



**DEFENSE CONTRACT AUDIT AGENCY
8725 JOHN J. KINGMAN ROAD, SUITE 2135
FORT BELVOIR, VA 22060-6219**

IN REPLY REFER TO

CSPD 730.3.b

August 4, 2025
25-CSPD-002 (R)

**MEMORANDUM FOR DIRECTORATE DIRECTORS, DCAA
ASSISTANT DIRECTORS, DCAA**

SUBJECT: Audit Alert on DFARS Business System Terminology

What you need to know

MRD 25-PSC-001, dated May 13, 2025, identified the DFARS 252.242-7005 Contractor Business Systems terminology change from significant deficiency to material weakness. This terminology change was effective January 17, 2025. A material weakness based on the new DFARS definition will generally represent a significant deficiency as previously defined by DFARS. The contractor must have at least one covered contract that incorporates the DFARS 252.242-7005 (Jan 2025) clause for the new terminology to apply to the business system audit.

What Auditors Need to Do

When performing business system audits, auditors must:

1. **Verify Contract Applicability:** Determine if the contractor has at least one covered contract that incorporates the DFARS 252.242-7005 (Jan 2025) Contractor Business Systems clause.
2. **Include Relevant Contracts in Testing Universe:** the covered contract containing the DFARS 252.242-7005 (Jan 2025) clause should be included in the testing universe.
3. **Use Appropriate Terminology:**
 - a. If the contractor has a covered contract that incorporates the DFARS 252.242-7005 (Jan 2025) clause, use the material weakness terminology.
 - b. If not, use the previous significant deficiency terminology, along with the less than severe significant deficiency terminology defined by DCAA.

SUBJECT: Audit Alert on DFARS Business System Terminology

Questions and Further Information

FAO personnel with questions regarding this audit alert should contact their Directorate offices. Directorate personnel with questions regarding this memorandum should contact Contract Audit Standards and Assurance Directorate, Systems and Programs Division (CSPD) via e-mail at dcaa.belvoir.hq.mbx.dcaa-psc@mail.mil.

Jennifer L. Quinones
Assistant Director,
Contract Audit Standards and Assurance
Defense Contract Audit Agency

DISTRIBUTION: E