Chapter 5

Audit of Contractor Compliance with Defense Federal Acquisition Regulation for Contractor Business Systems and Subsystems

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5-000 Audit of Contractor Compliance with Defense Federal Acquisition Regulation for Contractor Business Systems and Subsystems**

5-001 Scope of Chapter**

a. This chapter provides audit guidance on performing examinations engagements of contractor business systems and subsystems for compliance with the Defense Federal Acquisition Requirements Regulation Supplement (DFARS) and contract terms. The contractor business systems covered in this section include the accounting system, material management and accounting system (MMAS) estimating system, and their applicable subsystems.

b. There is an additional section regarding Pre-Award Accounting System Audits for contractors that are subject to the Federal Acquisition Regulations (FAR) SF 1408 criteria. Additionally a section has been added for business system reviews of Non-DoD contractors that are not subject to the DFARS business system requirements (section 5-306).

5-100 Section 1 --- Obtaining an Understanding of a Contractor's Internal Controls and Assessing Control Risk for Contractor Business Systems--**

5-101 Introduction**

a. This section outlines the auditor's fundamental requirements and responsibilities
for obtaining and documenting an understanding of a contractor's internal controls and for assessing control risk in accordance with GAGAS. The auditor should use this documentation as a basis for planning related business system audits of compliance with the applicable DFARS business systems criteria and the Pre-Award Accounting System FAR SF 1408, requirements.

b. These fundamental requirements and responsibilities apply to audits of each of the contractor's business systems and subsystems that are used to propose, charge, or bill significant costs to Government contracts.

c. The audit guidance discussed in this chapter generally applies to all contractors regardless of size. However, the auditor should consider the size and complexity of the contractor when planning the types of audit procedures that are applied.

5-102 Background Information**

a. Generally Accepted Government Auditing Standards require the auditor to obtain a sufficient understanding of the contractor's internal controls to assess control risk to plan the audit and to determine the nature, timing, and extent of tests to be performed. CAM 2-306.2, prescribes the guidance regarding obtaining and documenting the contractor’s internal controls to assess control risk and to determine the nature, timing, and extent of test to be performed.

b. Additionally, Statement on Standards for Attestation Engagements 18 (SSAE 18), under the compliance examination procedures, requires auditors obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements (e.g. DFARS, FAR, CAS, contract terms, etc.). In planning the examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance, and to design appropriate tests of compliance.

c. The relevant business systems in the contract audit environment and their respective CAM sections are listed below:

| Audit of Contractor Compliance with DFARS 252.242-7006, Accounting System Administration | 5-300 |
| Audit of Contractor Compliance with DFARS 252.242-7004, Material Management and Accounting System | 5-400 |
| Audit of Contractor Compliance with DFARS 252.215-7002, Cost Estimating System Requirements | 5-500 |
| DCMA Cognizance of Business Systems | 5-600 |
d. The auditor should consider the contractor’s control environment and overall accounting controls when assessing control risk for each business system for compliance with the applicable Defense Federal Acquisition Regulations. In addition, the auditor should consider the adequacy of general IT System controls as they affect the operational effectiveness of control activities for the business systems being examined.

e. The components of internal control and the relevant control objectives identified within the business systems listed above apply to every contractor and should be considered in the context of the following:

- the contractor’s size
- the contractor’s organization and ownership characteristics
- the nature of the contractor’s business
- the diversity and complexity of the contractor’s operations
- the contractor’s methods of transmitting, processing, maintaining, and accessing information
- applicable legal and regulatory requirements

Smaller contractors may have less formal internal controls that accomplish these control objectives.

f. With a sound understanding of the critical aspects of each system, the auditor can more effectively and efficiently develop the audit procedures necessary to audit compliance with laws and regulations in business system audits.

5-103 General Audit Policy**

5-103.1 Business System Audit Policy and Approach**

a. It is DCAA’s policy that each business system (i.e., accounting, estimating, MMAS) and subsystems (i.e., compensation, labor, billings, budget, etc.) that has a significant impact on Government contract costs be audited on a cyclical basis based on a documented risk assessment. When the contractor changes the system, the auditor should give a high priority to the audit of the system change as a basis for relying on the system. The auditor should meet annually with top contractor representatives, such as senior management, internal auditors, audit committee members, or others during the annual planning coordination process (see DMIS User Manual, Planning Process, Other Considerations) to obtain information regarding any significant changes in policies and procedures affecting internal controls for its business systems and subsystems. The auditor should request and review any audit leads a copy of the management representation letter provided to the contractor’s external auditors, in conjunction with
the audit of the company’s financial statements. At large, multi-segment contractor locations, the management representation letter should be requested by the corporate auditor and/or the Corporate Audit Directorate (CAD). CAD auditors should provide any relevant information from the management letter to auditors at the affected segments.

b. In determining the significance of a contractor business system and subsystems, the auditor should carefully consider the relationship of the business system and subsystems to Government contracts. For example, if a contractor incurs a significant amount of labor costs which are assigned to Government contracts, the contractor's compensation and labor subsystems would be considered as significant, during the risk assessment of a contractor's accounting business system. Likewise, if a contractor does not purchase significant amounts of materials for Government contracts, the contractor's material systems may not have significant risk for the accounting business system audit.

c. When a contractor that participates in self-governance programs furnishes the FAO with an initial internal control evaluation and compliance test plan, the FAO should consider this information during the risk assessment planning for compliance with the applicable DFARS business system requirements. The objective is to coordinate with the contractor on the relevant control activities and compliance testing to gain an understanding of the relevant control activities that are relevant to the business system requirements.

d. SEC registered public companies are required to follow additional reporting requirements as a result of the Sarbanes-Oxley Act of 2002, such as including in their annual reports filed with the SEC, management’s report on internal control over financial reporting. Furthermore, the external auditors are required to attest to management’s assessment of the company’s internal controls over financial reporting. Auditors may be able to rely on work performed to support the information in the SEC filings when conducting internal control audits provided the requirements of 4-1000 “Relying Upon the Work of Others” is followed. Auditors should consider the potential opportunities for increased coordination with the contractor when planning and performing audits (see 4-202).

5-103.2 Coordinated Business System Audit Process at Multi-Segment Contractor Geographical Locations **

a. Auditing compliance for contractor business systems at multi-segment contractors, requires cognizant auditors to identify audit responsibilities at each geographical location to ensure appropriate audit coverage when contractor locations share components of a business system, such as policies and procedures, common technologies (e.g., software), or common management. The following should be considered as part of this coordinated process.

(1) To initiate the coordinated audit process, the lead FAO cognizant of the contractor segment responsible for the design and maintenance of the shared system should coordinate with other cognizant FAOs to gain an understanding of the contractor’s business system to determine the extent of common or shared aspects of
the system. This understanding includes identifying where the key control activities are performed. The lead FAO should coordinate with the segments to document (i) where the common aspects exist, (ii) where the control activities are performed, and (iii) the FAO(s) responsible for performing the specific business system compliance audit procedures. FAOs cognizant of segment locations should initiate assist audits and use the One Audit Approach (OAA) with off-site locations as necessary. FAOs cognizant of off-site locations should not self-initiate audits of internal controls.

(2) All draft reports should be provided to the CADS to ensure consistency of audit recommendations.

5-104 Audit Objectives**

a. The objective of each business system audit is to gather sufficient appropriate evidence to express an opinion on the contractor's compliance with the applicable business system criteria (e.g. DFARS, FAR, applicable laws and regulations, and contract terms) and to support the contracting officer's compliance determination.

b. Additionally, business system audits are used to support the assessment of control risk for other related audits (e.g. incurred cost, proposals, labor, material, etc.) to determine the degree of reliance that can be placed on the contractor's business systems as a basis for planning the scope of substantive testing in other related audits.

c. In those cases where the auditor can rely on the contractor's business system to record, process, summarize, and report in a manner consistent with the applicable DFARS and Government contract laws and regulations, control risk would be considered low. In these cases the auditor should be able to minimize substantive testing.

d. In those cases where the contractor's business system(s) cannot process, summarize and report consistently with the requirements, expanded testing in other related audits is often needed.

e. At those contractors with outstanding business system deficiencies, the auditor should recommend actions to the ACO to encourage the contractor to correct the deficiencies (e.g., suspension of costs, disapproval of system, penalties). When the contractor corrects the deficiency or changes the system, the auditor should give a high priority to the audit of the system change as a basis for determining if the business system is compliant.

f. While the discovery of fraud or other unlawful/improper activity is not the primary objective of any audit, the auditor should be attentive to any condition which suggests that such a situation may exist. If such activity is suspected, the circumstances should be reported in accordance with 4-700.

5-105 Scope of Audit**

a. While the nature and extent of audit effort depends upon contractor size and the
amount and type of Government business (materiality and sensitivity), the scope of the business system audit should include:

- gaining an understanding of the contractor’s internal controls, relative to the business system (i.e., accounting, MMAS and estimating systems, etc.) DFARS criteria being audited. This includes both manual and automated (IT) activities. We need to provide reasonable assurance that the contractor’s business system complies with the applicable DFARS business system criteria. Further, we need to determine if material misstatements are prevented or detected in a timely manner;

- documenting the understanding of the contractor’s internal controls, associated with the business system criteria being examined in the working papers and permanent files;

- testing the operational effectiveness of the business system’s internal controls relative to the DFARS business system criteria being examined;

- assessing control risk as a basis for designing substantive tests related to the audit effort needed to determine contractor compliance with the applicable DFARS system criteria;

- reporting on the contractor’s compliance with the DFARS accounting system criteria; and

- adjusting the audit scope of related audits based on the examination of the internal controls of the contractor’s business system being audited.

b. In establishing the scope of audit effort, the auditor should carefully consider the nature and extent of documentation available from prior business system audits, related audit effort, and permanent files. Once a comprehensive audit of a contractor’s business system has been performed, it should serve as a baseline for establishing the scope of subsequent audits of that system. Subsequent audits should cover major system changes and other areas identified as high risk in order to validate that the changes/high risk areas comply with the DFARS requirements. This should also include transaction testing to validate that the contractor has controls in place to ensure its business systems comply with the applicable DFARS business system (i.e., accounting, MMAS and estimating systems) criteria, FAR requirements, applicable laws and regulations, and contract terms.

5-106 Obtaining an Understanding of the Contractors Business Systems **

a. The first step in evaluating the contractor's business system is to obtain an understanding of the business system being audited. This understanding will serve as the foundation for evaluating related internal controls relative to the DFARS business system criteria under examination. It will allow the auditor to design more effective and efficient audit procedures to determine compliance with the applicable DFARS criteria for the business system and sub-systems being examined. To acquire a basic
understanding of the business system being audited, the auditor should:

- Review the objectives and audit procedures listed in the appropriate section of Chapter 5 and the respective audit program. Review the contractor's system explanation and related documentation; e.g., system policy and procedure manual, flowcharts, etc.

- Review relevant working papers from the permanent files and prior audits.

- Make inquiries of appropriate contractor management, applicable DCMA staff, supervisory, and staff personnel.

- Inspect relevant documents.

- Observe actual contractor operations.

b. The auditor should request that contractor personnel first provide walk-throughs of the various system processes and then system demonstrations after the entrance conference for compliance with the DFARS business system criteria. The contractor should provide a walkthrough of formal policies and procedures related to ensuring compliance with all or parts of the DFARS criteria. The contractor demonstrations, which are performed during the risk assessment, are an essential element for the auditor obtaining and documenting the understanding of the relevant internal controls.

c. The auditor should request that the contractor explain significant selected aspects of the business system in the demonstration to help confirm the auditor's understanding. The auditor should trace one or more transactions through the business system from initiation through the various processing steps to inclusion in related cost estimates, reports, or billings on Government contracts. The auditor should observe actual processing activities and examine related documents to validate the understanding of the system. Providing a walkthrough of the selected transactions can aid in confirming the auditor's understanding of the system and its processes. If the auditor already has a sufficient understanding of the system as a result of prior audit experience, this procedure may not be necessary.

d. The extent of audit effort expended in gaining an understanding of the contractor's accounting and management business systems and subsystems is a matter of auditor judgment. Characteristics that should be considered include:

- the size and complexity of the contractor,

- level of previous experience with the contractor,

- nature and extent of systems documentation,

- the significance of costs proposed, charged, or billed to the Government by the system, and
materiality judgments for specific accounts and transactions handled by the system.

e. Once the auditor has gained an adequate understanding of the contractor's business system and applicable sub-systems it should be documented in the audit working papers and related permanent files. This documentation will typically take the form of system flowcharts, narrative descriptions, and copies of relevant documents and reports. The method(s) used and extent of documentation required are a matter of professional judgment. However, the documentation should provide sufficient information to communicate the auditor's understanding in a clear and summarized manner.

5-107 Determining if Relevant Control Objectives and Related Control Activities Exist Relative to Contractor Compliance with DFARS Business System Requirements and Applicable Laws, Regulations and Contract Terms **

a. The auditor should identify those control objectives associated with the contractor's compliance with the DFARS business systems requirements, applicable laws and regulations, and contract terms. If the control objectives are met there would be reasonable assurance that material errors or misstatements would be prevented or detected in a timely manner. Control objectives can be classified into the three general areas:

(1) financial reporting control objectives which are concerned with ensuring the preparation of reliable financial statements,

(2) operational control objectives which are concerned with ensuring that the contractor's resources are being used effectively and efficiently, and

(3) compliance control objectives which are concerned with ensuring that the contractor complies with applicable laws and regulations. While control objectives in each of these areas can have an impact on contract costs, DCAA auditors generally focus on compliance controls when planning and performing business system audits.

b. The auditor should identify the control activities designed and implemented by the contractor to achieve compliance with the DFARS business system audit criteria and contract terms.

c. Once the auditor has obtained an adequate understanding of the contractor's business system, a determination should be made as to whether relevant internal control activities exist that will materially affect the applicable DFARS business system requirements and contract terms. We also need to determine whether the effort to test and evaluate those controls would be justified by an equal or greater reduction in related substantive testing. For example, the auditor should expect that the costs to test and evaluate the contractor's labor accounting controls should be more than offset by the benefits of reduced labor substantive testing (e.g., floor checks).
d. If the auditor determines that relevant internal control activities do not exist or that the effort to perform tests of those controls is not justified, no control testing will be performed and control risk would be assessed at the maximum (High). This control risk assessment and its background rationale should be documented in the audit working papers.

e. If the auditor determines that relevant internal control activities can be identified and that the effort to perform tests of those controls is justified, the auditor should plan and perform appropriate tests of those controls.

f. The auditor will be able to rely on the tests of controls performed in the business system audits to reduce substantive testing in a specific audit area in other related audits if these controls were found effective and are current and relevant to the other audit being performed. If the auditor relies on those tests of controls, the auditor should reference the business system assignment and incorporate or reference working papers from that assignment to clearly document the specific procedures that provide sufficient evidence of the operating effectiveness of the controls.

5-108 Testing Controls **

a. Testing controls involves selecting a sample of transactions and evaluating whether they were executed in accordance with established policies and procedures. See CAM 2-306.4, for designing substantive procedures based upon the assessed level of audit risk.

b. Statement on Standards of Attestation Engagements 18 (SSAE 18), Compliance Attestation, requires auditors obtain an understanding of relevant portions of internal control over compliance sufficient to plan the engagement and to assess control risk for compliance with specified requirements. In planning the examination, such knowledge should be used to identify types of potential noncompliance, to consider factors that affect the risk of material noncompliance, and to design appropriate tests of compliance. CAM 2-306 details planning the engagement to identify types of risk and substantive testing procedures.

c. Auditors should design and perform tests of controls to obtain sufficient appropriate evidence about the operating effectiveness of relevant controls if

(1) the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing, and extent of other procedures,

(2) procedures other than tests of controls cannot alone provide sufficient appropriate evidence, or

(3) the subject matter is internal control.

d. If the auditor designed and performed tests of controls to rely on their operating effectiveness and identified deviations in those controls, the audit team should make specific inquiries and perform other procedures as necessary to understand these
matters and their potential consequences. The audit team also should determine whether

1. the tests of controls that have been performed provide an appropriate basis for reliance on the controls,

2. additional tests of controls are necessary, or

3. the potential risks of misstatement need to be addressed using other procedures.

e. To obtain evidence of the effectiveness of particular internal control activities, the auditor should perform physical observations, inquiries of appropriate personnel, or inspection of relevant documents. No one specific test is always necessary, applicable, or equally effective in every circumstance. In fact, a combination of these types of tests is often required to provide the necessary level of assurance that controls are working effectively. Selected transactions must be tested, and audit evidence gathered to ascertain that there are no potential weaknesses. The type of audit procedures selected depends upon the nature of the control to be tested and the available evidence to review the control. Auditors should use the standard audit programs and tailor their audit procedures to fit their individual circumstances.

f. The nature of the control influences the type of evidential matter that is available to review the control. For example, if the control provides documentary evidence, the auditor may decide to inspect the documentation. For other controls, such documentation may not be available or relevant. For example, segregation of duties controls generally do not provide documentary evidence. In such circumstances, the auditor may obtain evidential matter about the effectiveness of operation through observation or inquiry.

g. The timing of audit effort and the period covered by the audit should also be considered in selecting the appropriate audit procedures for testing controls. The evidential matter should relate to the audit period and, unless it is documentary evidence, should be obtained during the audit period when sufficient corroborative evidence is most likely to be available. When the evidence relates only to a specific point in time, such as evidence obtained from physical observation, the auditor should obtain additional evidence that the control was effective during the entire audit period. For example, the auditor may observe the control in operation during the audit period and use inquiry and inspection of procedures manuals to determine that the control was in operation during the entire period.

h. After determining the nature of audit procedures to be used to test controls, the auditor should determine the extent of testing to be performed. This determination is a matter of auditor judgment taking into consideration:

- the information gathered in developing an understanding of the internal control structure,
• the nature of the control to be tested,
• the nature and availability of evidential matter, and
• the contractor’s monitoring and testing efforts.

The extent of testing is also significantly impacted by the FAO’s total audit experience with the contractor. For instance, the extent of required testing of the estimating system is influenced by the current experience on forward pricing audits. In most instances, where there is significant proposal activity, the auditors have gained a great deal of knowledge of the estimating system controls during proposal audits.

i. When identified control activities are accomplished as part of the contractor’s IT operations, the auditor should consider the use of Computer Assisted Audit Techniques (CAATs), such as SAS, and FOCUS when performing tests of controls. In some instances, the assistance of IT specialists may be required to perform tests of controls. In these cases, auditors should contact their regional offices to obtain the necessary expertise.

5-109 Assessing Control Risk **

a. Control risk is the likelihood that a material misstatement or noncompliance in an account or area subject to audit will not be prevented or detected and corrected on a timely basis by the contractor’s internal controls. In assessing control risk, the auditor considers the effectiveness of established control activities to accomplish stated control objectives. The more effective the control activities, the lower the control risk.

b. The auditor should assess control risk for each relevant control objective that pertains to the contractor’s compliance with the applicable DFARS business system requirements and contract terms under examination. Only when the internal controls have been tested and determined to be effective, can the auditor rely on them and reduce the amount of substantive testing in the applicable audit area. Further details in assessing control risk can be found in CAM 2-306.3.

c. When the internal controls have been tested and determined to be effective, the auditor should rely on them and reduce the amount of substantive testing in the applicable audit area. If the internal controls are found not to be operating effectively, the auditor cannot rely on them, and will need to design substantive audit procedures to account for the lack of internal controls in the applicable audit area.

d. The assessment of control risk should be documented in the audit working papers in sufficient detail to enable the members of the engagement team with supervision and review responsibilities to understand the nature, timing, extent of the assessment and the control risk factors identified relevant to the assertion.

e. Assessments of low risk for specific control objectives mean the auditor can rely on the contractor’s internal controls and can reduce testing in other related audits to analytical procedures and/or a combination of tests of details.
5-110 Business Systems Compliance Reporting

a. Reporting on contractor business system compliance with the applicable DFARS criteria, laws and regulations, and contract terms must be made in all audit reports. The business system audit report for the contractor’s business systems and subsystems should follow the general guidance in this section, 10-200, and the proforma audit report.

If the audit opinion is other than unqualified, the basis of the audit opinion (i.e. type of modified opinion) and the type of opinion should be documented. Refer to 10-208.5 for further guidance regarding audit opinions. Also, significant deficiencies/material weaknesses found regarding provisions of laws, regulations, contracts, and grant agreements or fraud, waste, or abuse, less significant deficiencies/material weaknesses, or less than material noncompliances found during the business system examination should be documented in the report. A well written statement of condition and recommendation (SOCAR) should contain the four relevant and necessary elements of the findings (i.e., condition, criteria, cause, and effect). The following table depicts where to document noncompliances found during the business system examination or follow up examination.

<table>
<thead>
<tr>
<th>Condition</th>
<th>Exhibit</th>
<th>Appendix</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full Audit:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant Deficiency/Material Weakness</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Less Severe Significant Deficiency/Material Weakness that Warrants Attention of the Contracting Officer</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Less than Material Noncompliance that Warrants Attention Of The Contracting Officer</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td><strong>Follow-up Audit:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant Deficiency/Material Weakness</td>
<td>X</td>
<td></td>
</tr>
</tbody>
</table>
If significant deficiencies/material weaknesses are identified real-time during a business system audit, and the auditor determines it requires immediate consideration of the contracting official to ensure timely resolution of the identified business system noncompliance(s), an assignment should be opened to report the issue. The auditor should open a business system deficiency report assignment (11090) prior to the originating business system audit completion.

GAGAS requires the auditor state in the originating examination report that they are issuing an additional report (e.g., business system deficiency report). The auditor should include a reference to the separate report (e.g., business system deficiency report) and also state that the business system deficiency report is an integral part of the originating GAGAS examination engagement. The Statements of Condition and Recommendations Exhibit in the audit report should document any significant deficiencies/material weaknesses disclosed during the examination. The report should also comment on the contractor’s efforts to correct the deficiencies and include the contractor’s comments regarding the auditor finding.

Also, GAGAS prescribes that when auditors detect any potential instances of noncompliance with provisions of laws, regulations, contracts, and grant agreements or fraud, waste, or abuse that do not warrant the attention of those charged with governance, the auditors’ determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

b. If a significant deficiency is identified for any of the six contractor business systems defined in DFARS 252.242-7006 in other than business system audits, (e.g., forward pricing proposals, annual incurred cost audits, etc.), or assignments not resulting in the issuance of an audit report (MAAR 6, MAAR 13, Paid Voucher Testing, etc.), a separate Business System Deficiency Report Assignment should be established using the appropriate activity code 11090. Because of the importance of timely communication of such matters, the deficiency report should be issued as soon as possible.

GAGAS require auditors to report certain findings identified in an examination engagement, even when those findings are related to areas outside the specific objectives of the engagement. This includes, among other things, material weaknesses in internal control; deficiencies in internal control that are less severe significant deficiencies/material weaknesses, yet important enough to merit the attention of those charged with governance; and noncompliance with provisions of regulations or
contracts that have a material effect on the subject matter of the examination engagement. A contractor’s noncompliance with the DFARS business system criteria identified in other than business system audits (e.g., an accounting system deficiency identified during an incurred cost audit) fits within those categories.

To facilitate tracking and timely resolution of noncompliances with the DFARS criteria identified in other than business system audits, DCAA will report the findings in a separate deficiency report. The Deficiency Report Assignment is an integral part of the originating GAGAS examination engagement (e.g., incurred cost audit), not a separate examination. As a result, it is not necessary to document in the deficiency report assignment many of the procedures generally required to comply with GAGAS for an examination, since the GAGAS procedures would be documented in the originating GAGAS examination engagement. The deficiency report assignment working papers will reference the originating assignment and include the working papers from that assignment that contain support for the noncompliance with the DFARS criteria. Otherwise, it generally will not be necessary to reference or incorporate other working papers from the originating assignment (e.g., related to the risk assessment). Both the deficiency report and the report on the originating GAGAS examination will note that the separate deficiency report is an integral part of the examination engagement and each report will reference the other.

If the evaluation of the identified noncompliance with the DFARS criteria and the elements of a finding were not fully developed in the originating assignment, the auditor should perform procedures to accomplish that as part of the Deficiency Report Assignment so as not to delay issuance of the report on the originating examination. However, such effort should generally not be extensive since the objective is not to evaluate the contractor’s compliance with all aspects of the applicable DFARS criterion or criteria. The objective is to only to establish whether the noncompliance identified in the originating audit is a material noncompliance; and, therefore, represents a significant deficiency/material weakness or is less severe than a significant deficiency/material weakness, yet important enough to warrant the attention of responsible contractor officials. In either case, the noncompliance will be reported in the deficiency report.

c. Contractor Business System Deficiency Withholds

(1) Significant business system deficiencies/material weaknesses (i.e. Significant deficiency” means 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). The reported issues found when examining contractors with “Covered contracts”, may be subject to withhold payments if the ACO makes a final determination to disapprove a contractor’s business system in accordance with the clause at 252.242-7005. DFARS 242.7000, defines a “Covered contract” as a contract that is subject to the Cost Accounting Standards under 41 U.S.C. chapter 15, as implemented in regulations found at 48 CFR 9903.201-1. (See the FAR Appendix) (10 U.S.C. 2302 note, as amended by section 816 of Public Law 112-81).
(2) If the contracting officer makes a determination to disapprove a contractor’s system, they will take withholds against the applicable covered contracts containing the business system clause. Assistance may be requested from the audit team in making a determination for whether the business system contains significant deficiencies. The contracting officer has the sole discretion and authority to identify the covered contracts from which to withhold payments. The contracting officer has the sole authority to promptly notify the contractor, in writing, of the contracting officer’s determination to implement payment withholding in accordance with the clause at 252.242-7005, Contractor Business Systems.

(3) The contracting officer, in consultation with the auditor or functional specialist, shall monitor the contractor's corrective action progress in correcting the deficiencies.

(a) If the contractor notifies the contracting officer that the contractor has corrected the significant deficiencies, the contracting officer shall request the auditor or functional specialist to review the corrective action taken to verify that the deficiencies have been corrected. The audit team will perform appropriate audit follow-up in determining the progress made for whether the contractor corrected the deficiencies. This will include documenting and verifying corrective action was taken by the contractor. As part of this, the team will keep the contracting officer informed on a real time basis for the progress made on the corrective action. Keeping the contracting officer informed should be a fluid communication process for working towards reaching an agreement for the verification of the corrected deficiencies. This process may involve discussion at various levels of Government management if need be. If, after receipt of verification, the contracting officer determines that the contractor has corrected all significant deficiencies as directed by the contracting officer's final determination, the contracting officer shall discontinue the withholding of payments, release any payments previously withheld.

(b) If, at any time, the contracting officer determines that the contractor has failed to correct the significant deficiencies identified in the contractor's notification, the contracting officer will continue, reinstate, or increase withholding from progress payments and performance-based payments. And direct the contractor, in writing, to continue, reinstate, or increase the percentage withheld on interim cost vouchers to the percentage initially withheld, until the contracting officer determines that the contractor has corrected all significant deficiencies as directed by the contracting officer’s final determination.

5-200 Section 2 - Preaward Surveys of Prospective Contractor Accounting Systems **

5-201 Introduction **

This section provides guidance for performing preaward surveys of prospective contractor accounting systems.

5-202 Preaward Survey of a Prospective Contractor’s Accounting System **
a. A preaward survey of a prospective contractor's accounting system is an examination of the accounting system at either a large or small contractor before contract award. The audit is performed at the request of a contracting officer to determine the acceptability of a contractor's accounting system for accumulating costs under a prospective Government contract. It is usually requested as part of an overall preaward survey of a contractor conducted by a contract administration office under FAR 9.106 or DFARS 209.106 or PGI 209.106. The audit scope should be limited to obtaining an understanding of the design of the prospective accounting system so as to appropriately complete Standard Form 1408, "Preaward Survey of Prospective Contractor Accounting System" (see FAR 53.301-1408) and those procedures essential to reach an informed opinion on whether or not the design of the prospective contractor's accounting system is acceptable for accumulating costs under a Government contract. It is not necessary to conduct an in-depth evaluation of the operational effectiveness of the accounting system.

b. When performing the preaward survey of a prospective contractor's accounting system, the auditor will determine the acceptability of the design of the contractor's system and determine if the system is:

(1) in operation, or

(2) set up, but not in operation,

The SF 1408 also discusses accounting systems which are either anticipated or nonexistent. It is not possible to perform an examination level engagement under those circumstances since procedures would most likely be limited to inquiry alone. If requested to perform an audit for an accounting system that is either anticipated or nonexistent, the auditor or supervisory auditor should notify the requestor that we are unable to provide an audit report or SF 1408, but will be available to do so once the system is set up or in operation.

c. The requestor can be supported by providing a current preaward accounting system report, performing an examination to opine on the design of the system, or performing a follow-up audit. If a prior preaward survey of a prospective contractor's accounting system has been performed and is relatively current, it should be provided to the requestor. If the prior preaward survey is not current, perform an examination of sufficient scope and depth to evaluate the acceptability of the design of the contractor's accounting system for accumulating costs under a Government contract. If a recent preaward audit disclosed deficiencies that are considered material weaknesses, a follow-up audit can be performed to evaluate corrective actions taken provided the original audit was completed in the last 12 months and there have been no significant revisions to the design of the accounting system. The scope of the follow-up audit is limited to verifying there have been no significant revisions to the design of the system (other than those required as corrective action to cited deficiencies) and whether the corrective action adequately addresses the deficiencies. If the follow-up discloses no significant revisions to the system design and that the contractor corrected the deficiencies, the report should indicate that the contractor has effectively implemented
corrective action. The audit report should also include that the accounting system is suitably designed, in all material respects, for award of a prospective contract in accordance with the criteria contained in FAR 53.209-1(f). A proforma version of the preaward accounting system follow-up report is available as other audit guidance.

d. If requested to perform a preaward accounting system audit on a contractor that has an active Government contract, the auditor should check the FAO’s files to determine if prior work has been performed that will provide the contracting officer the information necessary to fill in the SF 1408 without the performance of the preaward audit (e.g., if a prior preaward or post contract award accounting system audit has been performed). If prior information does exist, contact the contracting officer to determine if the prior report will meet their needs. Additionally, if there are known system deficiencies or voucher processing problems, this information should be provided to the contracting officer as well. Auditors should not issue an opinion stating the design is acceptable for award when there are known deficiencies. If no information is on file, the auditor should proceed with performing the preaward as requested.

ea. A customer request for a preaward survey of a prospective contractor’s accounting system should be started as soon as practicable. An untimely response to such a request could delay the award of a contract. Acknowledge the request in accordance with CAM 4-104.

f. If the contracting officer also requires an assessment of the company’s financial condition during the preaward survey of the prospective contractor’s accounting system, refer the requestor to DCMA (see CAM 14-302). However, in all audit situations, auditors should be alert to conditions which may indicate unfavorable or adverse financial conditions or other circumstances which could impede a contractor’s ability to perform on Government contracts.

5-203 Audit Reports **

Audit reports should be responsive to the specific needs identified by the audit request and in discussions, if any, with the requestor. The preaward survey report provides an opinion on whether the accounting system design is compliant with the criteria contained in FAR 53.209-1(f), Standard Form 1408 (SF 1408), is not compliant with the criteria contained in the SF 1408, or compliant with a recommendation that a follow-on accounting system audit be performed after contract award. The audit report should be appropriately tailored to the specific circumstances of the audit. Audit reports should also provide sufficient information (e.g., SF 1408 for the preaward) to support audit conclusions. Refer to CAM 10-211.2c for guidance in presenting the Statement of Conditions and Recommendations, if applicable.

5-300 Section 3 - Audit of Contractor Compliance with DFARS
252.242-7006, Accounting System Administration **

5-301 Introduction **

a. This section provides guidance for auditing accounting systems for covered defense contractor's compliance with DFARS 252.242-7006, applicable regulations and contract terms.

b. As indicated in DFARS 242.7502, contractors with cost type or contracts with progress payments based on a percentage or stage of completion shall maintain an acceptable accounting system.

c. In accordance with DFARS 242.7503, a Contracting Officer when contemplating a cost type contract or contract with progress payments made on the basis of costs incurred by the contractor or on a percentage or stage of completion, should insert the clause at DFARS 252.242.7006 in solicitations and contracts.

d. An understanding of the internal control environment, accounting framework and organizational structure will serve as a framework for evaluating the overall effectiveness of the internal controls. The accounting framework and organizational structure may also be used for risk assessment when evaluating other contractor business systems, when applicable (e.g. the contractor accounting system has not changed, the accounting system audit is current).

e. Overall accounting controls include the contractor’s controls to assure it remains financially capable to perform on Government contracts, and it maintains a current description of the accounting system, including a current, accurate, and complete disclosure statement (if CAS covered) and a current chart of accounts.

f. Refer to CAM 2-306.3 for the auditor’s fundamental requirements for obtaining and documenting an understanding of a contractor’s internal controls and assessing control risk as it relates to the examination of the accounting system and its subsystems.

5-302 Contract Clause DFARS 252.242-7006 **

a. The clause of DFARS 252.242-7006 Accounting System Administration provides 18 Criteria with which an acceptable accounting system must comply. Compliance with those criteria provides reasonable assurance that applicable laws and regulations are complied with; the accounting system and cost data are reliable; the risk of misallocations and mischarges is minimized; and the contract allocation and charges are consistent with billing procedures.

b. As prescribed in DFARS 252-242-7006(a)(1), an acceptable accounting system means a system that complies with the system criteria in DFARS 252.242-7006(c) (refer to 5-305) to provide reasonable assurance that

(1) applicable laws and regulations are complied with,
(2) the accounting system and cost data are reliable,
(3) risk misallocations and mischarges are minimized, and
(4) contract allocations and charges are consistent with billing procedures.

5-303 General Audit Policy **

a. Refer to 5-103 for DCAA's general audit policy for the audit of contractor business systems and applicable sub-systems and related internal controls.

b. If the audit risk assessment indicates that only certain parts of a contractor's environment and overall accounting controls are subject to moderate or high risk, only those risk areas would require a complete audit of the contractor's compliance with the relevant DFARS requirement and contract terms. For example, a major change in billing system software may require an audit of the internal audit department's participation in the development, modification and implementation of significant systems to determine if the contractor is still able to bill in accordance with the DFARS billing requirements and contract terms. Areas of little or no risk need not be audited so long as the low risk determination is adequately documented.

c. These environmental and overall accounting control objectives apply to both large and small contractors.

5-304 Accounting Business System Audit Objectives **

The audit objective is to determine if the contractor's accounting system complies with DFARS 252.242.7006, Accounting System Administration, applicable regulatory requirements and contract terms to support the Administrative Contracting Officer's (ACO) determination of contractor compliance regarding its accounting system.

5-305 Scope of Audit **

a. When performing an Accounting System Administration requirements audit, the auditor will obtain an understanding of the contractor's compliance with DFARS 252.242-7006(c); determine if the contractor is compliant with the accounting system criteria prescribed in DFARS 252.242-7006(c); and report both significant deficiencies/material weaknesses and less severe significant deficiencies/material weaknesses that require the attention of those charged with governance.

b. While the nature and extent of audit effort depends upon contractor size, amount of Government business and audit risk (materiality and sensitivity), to be able to opine on compliance with DFARS 252.242-7006(c) criteria; all 18 criteria must be examined.

c. The pervasiveness of IT activities in most organizations requires that the auditor consider the impact these activities have on the contractor's control environment. The auditor should try to eliminate any duplicate effort with respect to audits of IT internal controls in other areas (i.e. labor, material, indirect/OH, etc.). However, if the auditor
determines that it would be most effective to audit these controls as a part of the Control Environment, Accounting Framework and Organizational Structure, then the auditor should apply adequate testing of the IT controls that are relative to the 18 DFARS criteria. This information should be considered when determining the contractor’s compliance with each of the 18 DFARS criteria, applicable regulatory requirements, and contract terms.

d. The assessment of the risk of a material misstatement due to fraud is also part of the assessment of audit risk for the contractor’s control environment and overall accounting system controls and should be assessed. If fraud is suspected, the circumstances should be reported in accordance with 4-700.

e. The following paragraphs contain guidance for evaluating the contractor’s compliance with the 18 DFARS 252.242-7006(c) Accounting System Administration Criteria, the criteria is as follows:

The Contractor’s accounting system shall provide for—

(1) A sound internal control environment, accounting framework, and organizational structure;

Control Environment

The control environment has a pervasive influence on the way business activities are structured, objectives established, and risks assessed. It also influences control activities, information and communication systems, and monitoring activities.

There are many variations of contractor’s control environment, accounting framework and organizational structures for large and small contractors. For example, at some smaller less complex contractor organizations, the contractor may not have formal policies and procedures, or descriptions of how the contractor complies with the DFARS accounting system criteria and only one person performing all the accounting functions. Larger contractors generally have active management involvement, descriptions of the accounting procedures and written policies over compliance with DFARS 252.242-7006(c). There are many variations of contractor control environments and auditors should keep in mind that in some cases the cost of implementing controls may outweigh the benefit for the smaller less complex contractor environments. Therefore, auditors should consider the risk and the types of controls in place based on the type of contractor environment and ensure the auditor is applying reasonable procedures based on the circumstances for the contractor environment.

In addition to the contractor adhering to a sound internal control environment to comply with DFARS 252.242.7006(c)(1), the contractor should comply with the following FAR clauses for its control environment:

FAR 52.203-13 Contractor Code of Business Ethics and Conduct. This clause is inserted into solicitations and contracts if the value of the contract is expected to exceed $5,500,000 and the performance period is 120 days or more. Also, the contractor is
required to implement a Business Ethics and Awareness and Compliance Program and Internal Control System (refer to 52.203-13(c) for the minimum requirements.)

**FAR 52.203-14** Display of Hotline Posters. This clause is inserted into contracts if the value exceed $5,500,000 or a lesser amount established by the agency and the agency has a fraud hotline poster or contract is funded with disaster assistance funds.

Exceptions:

Implementation of a Business Ethics and Awareness and Compliance Program and Internal Control System prescribed under **FAR 52.203-13(c)** is not a requirement if the contractor has represented itself as a small business concern pursuant to the award of this contract or if this contract is for the acquisition of a commercial item as defined at **FAR 2.101**.

The clause for displaying hotline posters is not a requirement if the contract is for the acquisition of a commercial items or will be performed entirely outside the United States (refer to **FAR 3.1004(b)**) or if contractor has implemented a business ethics and conduct awareness program an agency fraud hotline poster may be waived (refer to **FAR 52.203-14(c)**).

**Accounting Framework**

Based upon the size and complexity of the contractor, auditors should obtain from contractor management the policies and procedures that are in place to support its accounting framework/organization structure. This information will also be used to support the auditors understanding of the contractor's accounting system. The contractor’s accounting framework should contain at a minimum the following information:

- Chart of Accounts (with descriptions of charges applicable to each account) and explanation of how changes to the chart of accounts are made.

- Written descriptions of the indirect pools and allocation bases. (Note: If the contractor is a small contractor and does not have a formal chart of accounts or indirect pool(s) and allocation base(s) descriptions, document what the contractor is using to make these determinations).

- Descriptions should be for all primary pools (e.g., overhead, G&A) and intermediate pools, if any (e.g., occupancy costs allocation to overhead and G&A). Your understanding should be documented in B-02.

**Organizational Structure**

Based upon the size and complexity of the contractor, auditors should obtain and document the contractor's organizational structure (e.g., ask the contractor to provide
an organizational chart or a flow chart of its operations). If available, have the contractor walk you through the current organization chart (or flowchart) and determine whether it delineates clear lines of authority, duties and responsibilities, and segregation of duties and responsibilities of accounting and billing functions considering the size of the contractor. (Note: If examining a small contractor and it does not have an organization chart (or flowchart), have the contractor describe at the walkthrough, its policy on delegation of authority, and delineation of duties and responsibility, and segregation of duties and responsibilities of accounting and billing functions. Your understanding should be documented as part of the risk assessment and considered through-out the business system examination.

(2) Proper segregation of direct costs from indirect costs;

As defined in DFARS 252.242.7006, an acceptable accounting system means, in part, a system that is properly recording, classifying, and presenting accurate and timely financial data for reporting in compliance with applicable laws and regulations. DFARS criteria (2), requires the proper segregation of direct and indirect costs to arrive at total cost. The contractor should record and classify its direct/indirect costs to ensure its:

- direct costs are appropriately segregated in direct cost accounts and meet the requirements prescribed in FAR 31.202, and

- its indirect costs are appropriately segregated in indirect accounts and meet the requirements prescribed in FAR 31.203.

(3) Identification and accumulation of direct costs by contract;

FAR 31.202, Direct Costs, applies to this DFARS criteria (3). This FAR requires that direct costs identified as contract specific are direct costs of that contract and are to be charged directly to the contract. Also costs specifically identified with other final cost objectives (e.g., other contracts, etc.) of the contractor are direct costs of those cost objectives and should be charged to their applicable contracts. DCAA tests compliance with this DFARS criteria by determining if the direct costs (i.e., direct labor, direct materials, ODC, etc.) of the contract are properly identified and accumulated in contract specific cost accounts.

(4) A logical and consistent method for the accumulation and allocation of indirect costs to intermediate and final cost objectives;

DFARS criteria (4) requires the contractor’s compliance with FAR 31.203, which pertains to grouping logical indirect costs and appropriate bases for the allocation of indirect costs to intermediate or final cost objectives. The auditor should determine if the contractor has a logical and consistent method for accumulating and allocating its indirect costs to intermediate and final cost objectives by determining if the contractor has:

- Established logical (homogeneous) indirect cost pool(s).
• Defined the allocation base for each indirect cost pool.

• Established there is a logical causal/beneficial relationship between the indirect cost pool and its allocation base.

Note: The indirect cost pool and base structure at smaller contractors should not be overly complex in accordance with FAR 31.203(c). FAR 31.203(c) states, in part “When substantially the same results can be achieved through less precise methods, the number and composition of cost groupings should be governed by practical considerations and should not unduly complicate the allocation.”

If a contractor is CAS Covered, the auditor should review the current disclosure statement to assist in the determination of compliance with the system criteria.

(5) Accumulation of costs under general ledger control; and

(6) Reconciliation of subsidiary cost ledgers and cost objectives to general ledger;

These DFARS criteria require evidence that the contractor’s accounting system accumulates costs under the general ledger control (criteria 5) and its subsidiary ledgers or its equivalent are reconcilable to the general ledger (criteria 6). The detail that supports each of the general ledger accounts may generally be found outside of the general ledger in what is known as a subsidiary ledger or its equivalent. Therefore, it is important that subsidiary ledgers or its equivalent are reconciled to the general ledger to ensure the data in the general ledger is correct and timely.

(7) Approval and documentation of adjusting entries;

DFARS criteria 7, requires that the contractor’s adjusting journal entries (e.g., correcting, transferring, closing, and credits) are recorded timely and properly classified and that adjustments have adequate documentation, and are properly authorized. We test adjusting journal entries because they present an opportunity for potential manipulation of the accounting records outside established routine controls. An appropriate review process and required detailed supporting documentation mitigate the risk of unauthorized adjustments resulting in inaccurately reported costs.

(8) Management reviews or internal audits of the system to ensure compliance with the Contractor’s established policies, procedures, and accounting practices;

DFARS criteria (8), requires ongoing contractor management reviews and monitoring activities of its operations. This also includes the monitoring of its indirect cost for its indirect rates billed to government contracts. The amount of review the contractor should perform will vary depending on the size and complexity of contractor operations. For large contractors a formal plan should be in place for how it monitors its organization. Smaller less complex contractors review processes are more likely to be informal; they may be accomplished by management’s direct or close involvement in operations.
(9) A timekeeping system that identifies employees’ labor by intermediate or final cost objectives and

(10) A labor distribution system that charges direct and indirect labor to the appropriate cost objectives;

DFARS criteria (9) and (10) are interconnected. Unlike other costs, labor is not supported by external documentation such as an invoice, purchase order or receipt. Responsibility for accuracy is maintained throughout the contractor’s organization. The risk associated with the accurate recording, distribution, and payment of labor may be significant. DFARS Criteria (9), requires the contractor’s timekeeping system (paper or electronic) to record employee labor hours by cost objectives (e.g., project number, contract number or name, or other direct or indirect identifiers), to have traceable direct labor hours to applicable work authorization documents, and have timesheets (paper or electronic) certified by employees for the hours recorded and approved by supervisors.

Additionally DFARS criteria (10), the contractor’s labor distribution system should accurately document the employee labor hours (from timesheets) and dollars (from payroll records) by employee, by project name or job code and indirect accounts. The labor distribution records should be reconcilable to the cost accumulation records (e.g., job cost ledgers or equivalent for direct labor and the general ledger for indirect labor).

(11) Interim (at least monthly) determination of costs charged to a contract through routine posting of books of account;

DFARS criteria (11), requires the contractor’s accounting system records costs (generally to the job cost ledger) and present accurate and timely (i.e. at least monthly) reporting of those contract costs.

(12) Exclusion from costs charged to Government contracts of amounts which are not allowable in terms of Federal Acquisition Regulation (FAR) part 31, Contract Cost Principles and Procedures, and other contract provisions;

DFARS criteria (12), requires the contractor’s system exclude from costs charged to Government contracts amounts which are not allowable in terms of FAR Part 31 and/or other contract provisions. In addition, FAR 31.201-1(b) provides allowable costs to the Government are limited to those allocable costs which are allowable pursuant to FAR Part 31 and applicable agency supplements. The contractor’s accounting system must be able to segregate and accumulate unallowable costs, and appropriately exclude unallowable costs (the preferred method is for unallowable costs to be identified when recorded and accumulated in specified unallowable accounts) from indirect cost pool when calculating indirect expense rates.

(13) Identification of costs by contract line item and by units (as if each unit or line item were a separate contract), if required by the contract;

DFARS criteria (13), requires the contractor job cost ledgers or equivalent record, classify, analyze, summarize and present costs by contract line item and by units if
(14) Segregation of preproduction costs from production costs, as applicable;

DFARS criteria (14), requires manufacturing contractors identify and segregate its non-recurring pre-production costs in its job cost ledgers or equivalent.

(15) Cost accounting information, as required—

DFARS 252.242-7006-15(i) By contract clauses concerning limitation of cost (FAR 52.232-20), limitation of funds (FAR 52.232-22), or allowable cost and payment (FAR 52.216-7);

(15i), requires the contractor to establish procedures to ensure the limitation of costs or funds and the allowable cost and payment clauses for reporting contract cost information are adhered to when billing cost to Government contracts. These reporting requirements influence the reimbursable amounts on Government flexibly priced and T&M contract billings. The following are a description of the limitation of costs or fund clause and the allowable cost and payment clause:

**Limitation of Cost (FAR 52.232-20):** Contractor is required to provide the contracting officer advance notice whenever the total cost incurred on the contract will exceed a specified percentage of cost, or will be greater or substantially less than the estimated cost specified in the contract.

**Limitation of Funds (FAR 52.232-22):** Contractor is required to provide the contracting officer advance notice whenever the total cost incurred on the contract will exceed (i) a specified percentage of the funds currently allotted or, (ii) for cost sharing contracts, the amount allotted to the contract by the Government plus the contractor’s corresponding share.

**Allowable Cost and Payment (FAR 52.216-7):** This FAR clause is inserted into cost reimbursement contracts and Time-and-Materials (T&M) contracts for other than commercial items. For T&M contracts, the clause only applies to the part of the contract that reimburses allowable cost of materials (FAR 52.232-7(b)(4)).

DFARS 252.242-7006-15(ii) To readily calculate indirect cost rates from the books of accounts;

(15ii), requires the accounting system be designed so it is able to periodically (e.g. monthly), readily calculate year-to-date indirect rates from its accounting records. Interim indirect rate calculation facilitates management monitoring of provisional indirect billing rates. Also, FAR 52.216-7(e) requires the billing rates to be the anticipated final rates and may be revised by the contracting officer or the contractor to prevent substantial overpayment or underpayment.

(16) Billings that can be reconciled to the cost accounts for both current and cumulative amounts claimed and comply with contract terms;
DFARS criteria (16), requires the contractor maintain adequate reliable cost data so that billings can be reconciled to the cost accounts for both current and cumulative amounts and comply with contract terms. This requirement helps prevent substantial overpayment or underpayment; it also ensures appropriate historical data (i.e. material cost/quantities, labor cost/hours, etc.) are available for the contractor to develop and support estimates for follow-on procurements of same or similar services or items.

(17) Adequate, reliable data for use in pricing follow-on acquisitions;

DFARS criteria (17), requires the contractor ensures appropriate historical data (i.e. material cost/quantities, labor cost/hours, etc.) are available for the contractor to develop and support estimates for follow-on procurements of same or similar services or items. The contractor's accounting system should be able to segregate direct and indirect costs, identify costs by contract, exclude unallowable costs, identify costs by contract line item and units and segregate non-recurring costs from recurring production costs to maintain adequate reliable data for pricing follow-on acquisitions.

(18) Accounting practices in accordance with standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, Generally Accepted Accounting Principles.

DFARS criteria (18) requires the contractor’s accounting practices be in accordance with standards promulgated by the Cost Accounting Standards Board, if applicable, otherwise, GAAP. At a minimum, smaller contractors should maintain an accrual basis accounting system with dual entry accounting that posts transactions to general ledgers and sub-ledgers; and generates accurate financial reports. For larger more complex contractor environments that are subject to CAS, the contractors system should also comply with the applicable cost accounting standards.

5-306 Non-DoD Contractors Accounting Systems Audits **

Auditors may consider applying FAR 53.209(f) SF-1408 criteria, after contract award, to non-DoD contractors when examining a non-DoD contractor’s accounting system. The FAR criteria may be applied if the Contracting Officer (CO), the non-DoD contractor and the auditor agree that the DFARS 252.242-7006(c) accounting system criteria is not suitable criteria to examine the non-DoD contractor since the contractor does not have government defense contracts.

5-307 Business Systems Reporting **

The auditor should follow the guidance in 5-110 and 10-200 for reporting on business systems and corresponding subsystems.

5-308 Post Award Accounting System Audits **

a. The objective of the post award accounting system audit is to determine if the contractor’s accounting system complies with the DFARS 252.242-7006, Accounting System Administration, requirements and contract terms and to report the results of
audit to the cognizant Contracting Officer. The post award accounting system audit is an examination of a smaller less complex contractor accounting systems after contract award for flexibly priced contracts or contracts which provide for progress payments based on costs or on a percentage or stage of completion.

b. A post award accounting system audit is usually performed at the request of the contracting officer when:

(1) a follow-up audit to a preaward survey is recommended or

(2) a preaward survey was not conducted prior to contract award, and the contracting officer determines that an audit is now required to support contract requirements or

(3) auditors may self-initiate a post award accounting system audit, based on audit risk at for smaller less complex contractors.

c. The post award accounting system audit uses the same DFARS 252.242.7006, Accounting Administration Requirements as the Accounting System criteria.

d. Generally, once a smaller less complex accounting system is determined compliant with the applicable system criteria in DFARS 252.242-7006(c), future full-scope accounting system audits should only be performed when deemed necessary based on audit risk.

e. The post award accounting system audit program includes comprehensive steps to gain a detailed understanding of the contractor’s accounting system (e.g., tracing costs billed to source documentation) sufficient to render an opinion on compliance with the DFARS 252.242-7006, Accounting System Administration, requirements.

f. The procedures in the audit program are not sufficient to render an opinion on the key control activities and objectives that comprise an audit of internal controls.

g. If the auditor determines that the smaller less complex contractor’s accounting system is so complex it requires audit procedures contained in the audit program for a major contractor, the auditor should discontinue the audit under 17741 and use the Activity Code 11070, Accounting System Audit. The 11070 audit program is very similar to the 17741 audit program, since both small and large defense contractors with cost type contracts are subject to the DFARS requirements, however the 11070 audit program steps considers more complex accounting and billing environments that are utilized at larger defense contractors.

h. In all audit situations, auditors should be alert to conditions which may indicate unfavorable or adverse financial conditions or other circumstances which could impede a contractor’s ability to perform on Government contracts. During performance of post award audit risk assessments, auditors should follow the guidance in CAM 2-306.1 when documenting consideration of inherent risk and adjust the audit scope and associated audit procedures appropriately for any increased risk.
5-308.1 Post Award Accounting Systems for Non-DoD Contractors with Cost Type Contracts

A responsible government contractor (FAR subpart 9.1), is required to have an acceptable accounting system. FAR 53.209-SF-1408 Pre-award Survey of Prospective Contractor Accounting System criteria, is the standard for determining if the design of the prospective contractor (i.e. both Non-DoD and DoD contractors) has an acceptable accounting system prior to contract award, unless the contractor has all fixed price type contracts.

After contract award, auditors may consider applying FAR 53.209(f) SF-1408 criteria for non-DoD contractors when examining a non-DoD contractor’s accounting system. The FAR criteria are suitable criteria for performing accounting system audits of non-DoD contractors with cost-type contracts. The FAR criteria may be applied if agreement is not reached with the Administrative Contracting Officer (ACO) and the non-DoD contractor that the DFARS 252.242.7006(c) accounting system criteria is suitable criteria because the contractor does not have government defense contracts (i.e. the ACO or the non-DoD contractor does not agree that DFARS 252.242.7006(c) applies and there is not a DFARS contract requirement).

The FAR 53.209(f) SF 1408 and the DFARS 252.242.7006(c) criteria are very similar, and are both suitable criteria for examining either DoD or non-DoD contractor’s accounting system. FAR 53.209(f) SF 1408 contains the criteria to ensure the design of the accounting system is acceptable prior to contract award. The FAR criteria is also suitable criteria to measure after contract award to opine on the design of the accounting system and the measurement of operational effectiveness by applying detailed testing of transactions, re-performance of controls and adding audit steps for the applicable billing requirements such as the allowable cost and payment clause (FAR 52.216-7). Also consideration for any contract terms (e.g. ceiling limitations) should be reflected when planning the accounting system audit criteria.

Additionally, consideration should be given to agency specific criteria (e.g. Health and Human Services regulations, (HHSAR)) that the non-DoD contractor may be required to follow for an acceptable accounting system and to any contract terms.

5-308.2 Audit Reports

The post award accounting system report provides an opinion on whether the accounting system is compliant with DFARS 252.242-7006, Accounting System Administration, requirements and contract terms. Audit reports should also be responsive to the specific needs identified by the audit request and in discussions, if any, with the requestor.

The audit reports should be appropriately tailored to the specific circumstances of the audit and should provide sufficient information to support audit conclusions.

5-400 Section 4 - Audit of Contractor Compliance with DFARS
5-401 Introduction **

a. This section provides audit guidance for evaluating the contractor's compliance with DFARS 252.242-7004, Material Management and Accounting Systems (MMAS), applicable regulations and contract terms. If a contractor does not have contracts that include DFARS 252.242-7004, this audit guidance and DFARS criteria can be used to determine if the contractor's MMAS meets CAS and FAR requirements.

As prescribed by DFARS subpart 242.7204, the MMAS contract clause will be included in all cost reimbursement contracts and fixed price contracts based costs incurred as work progresses under the contract. Exception to inclusion of the clause are for small business, educational institutions and nonprofit organizations.

b. An understanding of the internal control environment, accounting framework and organizational structure will serve as a framework for evaluating the overall effectiveness of the internal controls, as they relate to the DFARS 252.242.7004(c), MMAS requirements and the subject matter under examination. A determination is required to be made to ensure that the contractor's accounting system has not changed and the accounting system audit is current.

c. Overall accounting controls include the contractor's controls to assure it remains financially capable to perform on Government contracts.

d. Refer to 2-306.3 for the auditor's fundamental requirements for obtaining and documenting an understanding of a contractor's internal controls and assessing control risk as it relates to the examination of the MMAS.

5-402 DFARS Subpart 242.72 **

In evaluating the acceptability of the contractor’s MMAS, the contracting officer, in consultation with the auditor and functional specialist, if appropriate, shall determine whether the contractor’s MMAS complies with the system criteria for an acceptable MMAS as prescribed in the clause at 252.242-7004, Material Management and Accounting System and pursue correction of any deficiencies.

DFARS 242.7203 Government Review Procedures to Establish Qualified MMAS Contractors

DFARS 242.7203(a) requires a review be conducted when a contractor has $40 million of qualifying sales to the Government during the contractor's preceding fiscal year; and the administrative contracting officer (ACO), with advice from the auditor, determines an MMAS review is needed based on a risk assessment of the contractor's past experience and current vulnerability. DFARS 242.7203(b) defines qualifying sales as sales for which certified cost or pricing data were required under 10 U.S.C. 2306a, as implemented in FAR 15.403, or that are contracts priced on other than a firm-fixed-price or fixed-price with economic price adjustment basis. Sales include prime contracts,
subcontracts, and modifications to such contracts and subcontracts.

5-403 Contract Clause DFARS 252.242-7004 Material Management and Accounting System **

a. The clause of DFARS 252.242-7004 Material Management and Accounting System provides system criteria with which an acceptable material management and accounting system must comply.

b. Contractors that do not have DoD contracts (i.e., contractors that are 100 percent reimbursable) are not contractually required to comply with the DFARS criteria.

5-404 General Audit Policy **

a. Refer to 5-103 for DCAA's general audit policy for the audit of contractor business systems and applicable sub-systems, and related internal controls.

b. If the audit risk assessment indicates that only certain parts of a contractor's environment and overall MMAS controls are subject to moderate or high risk, only those risk areas would require a complete audit of the contractor's compliance with the relevant DFARS requirement, applicable regulations and contract terms. For example, a major change in the contractor's electronic engineering drawing system software may require an audit of the development, modification and implementation of engineering drawings to ensure the changes flowed to all integrated MMAS systems. This would be to determine if the contractor's system is still producing adequate bills of material with the correct part numbers, part quantities, properly time-phased, etc., and complies with the DFARS material requirements, applicable regulations and contract terms. Areas of little or no risk need not be audited so long as the low risk determination is adequately documented.

c. DCAA is DoD's primary auditors with responsibility to audit contractor's MMAS' systems. It is DCAA's policy to assist the ACO in providing audit support to assist the ACO in determining compliance with DFARS 252.242.7004. Auditors should report significant deficiencies as defined at DFARS 252.242-7004(a)(5). GAGAS requires auditors to include in the audit report material weaknesses in internal controls, also deficiencies in internal controls that are less severe than a significant deficiency/material weakness but warrant the attention of those charge with governance. DCAA should also assist the ACO in evaluating the contractor's correction of deficiencies.

d. The contractor is subject to the disclosure and maintenance requirements at DFARS 252.242.7004(c)(1) – (3). Therefore, the auditor must check if the contractor has

- policies, procedures, and operating instructions that adequately describe its MMAS (requirement (1)),
- provide to the ACO upon request, the results of internal reviews conducted to ensure compliance with established MMAS policies, procedures, and
operating instructions (requirement (2)) and

- if the contractor disclosed significant MMAS changes to the ACO at least 30 days prior to implementation (requirement (3)).

5-405 Material Management and Accounting System (MMAS) Audit Objectives

a. The audit objective is to determine if the contractor’s MMAS complies with the system criteria for an acceptable MMAS as prescribed in the clause DFARS 252.242-7004 MMAS to support the ACO’s determination of contractor compliance regarding its MMAS.

b. The contractor is responsible for having adequate internal controls to ensure system and data integrity, and ensure compliance with the 10 MMAS system criteria outlined in the contract clause at DFARS 252.242-7004(d), specifically MMAS system criteria number 1. This standard requires the contractor to have an adequate system description including policies, procedures, and operating instructions that comply with the FAR and Defense FAR Supplement.

5-406 Scope of Audit

a. When performing a Material Management and Accounting System (MMAS) audit, the auditor will obtain an understanding of the contractor’s compliance with DFARS 252.242-7004; determine if the contractor is compliant with the material management system criteria prescribed in DFARS 252.242-7004(d); and report both significant deficiencies/material weaknesses and less severe significant deficiencies/material weaknesses that require the attention of those charged with governance.

b. While the nature and extent of audit effort depends upon contractor size, amount of Government business and audit risk (materiality and sensitivity), to be able to opine on compliance with DFARS 252.242-7004(d) criteria; all 10 system criteria must be examined.

c. The auditor should coordinate with DCAA auditors at other contractor divisions/segments, the ACO, and the contractor. To ensure positions and interpretations are consistent, the auditor should contact the CAD, or other segment auditors to determine similarities of systems among segments, deficiencies found at other divisions, and interpretations of compliance/noncompliance to specific standards. Coordinate the audit with the ACO to assure full understanding of their concerns related to the contractor’s MMAS and compliance with the DFARS criteria. Further, the auditor should coordinate closely with other responsible Government representatives such as Government property specialists and engineering and other technical representatives. Tasks assigned for the Government team must be clearly defined to take advantage of the available Government expertise and mission requirements of all members. Most important, the Government team must make every effort to avoid duplication of effort. Early discussions with the contractor should be established to assure adequate disclosures in a reasonable period. Be sure that the contractor and ACO have a good
understanding of what is expected in terms of the format and timing of the disclosures and the expected level of detail (including sufficient evidence).

d. The following paragraphs contain guidance for evaluating the contractor’s compliance with the 10 DFARS 252.242-7004(d) Material Management and Accounting System Criteria, the criteria is as follows:

The MMAS shall have adequate internal controls to ensure system and data integrity, and shall-

(1) Have an adequate system description including policies, procedures, and operating instructions that comply with the FAR and Defense FAR Supplement;

DFARS criteria (1), requires the contractor to have an adequate system description, which includes procedures and work instructions that provide sufficient information on how the process works at a level of detail that allows for an understanding of the system.

The contractor’s procedures and work instructions must provide sufficient information on how the Bill of Material (BoM) and the Master Production Schedule (MPS) (SAP-Grouping Pegging and Distribution at some contractors) systems are intended to operate and comply with FAR and DFARS. The BoM is the accurate record of the material parts and quantity required for the manufacturing process. The MPS details what and how much material, labor, and capacity is required and when these resources are needed.

The contractor’s procedures and work instructions must provide sufficient information on how the contractor conducts its inventory cycle counts and its inventory accuracy measurements. The contractors inventory accuracy practices and procedures must comply with FAR and DFARS.

The contractor’s procedures and work instructions must provide sufficient information on how the system is intended to process material transfer transactions. The contractor’s procedures and operating instructions must comply with FAR and DFARS.

The contractor’s allocation procedures and work instructions must provide sufficient information on how the system is intended to operate. The allocation procedures must comply with FAR and DFARS.

The contractor’s procedures and work instructions must provide sufficient information on how the material accounting system processes initial material costing. The contractor’s procedures must comply with FAR and DFARS.

(2) Ensure that costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements as impacted by minimum/economic order quantity restrictions.
(i) A 98 percent bill of material accuracy and a 95 percent master production schedule accuracy are desirable as a goal in order to ensure that requirements are both valid and appropriately time-phased.

(ii) If systems have accuracy levels below these, the Contractor shall provide adequate evidence that –

(A) There is no material harm to the Government due to lower accuracy levels; and

(B) The cost to meet the accuracy goals is excessive in relation to impact on the Government;

DFARS criteria (2), requires the contractor to have accurate reporting developed to measure and monitor purchased material and production material time-phasing. The contractor must have procedures and internal controls when creating and revising their BoMs and MPS (SAP-GPD at some contractors). As well, as reasonable methods to measure their accuracy.

The Contractor system shall be able to generate accurate production order BoMs, and controls should be in place for changes made during the production build process to avoid manual intervention unless these are supported by a formal engineering approval.

The MPS accuracy metric should measure the accuracy of the schedule in relation to the delivery date of the material as close to the production need date as possible and whether the production order actually starts on-time.

(3) Provide a mechanism to identify, report, and resolve system control weaknesses and manual override. Systems should identify operational exceptions, such as excess/residual inventory, as soon as known;

DFARS criteria (3), requires the contractor to have a system capable of monitoring and tracking exceptions and adjustments. The manual adjustments must be valid, with an underlying business purpose, which must be compliant with contract terms and provisions.

The contractor must have accurate and timely exception reports for monitoring BoM processes pertain to the creation or revision to BoMs and may effect current or future material requirements. The contractor should have evidence of timely resolution for reported issues,

The contractor’s exception reports for MPS (SAP-GPD at some contractors) should pertain to the planned material that is ordered in a specific quantity for production orders and not allocated material that is ordered in bulk. Exception reports for planned material should measure time-phasing and report the exceptions for overstock and understock conditions. If the contractor does not use reports, but instead uses online forms for the monitoring process, it should be verifiable. Contractor should
also have evidence of timely resolution for reported issues.

The exception reports for **transfer material** cost should be scheduled periodically and the contractor should provide evidence of timely resolution for reported issues. The process of reporting, tracking, and resolving material transfer and loan exceptions should produce historical records to measure the effectiveness of the process. The contractor should provide auditable evidence for identifying, reporting, and resolving the exceptions in a timely manner, to be compliant with FAR and DFARS.

A contractor should have a system in place for monitoring its common inventory material. Exception reports for **material allocations** usually compare monthly amounts at the contract level. The contractor should have historical data as evidence of the monitoring effort and have a process for identifying, reporting, and resolving any weakness or exception, in a timely manner.

The contractor’s exception reporting for initial **material cost** must be adequate and compliant with FAR and DFARS. The exception reports should be scheduled periodically and the contractor should provide evidence of timely resolution for reported issues. The process of reporting, tracking, and resolving material cost exceptions should produce historical records to measure the effectiveness of the process.

The contractor’s policies and procedures should describe who is responsible for monitoring the excess and obsolete material reports and the actions the contractor has taken regarding this material. The contractor procedures should also outline steps necessary to research and investigate the material/part numbers for future requirements. Once the excess or obsolete material is identified on the report a contractor representative should take responsibility for the material to ensure a timely resolution.

(4) **Provide audit trails and maintain records (manual and those in machine-readable form) necessary to evaluate system logic and to verify through transaction testing that the system is operating as desired;**

DFARS criteria (4), requires to maintain complete and accurate records, this include contractor’s historical records for all purchased and produced material.

The contractor must maintain complete and accurate records traceable through the BoM and MPS audit trail. The contractor must have Manufacturing Bill of Material (MBoM) traceable material/parts numbers and quantities, accurate and necessary for the manufacturing of the item, to the Electronic Bill of Material (EBoM) and the drawings. The MPS schedule should have an audit trail for each unit of production as it passes through the stations and work center.

The contractor must have accurate records of the **inventory** procedures for the received and issued material, and storage locations. Their system should be able to trace the material and note any inconsistencies.

The contractor’s historical records should identify all **transferred** and
loan/payback **material** during the period under audit. The transfer cost audit trail for purchased and in-house production orders should have a detailed record for every purchase order line item and production order batch.

The contractor should have records in the form of detailed historical transactions in the **allocated material** pools each month. The transactions should be billed based upon consistent, equitable, and unbiased methodologies.

The contractor **cost** audit trail for purchase and in-house production orders should have a detailed record for every purchase order line item and production order batch.

(5) **Establish and maintain adequate levels of record accuracy, and include reconciliation of recorded inventory quantities to physical inventory by part number on a periodic basis. A 95 percent accuracy level is desirable. If systems have an accuracy level below 95 percent, the Contractor shall provide adequate evidence that:**

(i) **There is no material harm to the Government due to lower accuracy levels;** and

(ii) **The cost to meet the accuracy goal is excessive in relation to the impact on the Government.**

DFARS criteria (5), requires the contractor MMAS system to provide for current or/and periodic inventory on-hand at the part number level. The inventory balance on-hand reconciles between the system of record (i.e. general ledger) to the subsidiary systems on a periodic basis. The contractor should have established procedures that prescribe how inventory record accuracy is verified as to quantity and location. Also, policies, practices, and procedures governing the material classification (i.e. A, B, C strata), location, requisition, and responsibilities for contract inventory.

(6) **Provide detailed descriptions of circumstances that will result in manual or system generated transfers of parts;**

DFARS criteria (6), requires the contractor to provide the Government and users of the system descriptive reasons for transfer activity and a reasonable process to make the material transfers (manual or system generated). The transfer of parts between contracts, or other line items used to accumulate costs at the contract level, must be for valid business purposes and comply with contract terms and regulations.

(7) **Maintain a consistent, equitable, and unbiased logic for costing of material transactions as follows:**

(i) **The Contractor shall maintain and disclose written policies describing the transfer methodology and the loan/pay-back technique.**

(ii) **The costing methodology may be standard or actual cost, or any of the inventory costing methods in 48 CFR 9904-411-50(b). The Contractor shall**
maintain consistency across all contract and customer types, and from accounting period to accounting period for initial charging and transfer charging.

(iii) The system should transfer parts and associated costs within the same billing period. In the few instances where this may not be appropriate, the Contractor may accomplish the material transaction using a loan/pay-back technique. The “loan/pay-back technique” means that the physical part is moved temporarily from the contract, but the cost of the part remains on the contract. The procedures for the loan/pay-back technique must be approved by the ACO. When the technique is used, the Contractor shall have controls to ensure-

(A) Parts are paid back expeditiously;

(B) Procedures and controls are in place to correct any overbilling that might occur;

(C) Monthly, at a minimum, identification of the borrowing contract and the date the part was borrowed; and

(D) The cost of the replacement part is charged to the borrowing contract;

DFARS criteria (7), requires the contractor to have a consistent inventory costing methodology, across all contracts, customer types, and between accounting periods, in compliance with contract terms and regulations.

The contractor should have a reasonable methodology for its material transfers or loan paybacks; including a method for identifying and solving problems or issues with transfers or loan paybacks. If common material is transferred or loan payback techniques are used for material costing the contractor’s policies and procedures, operating instructions and actual practices should comply with DFARS 252.242.7004(d)(7)(i)(ii) and (iii) (A)(B)(C)(D), requirements.

All initial material costing methods used by the contractor must be consistent, equitable, unbiased, and comply with CAS 411, for contractors with CAS covered contracts and DFARS 252.242.7004(d)(7).

(8) Where allocations from common inventory accounts are used, have controls (in addition to those in paragraph (d)(2) and (7) of this clause) to ensure that-

(i) Reallocations and any credit due are processed no less frequently than the routine billing cycle;

Inventories retained for requirements that are not under contract are not allocated to contracts; and
Algorithms are maintained based on valid and current data;

DFARS criteria (8), requires the contractor to have policies and procedures, operating instructions and actual practices for common inventory allocation methods in compliance with contract terms and regulations. The contractor’s methodology must consistently allocate common inventory to contracts regardless of type (e.g. cost reimbursement, fixed price, commercial, etc.).

(9) Have adequate controls to ensure that physically commingled inventories that may include material for which costs are charged or allocated to fixed-price, cost-reimbursement, and commercial contracts do not compromise requirements of any of the standards in paragraph (d)(1) through (8) of this clause. Government-furnished material shall not be-

(i) Physically commingled with other material; or

(ii) Used on commercial work; and

DFARS criteria (9), requires the contractor to have policies and procedures, and actual practices that comply with the written policies and procedures on commingled inventory. The contractor must have an inventory that is tracked both physically and systematically on an individual part number basis (i.e. each) and is stored in a manner that allows for specific identification to the contract. This includes physically commingled inventory stored at the same contractor location and used on different types of contracts (e.g. cost reimbursement, fixed-priced, commercial, etc.). The contractor practice must result in costs that are in compliance with contract terms and regulations.

(10) Be subjected to periodic internal reviews to ensure compliance with established policies and procedures.

DFARS criteria (10), requires the contractor to have a recurrent system evaluation process, which may include management reviews, internal audits, or personnel performing duplicate validations, to ensure compliance with established policies and procedures.

The contractor’s BoM and MPS (SAP-GPD at some contractors) creation and change process should have quality reviews and approval procedures embedded in the process. The same is true for the BoM and MPS accuracy test. Contractors must also conduct independent periodic business system reviews to ensure the correct procedures are being followed, the internal controls are working and the calculations are correct.

The contractor must have internal reviews of inventory processes and procedures to validate compliance. The internal reviews shall provide valuable information such as whether the inventory is being properly accounted for, or findings, and the corrective actions taken. The internal reviews of inventory should also include ensuring the procedures are followed.
The contractor’s **material transfer** and loan/payback process should have management review procedures embedded in the process. Management should perform periodic reviews of the process to verify the steps in the procedure were complete and accurate.

The contractor’s monthly common **material allocation** process should have quality review and approval procedures embedded in the process. Management should perform a final review of the process to verify the steps in the procedure were complete and accurate prior to posting the monthly journals for allocated material for each contract.

The **material cost** process should have management review procedures embedded in the purchasing and production process. Management should perform periodic reviews of the process to verify the steps in the procedure were complete and accurate.

**5-407 Business Systems Reporting**

The auditor should follow the guidance in 5-110 and 10-200 for reporting on business systems and corresponding subsystems.

**5-500 Section 5 --- Audit of Estimating System Internal Controls**

Chapter 5-500 is currently being rewritten by Pricing and Special Projects (PSP) division. The Defense Federal Acquisition Regulations (DFARS) was updated, and established a Contractor Business System clause at DFARS 252.242-7005. This clause defines an Estimating System as one of the six contractor business systems.

The business system audit programs for the Estimating System have been updated for the DFARS changes.

If during the course of other audit work, an audit team identifies a significant deficiency pertaining to an estimating system, the audit team should prepare a deficiency report.

If your office is performing an estimating system audit, or if you have any questions regarding estimating system audits, please contact PSP at DCAA-PSP@dcaamil.

**5-600 Section 6 -- DCMA Cognizance of Business Systems**

DCMA is cognizant over three of the six business systems as defined by DFARS 252.242-7005 as Earned Value Management System, Contractor Purchasing System Administration, and Contractor Property Management System Administration. If DCMA requests assistance for any of these systems, please coordinate with HQs PAS/Region before any assistance is provided to DCMA.