteria in the near future.

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Audit procedures from the prior Compensation Internal Control System (13020) will be included in the forward pricing and incurred cost audit assignments. We also will be updating the audit procedures in the MMAS (12500) audit program in the near future.

The contracting officer will use DCAA's report to make an initial determination on whether significant deficiencies, as defined by DFARS 252.242-7005, exist within a system. The contractor has 30 days to respond to the initial determination. After review of the contractor's response, the contracting officer, in consultation with the DCAA auditor, will determine whether the contractor's system contains significant deficiencies. If significant deficiencies exist, the contracting officer will issue a final determination that will include a notice to withhold payments. (See DFARS 252.242-7005 for the detailed procedures.)

#### **CLOSING REMARKS**

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Policy Publications and Systems Division at 703-767-3274 or e-mail at [DCAA-PPS@dcaa.mil](mailto:DCAA-PPS@dcaa.mil).

/Signed/  
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