



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

IMMEDIATE POLICY CHANGE

Contractor Business Systems

Component Name
OPR: DCMA-AQ

DCMA-INST 131 (IPC-1)
December 1, 2015

1. POLICY. This Immediate Policy Change (IPC) implements changes to DCMA-INST 131, "Contractor Business Systems," November 6, 2013.

2. PURPOSE. This IPC establishes requirements for review and concurrence of proposed business system disapproval packages and maintenance of the CBS Determination Timeline Tracking Tool. It also clarifies CBS documentation requirements and requires DCMA Special Programs to participate in the DCMA HQ Panel review process. This IPC also introduces the concept of potential significant deficiencies to provide contracting officers flexibility and help ensure issuance of initial determinations within the mandated timeline. Other administrative updates and clarifications were also made.

3. APPLICABILITY. This IPC applies to all DCMA activities that prepare, manage, review, validate, approve, and use DCMA policies.

4. NEW GUIDANCE.

- a. Move process flowcharts to the policy resource Web page for this Instruction.
- b. Update the following references on the Reference page:
 - (c) DCMA-INST 710, "Managers' Internal Control Program," ~~September 2014~~ **April 21, 2014**
 - (d) DoD Directive 3210.06, "Defense Grant and Agreement Regulatory System (DGARS)," ~~December 17, 2003~~ **February 6, 2014**
 - (f) DCMA-INST 118, "Contract Receipt and Review," June ~~25~~, 2013
 - (i) DCMA-INST 1201 (**IPC-1**), "Corrective Action Process," ~~December 2012~~ **September 08, 2015**
 - (j) DCMA-INST 134, "Boards of Review," ~~October 2012~~ **November 4, 2013**
 - (k) DCMA-INST 126, "Contract Audit Follow Up," ~~August 2013~~ **August 20, 2014**
 - (m) DCMA Memorandum #~~12-137-15-189~~, "~~Changes in Earned Value Management System (EVMS) Standard Surveillance Instruction (SSI)~~ **DCMA Interim Guidance on Implemenattion of Defense Federal Acquisition Regulation Supplement (DFARS) Class Deviation – Earned Value Management System (EVMS) Threshold**," ~~May 1, 2012~~ **September 17, 2015**

- (n) DCMA-INST 208, “Earned Value Management System – Compliance Reviews,”
~~June 2011~~ *April 9, 2014*
- (o) *DCMA #14-155, “System Adequate for Contract Award (SACA” May 12, 2014*
- (~~op~~) DCMA-INST 124, “Contract Property Management,” ~~February 2013~~ *March 31, 2014*
- (w) DCMA-INST 133, “Estimating System Review,” ~~February 2012~~ *September 8, 2014*
- (x) DCMA-INST 211, “Material Management and Accounting System (MMAS)
Review,” May 2012 May 30, 2013
- (y) DCMA-INST 109, “Contractor Purchasing System Reviews,” ~~November 2012~~
January 9, 2014

c. Add new paragraph 2.1.6.:

2.1.6. Ensuring any transfer of business system determination responsibility is coordinated through the respective contract management office (CMO) Contracts Directors, Cost and Pricing Division Supervisors for Special Programs, and/or Director of CACO/DACO group and documented in the official records management system.

d. Change paragraph 2.3. to read:

2.3. CONTRACT MANAGEMENT OFFICE (CMO) PRIMARY CMO CONTRACTS DIRECTORS FOR OPERATIONS, CONTRACTS DIRECTOR FOR INTERNATIONAL (DCMAI), COST AND PRICING DIVISION SUPERVISORS FOR SPECIAL PROGRAMS (DCMAS) AND/OR DIRECTOR OF THE CACO/DACO GROUP. The appropriate Director *or Supervisor* is responsible for reviewing ~~and approving all business system~~ determinations ~~to approve or disapprove a business system~~ prior to *their* issuance *to the contractor*.

e. Add new paragraph 2.4.:

2.4. PRIMARY CMO COMMANDERS FOR OPERATIONS, CMO COMMANDERS FOR INTERNATIONAL (DCMAI), COST AND PRICING DIVISION SUPERVISORS FOR SPECIAL PROGRAMS (DCMAS), AND DIRECTOR OF THE CACO/DACO GROUP. *The appropriate Commander, Director, or Supervisor is responsible for reviewing and ensuring a well-documented and comprehensive business system disapproval package is submitted to the DCMA Headquarters (HQ) CBS panel.*

f. Renumber paragraph 2.4. to **2.5.** and change to read:

2.4.2.5. DCMA HEADQUARTERS CONTRACTOR BUSINESS SYSTEMS POLICY ADVOCATE. The CBS policy advocate is responsible for acknowledging receipt of the CO’s review panel submissions via e-mail, promptly distributing CO documents to appropriate panel members, and scheduling panel meetings, ~~preferably~~ within three business days after receiving ~~the CO’s submission~~ *a complete business system disapproval package*. When the panel completes the review, the CBS policy advocate shall send a “concur” or “non-concur” e-mail notice to the CO (See paragraph 3.4.3. of this Instruction).

g. Change paragraph 3.1.2.2.1. to read:

3.1.2.2.1. If deficiencies are identified in a business system reviewed by DCMA, the functional specialist shall draft a Level III or IV corrective action request (CAR) ~~(in the CAR eTool); and attach it to the BSAS; and document it in the CMO CAR log.~~ See DCMA-INST 1201, “Corrective Action Process” (Reference (i)), for additional guidance. The CAR shall be printed and marked “draft” and sent to the CO. ~~The CAR shall not be released to the contractor via the CAR eTool unless the CO issues a final determination disapproving the business system. A written notification should be submitted by the CMO or Cost and Pricing Center (C&PC) to DCMA leadership via the chain of command IAW the CAR Level III & IV Communication Process (see DCMA-INST 1201 (Reference (i))).~~ For review or audit findings that are not considered significant deficiencies, the functional specialist or the CO shall pursue corrective action, as appropriate (see DCMA-INST 1201 (Reference (i))).

h. Delete the note after paragraph 3.1.3. in its entirety.

i. Change paragraph 3.1.4. to read:

3.1.4. The acceptability of a contractor’s Earned Value Management System (EVMS) will be determined in accordance with DFARS 252.234-7002(c), EVMS (Reference (l)). If the contractor has *cost or incentive* contracts *and subcontracts* valued at ~~\$50~~ **\$100** million or more, the CO will approve or disapprove the system. However, if the contractor does not have contracts valued at ~~\$50~~ **\$100** million or more, the CO will not make a formal determination. If a contract value meets the threshold and the EVMS is approved, the system status remains approved unless a subsequent compliance review indicates otherwise. However, a CAR shall be drafted and coordinated if deficiencies are identified (see DCMA Memorandum #~~12-137-15-189~~, *“Changes in Earned Value Management System (EVMS)—Standard Surveillance Instruction (SSI) DCMA Interim Guidance on Implementation of Defense Federal Acquisition Regulation Supplement (DFARS) Class Deviation – Earned Value Management System (EVMA) Threshold”* (Reference (m))).

j. Add new paragraph 3.1.6. and 3.1.6.1.:

3.1.6. Accounting systems with a “Not Evaluated” status will require the CO to input comments (see DCMA #14-155, “System Adequate for Contract Award (SACA)” (Reference (o)). When the CO selects an accounting system status in CBAR, the following System Adequate for Contract Award (SACA) parameter shall apply:

3.1.6.1. Not Evaluated: SACA status field defaults to “Yes”. The CO must provide supporting SACA comments for the basis of the recommendation (SACA comments do not have a pre-defined default). The CO may change the SACA status field to “No” and must provide supporting SACA comments. It is recommended to discuss within your chain of command prior to making a “No” recommendation.

k. Change paragraph 3.2.1. to read:

3.2.1. If the CO determines there are no significant deficiencies, the CO shall issue a final determination within 10 days of receiving the business system report or BSAS notifying the contractor in writing that the system is approved. In such cases, there is no need for an initial

determination. The ~~CMO contracts director and/or the director of CACO/DACO group~~ ***appropriate Director or Supervisor (see paragraph 2.3.)*** shall review and approve issuance of the CO's final determination approving the business system. After notifying the contractor, the CO shall record the status of the approved business system in the CBAR eTool and upload a copy of the determination letter to the CBAR eTool.

l. Add new Note 3 and change paragraph 3.2.2. and Note 1 to read:

3.2.2. If ***after reviewing the business system report or BSAS*** the CO determines ***potential*** significant deficiencies exist, the CO shall issue an initial determination within 10 days of receiving the business system report or BSAS. ***In addition, the CO shall*** attach the unsigned draft Level III or IV CAR clearly marked "draft" to the initial determination letter for significant deficiencies identified (see DCMA-INST 1201 (Reference (i))). The initial determination shall ***not*** include a request for a CAP. When a CACO/DACO/ACO network exists, the CO responsible for issuing the initial determination shall notify all COs within the network prior to issuing the initial determination to the contractor. The notification of all COs within the network ensures consistent treatment of like contractor business system issues throughout a company. It is recommended but not required that the cognizant CO obtain local general counsel review of the initial determination. Before issuance of the initial determination, the ~~CMO contracts director and/or the director of CACO/DACO group~~ ***appropriate Director or Supervisor (see paragraph 2.3.)*** shall review and approve issuance of all proposed initial determinations. The CO shall request the contractor respond in writing to the initial determination within 30 days.

NOTE 1: In general, a systems audit is considered resolved ***in the Contract Audit Follow Up (CAFU) system*** when the CO makes an initial determination of whether there are significant deficiencies in the contractor's system, documents the determination in a memorandum of record, notifies the contractor in writing, and requests a response from the contractor (see DCMA-INST 126, "Contract Audit Follow Up" (Reference (k))). ***In general, a systems audit report can be dispositioned in the CAFU system when the CO makes a final determination to approve or disapprove a system in accordance with this Instruction, notifies the contractor in writing, and documents the determination (see DCMA-INST 126 (Reference (k))).***

m. Change paragraph 3.3.1.1. to read:

3.3.1.1. If the cognizant CO determines significant deficiencies do not exist and approves the contractor's business system, the CO shall not finalize the Level III or IV CAR related to the specific business system. The draft Level III or IV CAR should be cancelled in the CAR eTool. ~~The CO will document the CMO CAR log with the status.~~ The CO will obtain approval from the ~~CMO contracts director and/or the director of CACO/DACO group~~ ***appropriate Director or Supervisor (see paragraph 2.3.)*** prior to issuing the final determination to the contractor. After notifying the contractor, the CO shall record the status of the approved business system in the CBAR eTool.

n. Change paragraph 3.3.1.2. to read:

3.3.1.2. If the cognizant CO determines significant deficiencies still exist and intends to disapprove the business system, the CO shall finalize the Level III or IV CAR in the CAR eTool and attach it to the final determination. ***A written notification should be submitted by the CMO or***

Cost and Pricing Center (C&PC) to DCMA leadership via the chain of command IAW the CAR Level III & IV Communication Process (see DCMA-INST 1201 (reference (i))). The CO shall request the contractor correct the deficiencies or submit an acceptable CAP within 45 days. An acceptable CAP will address the cause of the significant deficiency, include milestones and action(s) to eliminate the significant deficiency, and target date(s) for implementation of planned action. If the business system is disapproved, the CO shall withhold payments in accordance with DFARS 252.242-7005 (Reference (e)), if the clause is included in the contract. After notifying the contractor, the CO shall record the status of the disapproved business system and upload a copy of the determination letter in the CBAR eTool.

o. Change paragraph 3.4.1. to read:

3.4.1. If the final determination is not issued within 30 days after receiving the contractor's response to the initial determination, the CO on a weekly basis shall document the ~~Electronic Document Workflow (EDW) file with~~ dates and actions taken until a determination is made ***in the IWMS***. In addition, the CO shall routinely update the contractor and the functional specialist on the status of the determination. If it is anticipated that it will take more than 30 days to issue the final determination, the CO shall obtain the approval of the CMO ~~eContracts~~ ***Director*** or the Cost and Pricing Center team leader. If it is anticipated that it will take more than 45 days to issue the final determination, the CO shall obtain the approval of the cognizant directorate ~~eContracts~~ ***Director*** (e.g., DCMAI, DCMA Operations Directorate (DCMAO)), ~~or DCMA Special Programs Directorate (DCMAS))~~ ***Cost and Pricing Division Supervisor(s) for DCMAS,*** or the director of CACO/DACO group. ***If the anticipated delay is caused by any investigative authority and/or legal counsel direction advising the CO not to pursue the determination, the CO shall obtain such direction in writing and provide a copy with the aforementioned request for time extension.***

p. Change paragraph 3.4.3. to read:

3.4.3. The CO shall obtain a higher-level review from the DCMA HQ CBS review panel prior to notifying the contractor in writing of a business system disapproval. ***The CO shall obtain concurrence of proposed business system disapproval packages by the appropriate Commander, Director, or Supervisor (see paragraph 2.4.) prior to submission to the DCMA HQ CBS review panel.*** The CO shall submit, via e-mail to the "HQ CBS Panel In-Box" (HQCBSPanelInBox@dcma.mil), ***documentation of package approval (see "CBS Disapproval Package Checklist" on the CBS resource page), a concise*** chronology of events leading to the proposed final determination, a copy of the functional specialist or auditor report, the BSAS (if applicable), ***a signed copy of the initial determination,*** the contractor's response to the initial determination, and the proposed final determination letter, as approved by the ~~CMO contracts director and/or the director of the CACO/DACO division of the Cost and Pricing Center~~ ***appropriate Director or Supervisor (see paragraph 2.3.). The CO should also review the "Rules of Engagement" on the CBS resource page before requesting a DCMA HQ CBS review panel.***

q. Add new note after paragraph 3.4.3.:

NOTE: DCMAS is not exempt from the DCMA HQ CBS review panel process unless compliance will violate any security policy.

r. Change paragraph 3.4.3.1. to read:

3.4.3.1. The purpose of the CBS review panel is to ensure significant deficiencies identified in the CO's initial determination notification and the contractor's response have been fully evaluated and discussed by the CO and functional specialist or auditor, and ~~CMO contracts director and/or the director of the CACO/DACO division of the Cost and Pricing Center~~ **appropriate Director or Supervisor (see paragraph 2.3.)**. Additionally, the CBS review panel will make certain the consistent application of business system criteria and policy requirements.

s. Change paragraph 3.6.2. to read:

3.6.2. The ACO responsible for contract administration shall establish and maintain a business system withholding tracking worksheet for each contract against which payments will be withheld. MOCAS shall not be used to track these types of withholds. The withhold tracking spreadsheet located on the CBS resource page shall be used by the ACO for tracking payment withholds. A separate spreadsheet should be used for each contract, and will be maintained in ~~the contractor's general file in EDW~~ **the Integrated Workflow Management System (IWMS)**. The ACO must request the CMO trusted agent to input MOCAS Special Provision Code "U" for each contract from which payments will be withheld. **If the contract is not in MOCAS, ACOs should notify the procurement office for each contract from which payments will be withheld.**

t. Change paragraph 3.6.3.1. to read:

3.6.3.1. The ACO shall withhold payments from all contracts that contain DFARS 252.242-7005 (Reference (e)), the applicable business system specific clause, and have a total contract value greater than or equal to \$50 million. If the contractor has not received a contract(s) with a total contract value greater than or equal to \$50 million and the CO determines it is necessary to protect the Government's interest, the ACO may implement payment withholding on contract(s) valued less than \$50 million meeting the above criteria, with the approval of the ~~CMO contracts director and/or the director of the CACO/DACO division of the Cost and Pricing Center~~ **appropriate Director or Supervisor identified in paragraph 2.3.**

u. Add new paragraph 3.9.:

3.9. CBS DETERMINATION TIMELINE TRACKING TOOL. The CBS Determination Timeline Tracking Tool was created to ensure DCMA COs take appropriate and timely actions regarding CBS determinations. COs responsible for CBS determinations shall maintain the tool and populate it with dates and other information from receipt of auditor/functional specialist report to issuance of a final determination. This tool has DCMA senior level management visibility, facilitates timely issuance of determinations to all contractors, and serves as a record for determination timeline actions. Additional information regarding the tool is located on the CBS policy resource Web page.

v. Add new note after paragraph 3.9.:

NOTE: DCMAS is not exempt from populating the DCMA HQ CBS Determination Timeline Tracking Tool unless compliance will violate any security policy.

w. Change paragraph 4.1.1.2. to read:

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4.1.1.2. If there are no deficiencies or the deficiencies are not considered significant, the CO shall, after obtaining approval for issuance of the determination from the ~~CMO contracts director and/or the director of CACO/DACO group~~ *appropriate Director or Supervisor identified in paragraph 2.3.*, issue a determination, notifying the contractor, in writing, that the system is approved and shall update CBAR eTool to ensure it is current and accurate. A copy of the determination letter shall be uploaded to the CBAR eTool.

x. Change paragraph 4.1.2.2. to read:

4.1.2.2. If there are no deficiencies or the deficiencies are not considered significant, the CO shall, after obtaining approval for issuance of the determination from the ~~CMO contracts director and/or the director of CACO/DACO group~~ *appropriate Director or Supervisor identified in paragraph 2.3.*, issue a determination, notifying the contractor, in writing, that the system is approved and shall update CBAR eTool to ensure it is current and accurate. *A copy of the determination letter shall be uploaded to the CBAR eTool.*

y. Change paragraph 4.1.3.1. to read:

4.1.3.1. The ~~CMO contracts director and/or the director of the CACO/DACO division of the Cost and Pricing Center~~ *appropriate Director or Supervisor identified in paragraph 2.3.* shall approve the initial determination notice before issuance.

z. Update the following in the Glossary – Definitions:

- **Contractor Business Systems**. Accounting, earned value management (DCMA-INST 208 (Reference (n))), estimating (DCMA-INST 133, Estimating System Review (Reference (w))), material management and accounting (DCMA-INST 211, “Material Management and Accounting System (*MMAS*) Review” (Reference (x))), property management (DCMA-INST 124 (Reference (o))), and purchasing systems (DCMA-INST 109, Contractor Purchasing System Reviews (Reference (y))).
- ***Day. Unless otherwise specified, this is a calendar day.***

aa. Update the following in the Glossary – Acronyms:

- ***DGARS*** ***Defense Grant and Agreement Regulatory System***
- ***EDW*** ***Electronic Document Workflow***
- ***IWMS*** ***Integrated Workflow Management System***

5. RELEASABILITY – UNLIMITED. This IPC is approved for public release.

6. EFFECTIVE DATE. By order of the Director, DCMA, this IPC is effective immediately and shall remain in effect until rescinded, superseded, or incorporated in a DCMA policy, whichever is sooner.



Timothy P. Callahan
Executive Director, Contracts



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Contractor Business Systems

Contracts Directorate
OPR: DCMA-AQ

DCMA-INST 131
November 6, 2013

1. PURPOSE. This Instruction:

a. Reissues and updates DCMA Instruction (DCMA-INST) 131, “Contractor Business Systems” (Reference (a)).

b. Establishes policy, assigns roles and responsibilities, and provides procedures for administration and oversight of contractor business systems (CBS).

c. Complies with DoD Directive (DoDD) 5105.64, “Defense Contract Management Agency (DCMA)” (Reference (b)).

2. APPLICABILITY. This Instruction applies to all DCMA Components as stated.

3. MANAGERS’ INTERNAL CONTROL PROGRAM. This Instruction contains internal management control provisions subject to evaluation and testing required by DCMA-INST 710, “Managers’ Internal Control Program” (Reference (c)). Flowcharts for primary processes are at Appendix A and Appendix B.

4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. PLAS CODES.

a. Process:

052 - Accounting System

C070 - Earned Value Management System

112 - Estimating System

113 - Material Management and Accounting System

102 - Property Management System

094 - Purchasing System

b. Programs: ACAT/Other Customers (when applicable)

c. Other National; Training and Travel; Local Programs (when applicable)

6. POLICY RESOURCE WEB PAGE. <https://home.dcma.mil/policy/131r/>

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective November 6, 2013, and all applicable activities shall be fully compliant within 60 days from this date.



Timothy P. Callahan
Executive Director
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REFERENCES

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- (b) DoDD 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
- (c) DCMA-INST 710, "Managers' Internal Control Program," September 2011
- (d) DoDD 3210.6, "Defense Grant and Agreement Regulatory System," December 17, 2003
- (e) Defense Federal Acquisition Regulation Supplement (DFARS) 252.242-7005, "Contractor Business Systems"
- (f) DCMA-INST 118, "Contract Receipt and Review," June 2013
- (g) DFARS 242.75, "Contractor Accounting Systems and Related Controls"
- (h) DCAA Memorandum #12-PAS- 012(R), "Audit Guidance on Auditing Contractor Business Systems and Contractor Compliance with DFARS 252.242-7006, Accounting System Administration," April 24, 2012
- (i) DCMA-INST 1201, "Corrective Action Process," December 2012
- (j) DCMA-INST 134, "Boards of Review," October 2012
- (k) DCMA-INST 126, "Contract Audit Follow Up," August 2013
- (l) DFARS 252.234-7002 (c), "Earned Value Management System"
- (m) DCMA Memorandum #12-137, "Changes in Earned Value Management System (EVMS) - Standard Surveillance Instruction (SSI)," May 1, 2012
- (n) DCMA-INST 208, "Earned Value Management System – Compliance Reviews," June 2011
- (o) DCMA-INST 124, "Contract Property Management," February 2013
- (p) Federal Acquisition Regulation (FAR) 32.503-6, "Suspension or Reduction of Payments"
- (q) Procedures Guidance and Information (PGI) 242.7000(b)(2), "Reduction of Temporary Payment Withholding"
- (r) PGI 242.7000, "Contractor Business Systems Deficiencies"
- (s) FAR 52.232-16, "Progress Payments"
- (t) FAR 52.232.16(c), "Reduction or Suspension"
- (u) DFARS 252.242-7005(e)(3), "Payment Withhold Percentage Limits"
- (v) DFARS 242.70, "Contractor Business Systems"
- (w) DCMA-INST 133, "Estimating System Review," February 2012
- (x) DCMA-INST 211, "Material Management and Accounting Systems," May 2012
- (y) DCMA-INST 109, "Contractor Purchasing System Reviews," November 2012

CHAPTER 1

POLICY

1.1. POLICY. It is DCMA policy that:

1.1.1. The appropriate corporate administrative contracting officer (CACO), divisional administrative contracting officer (DACO) or administrative contracting officer (ACO), in consultation with the functional specialist or auditor shall determine acceptability of CBS in accordance with DFARS business system criteria, and approve or disapprove the contractor's business system.

1.1.1.1. For contractors with an assigned CACO, the CACO is responsible for determining acceptability of any corporate-level business system. There are instances whereby reviews are conducted on business segments that are contractor site-specific. If that site is part of a larger business segment with an assigned DACO, the DACO is responsible for determining acceptability of the business system.

1.1.1.2. The DACO is the responsible contracting officer (CO), if the site is under a business segment. The ACO is responsible for determining acceptability of a business system if no DACO is assigned to the larger business segment.

1.1.2. When a CACO/DACO/ACO network exists, the CO responsible for making the final determination shall notify all COs within the network prior to notifying the contractor of the final determination.

1.1.3. This Instruction is executed at the prime contractor level.

1.1.4. This Instruction does not apply to grants, cooperative agreements, technology investment agreements, or other transactions (otherwise known as non-procurement instruments). See DoDD 3210.6, "Defense Grant and Agreement Regulatory System" (Reference (d)) regarding system determinations for these instruments.

1.1.5. DCMA International Directorate (DCMAI) may use host nation audits from entities such as Public Works and Government Services Canada or Host Nation Financial Audit Organizations to determine if there are significant deficiencies in any of the six CBS. In requesting these audits, the DCMA CO may need to identify the business systems criteria as defined in DFARS.

CHAPTER 2

ROLES AND RESPONSIBILITIES

2.1. CORPORATE ADMINISTRATIVE CONTRACTING OFFICER (CACO), DIVISIONAL ADMINISTRATIVE CONTRACTING OFFICER (DACO), OR ADMINISTRATIVE CONTRACTING OFFICER (ACO). The CACO/DACO/ACO is responsible for:

2.1.1. Reviewing findings from the functional specialist or auditor, upon receipt of a business system audit report and applicable Business Systems Analysis Summary (BSAS).

2.1.2. Ensuring the business system status in the Contract Business Analysis Repository (CBAR) eTool is current and accurate at the appropriate prime contractor Commercial and Government Entity (CAGE) level.

2.1.3. Reviewing CBS panel recommendations prior to notifying the contractor in writing of the final determination. The panel's recommendations and opinions are advisory and shall be considered by the CO prior to disapproving a business system.

2.1.4. Implementing a payment withhold on an individual contract only if the contract contains DFARS 252.242-7005, Contractor Business Systems (Reference (e)), and the specific business system clause for which a payment withhold is being implemented.

2.1.5. Not taking withholds on contracts based on previous or legacy business system reports unless the contractor is given due process through the procedures outlined in this policy.

2.2. DCMA FUNCTIONAL SPECIALIST. DCMA functional specialists are responsible for:

2.2.1. Conducting reviews of CBS as cited in the applicable DFARS business system criteria, or at the request of the CO, and summarizing findings in the BSAS document.

2.2.2. Assisting the CO in the timely review and analysis of the contractor's response and contractor corrective action plan (CAP), if applicable.

2.3. CONTRACT MANAGEMENT OFFICE (CMO) CONTRACTS DIRECTOR AND/OR DIRECTOR OF CACO/DACO GROUP. The appropriate director is responsible for reviewing and approving all determinations to approve or disapprove a business system prior to issuance.

2.4. DCMA HEADQUARTERS CONTRACTOR BUSINESS SYSTEMS POLICY ADVOCATE. The CBS policy advocate is responsible for acknowledging receipt of the CO's review panel submissions via email, promptly distributing CO documents to appropriate panel members, and scheduling panel meetings, preferably within three business days after receiving the CO's submission. When the panel completes the review, the CBS policy advocate shall send a "concur" or "non-concur" email notice to the CO (See paragraph 3.4.3. of this Instruction).

CHAPTER 3

PROCEDURES

3.1. DETERMINE THE ACCEPTABILITY OF THE CONTRACTOR'S BUSINESS SYSTEM.

3.1.1. In accordance with the DCMA-INST 118, "Contract Receipt and Review" (Reference (f)), for contracts administered using the Mechanization of Contract Administration System (MOCAS) the ACO must manually input MOCAS R9 Code "30" for each contract containing DFARS 252.242-7005 (Reference (e)). If the ACO determines that DFARS 252.242-7005 (Reference (e)) is missing from the contract, the ACO should request the procuring contracting officer (PCO) modify the contract to add the clause or delegate to the ACO the authority to modify the contract to add the clause.

3.1.1.1. The requirements and procedures specifically related to each individual CBS (with the exception of accounting systems), are contained in their respective DCMA Instruction. The requirements and procedures for contractor accounting systems are contained in DFARS 242.75, Contractor Accounting Systems and Related Controls (Reference (g)).

3.1.2. The Defense Contract Audit Agency (DCAA) auditor or the DCMA functional specialist reviews the business system to determine if the system is in compliance with the DFARS criteria for the specific business system. If the business system report reflects deficiencies, the CO is responsible for evaluating the business system report to determine if it contains sufficient information to make a determination of significant deficiency, as defined in DFARS 252.242-7005 (Reference (e)).

3.1.2.1. DCAA auditors issue deficiency reports when deficiencies are identified. Deficiency reports will state the noncompliance with DFARS system criteria when sufficient evidence supporting the deficiency is obtained. Previous Internal Control Audit Planning Summary (ICAPS) and "flash reports" have been consolidated and replaced by the DCAA deficiency reports. See DCAA Memorandum #12-PAS-012(R), Audit Guidance on Auditing Contractor Business Systems and Contractor Compliance with DFARS 252.242-7006, Accounting System Administration (Reference (h)), on the CBS resource page.

3.1.2.2. The BSAS is an internal document intended for use by COs in making business system determinations; it assists the CO in identifying significant deficiencies. The BSAS should not declare findings as significant or not significant nor recommend disapproval of the system; it does not replace or supplement the CO's initial determination letter. The BSAS is **not** to be released to the contractor.

3.1.2.2.1. If deficiencies are identified in a business system reviewed by DCMA, the functional specialist shall draft a Level III or IV corrective action request (CAR) (in the CAR eTool), attach it to the BSAS, and document it in the CMO CAR log. See DCMA-INST 1201, "Corrective Action Process" (Reference (i)), for additional guidance. The CAR shall be printed and marked "draft" and sent to the CO. The CAR shall not be released to the contractor via the CAR eTool unless the CO issues a final determination disapproving the business system. For review or audit findings that are not considered significant deficiencies, the functional specialist or the CO shall pursue corrective action, as appropriate (see DCMA-INST 1201 (Reference (i))).

3.1.3. The CO shall review all findings from the functional specialist or auditor upon receipt of a business system report or BSAS. Rejection of advice from the functional specialist or auditor on business systems is subject to Headquarters (HQ) Board of Review (BoR) requirements (see DCMA-INST 134, “Boards of Review” (Reference (j))). The CO shall notify the functional specialist or auditor in writing that the CO disagrees with findings in the business system report, provide the functional specialist or auditor with documented rationale for the disagreement, and request a HQ BoR.

NOTE: In general, a DCAA systems audit is considered dispositioned when the ACO makes an initial determination of whether there are significant deficiencies in the contractor’s system, documents the determination in a memorandum of record, notifies the contractor in writing, and requests a response from the contractor (see DCMA-INST 126, “Contract Audit Follow Up” (Reference (k))).

3.1.4. The acceptability of a contractor’s Earned Value Management System (EVMS) will be determined in accordance with DFARS 252.234-7002(c), EVMS (Reference (l)). If the contractor has contracts valued at \$50 million or more, the CO will approve or disapprove the system. However, if the contractor does not have contracts valued at \$50 million or more, the CO will not make a formal determination. If a contract value meets the threshold and the EVMS is approved, the system status remains approved unless a subsequent compliance review indicates otherwise. However, a CAR shall be drafted and coordinated if deficiencies are identified (see DCMA Memorandum #12-137, Changes in EVMS - SSI (Reference (m))).

NOTE: The CO lays out a plan and establishes a timeframe for completion of the validation review process (see DCMA-INST 208, “EVMS – Compliance Reviews” (Reference (n)) for additional guidance). If at any time the contractor is not executing to this plan, the CO can disapprove the business system if the CO determines significant deficiencies exist and follows the procedures in this Instruction.

3.1.5. CBS status will be accurately reflected in the CBAR eTool as: Approved; Disapproved; Not Evaluated; or Not Applicable. For legacy determinations, the CO shall enter business system status as follows:

3.1.5.1. Approved. CO issued a legacy determination finding the business system to be “approved,” “adequate,” “acceptable,” or “no non-compliances found.”

3.1.5.2. Disapproved. CO issued a legacy determination finding the business system to be “disapproved”, or for Contractor Purchasing System Review, issued a legacy determination of “approval withheld” or “approval withdrawn.”

3.1.5.3. Not Evaluated. CO’s legacy determination used terminology other than “approved,” “adequate,” “acceptable,” “no non-compliances found,” “approval withheld,” “approval withdrawn,” or “disapproved.” The business system status should be entered as “Not Evaluated” until the CO issues a final determination “approving” or “disapproving” the business system.

3.1.5.4. Not Applicable. A contractor requirement to maintain the business system does not exist.

3.2. ISSUANCE OF THE INITIAL OR FINAL DETERMINATION.

3.2.1. If the CO determines there are no significant deficiencies, the CO shall issue a final determination within 10 days of receiving the business system report or BSAS notifying the contractor in writing that the system is approved. In such cases, there is no need for an initial determination. The CMO contracts director and/or the director of CACO/DACO group shall review and approve issuance of the CO's final determination approving the business system. After notifying the contractor, the CO shall record the status of the approved business system in the CBAR eTool and upload a copy of the determination letter to the CBAR eTool.

NOTE: If a previously approved system remains in an approved status following a subsequent audit the CO shall notify the contractor that no significant deficiencies were identified in the audit and that their system remains in an approved status.

3.2.2. If the CO determines significant deficiencies exist, the CO shall issue an initial determination within 10 days of receiving the business system report or BSAS and attach the unsigned draft Level III or IV CAR clearly marked "draft" to the initial determination letter for significant deficiencies identified (see DCMA-INST 1201 (Reference (i))). The initial determination shall **not** include a request for a CAP. When a CACO/DACO/ACO network exists, the CO responsible for issuing the initial determination shall notify all COs within the network prior to issuing the initial determination to the contractor. The notification of all COs within the network ensures consistent treatment of like contractor business system issues throughout a company. It is recommended but not required that the cognizant CO obtain local general counsel review of the initial determination. Before issuance of the initial determination, the CMO contracts director and/or the director of CACO/DACO group shall review and approve issuance of all proposed initial determinations. The CO shall request the contractor respond in writing to the initial determination within 30 days.

NOTE 1: In general, a systems audit is considered resolved when the CO makes an initial determination of whether there are significant deficiencies in the contractor's system, documents the determination in a memorandum of record, notifies the contractor in writing, and requests a response from the contractor (see DCMA-INST 126 (Reference (k))).

NOTE 2: See DCMA-INST 124, Contract Property Management (Reference (o)) for guidance on conducting site-specific analyses in a contingency contracting administration services environment.

3.3. CONTRACTOR'S RESPONSE TO THE INITIAL DETERMINATION.

3.3.1. Within 30 days of receiving the contractor's response to the initial determination, the CO should evaluate the response in consultation with the auditor or functional specialist and make a final determination.

3.3.1.1. If the cognizant CO determines significant deficiencies do not exist and approves the contractor's business system, the CO shall not finalize the Level III or IV CAR related to the specific business system. The draft Level III or IV CAR should be cancelled in the CAR eTool. The CO will document the CMO CAR log with the status. The CO will obtain approval from the CMO contracts director and/or the director of CACO/DACO group prior to

issuing the final determination to the contractor. After notifying the contractor, the CO shall record the status of the approved business system in the CBAR eTool.

3.3.1.2. If the cognizant CO determines significant deficiencies still exist and intends to disapprove the business system, the CO shall finalize the Level III or IV CAR in the CAR eTool and attach it to the final determination. The CO shall request the contractor correct the deficiencies or submit an acceptable CAP within 45 days. An acceptable CAP will address the cause of the significant deficiency, include milestones and action(s) to eliminate the significant deficiency, and target date(s) for implementation of planned action. If the business system is disapproved, the CO shall withhold payments in accordance with DFARS 252.242-7005 (Reference (e)), if the clause is included in the contract. After notifying the contractor, the CO shall record the status of the disapproved business system and upload a copy of the determination letter in the CBAR eTool.

3.4. ISSUANCE OF FINAL DETERMINATION TO DISAPPROVE A BUSINESS SYSTEM.

3.4.1. If the final determination is not issued within 30 days after receiving the contractor's response to the initial determination, the CO on a weekly basis shall document the Electronic Document Workflow (EDW) file with dates and actions taken until a determination is made. In addition, the CO shall routinely update the contractor and the functional specialist on the status of the determination. If it is anticipated that it will take more than 30 days to issue the final determination, the CO shall obtain the approval of the CMO contracts director or the Cost and Pricing Center team leader. If it is anticipated that it will take more than 45 days to issue the final determination, the CO shall obtain the approval of the cognizant directorate contracts director (e.g., DCMAI, DCMA Operations Directorate (DCMAO), or DCMA Special Programs Directorate (DCMAS)) or the director of CACO/DACO group.

3.4.2. COs shall not delay business system determinations pending review or validation of the contractor's planned corrective action. When a CACO/DACO/ACO network exists, the CO responsible for making the final determination shall notify all COs within the network prior to notifying the contractor of the final determination.

3.4.3. The CO shall obtain a higher-level review from the DCMA HQ CBS review panel prior to notifying the contractor in writing of a business system disapproval. The CO shall submit, via email to the "HQ CBS Panel In-Box" (HQCBSPanelInBox@dcma.mil), a chronology of events leading to the proposed final determination, a copy of the functional specialist or auditor report, the BSAS (if applicable), the contractor's response to the initial determination, and the proposed final determination letter, as approved by the CMO contracts director and/or the director of the CACO/DACO division of the Cost and Pricing Center.

3.4.3.1. The purpose of the CBS review panel is to ensure significant deficiencies identified in the CO's initial determination notification and the contractor's response have been fully evaluated and discussed by the CO and functional specialist or auditor, and CMO contracts director or director of the CACO/DACO division of the Cost and Pricing Center. Additionally, the CBS review panel will make certain the consistent application of business system criteria and policy requirements.

3.4.3.2. The panel will be composed of the following positions:

3.4.3.2.1. Chair. Director, Contracts Policy.

3.4.3.2.2. Member. CBS Policy Advocate.

3.4.3.2.3. Member. Specific Business System Policy Advocate (e.g., Estimating System Policy).

3.4.3.2.4. Member. Directorate Representative (DCMAI, DCMAO, or DCMAS).

3.4.3.2.5. Member. Cost and Pricing Center Representative for CACOs/DACOs (if a CACO or DACO is issuing the determination).

3.4.3.2.6. Member. Office of General Counsel Representative.

3.4.3.2.7. Member. DCAA HQ Representative, as applicable.

3.4.4. If the CO elects not to follow the CBS review panel's advice, the CO shall document the reason for not following the advice and provide the document to the CBS policy advocate.

3.4.5. After notifying the contractor, the CO shall record the status of the disapproved business system in the CBAR eTool. For each significant deficiency identified, the CO's business systems status document (template found on CBS resource page) in CBAR shall explain the position of the auditor/functional specialist, contractor, and CO. The CO shall address the contractor's CAP and estimated time for follow-up review, as well as the actual or potential impact the deficiency has on proposed costs, billings, and estimated cost at completion and any other pertinent information that may impact contract award. Any changes in status should be entered immediately after providing written notification of the CO's determination to the contractor.

3.4.6. When the ACO withholds payments as a result of a final determination to disapprove a contractor's business system, the ACO must request the CMO's trusted agent to input MOCAS Special Provision Code "U". The MOCAS Special Provision Code should only be input for those contracts where a payment withhold has been implemented. The withhold amount shall be input into the CBAR eTool.

3.5. MONITOR CONTRACTOR'S CORRECTIVE ACTION.

3.5.1. The CO and auditor/functional specialist shall monitor the contractor's progress in correcting deficiencies outlined in the contractor's CAP. During this time, the CO shall notify the contractor of any decision to decrease or increase the amount of payment withholding in accordance with DFARS 252.242-7005 (Reference (e)) (see paragraph 3.6 of this Instruction, Apply Payment Withhold). If the contractor does not follow their CAP or otherwise is not effectively implementing corrective actions, the CO shall elevate the CAR to Level IV (see DCMA-INST 1201 (Reference (i))). Examples of actions the CO can take are: bringing the matter to the attention of higher level management; suspending progress payments (see FAR 32.503-6, Suspension or Reduction of Payments (Reference (p))); implementing or increasing withholds in accordance with DFARS 252.242-7005 (Reference (e)), if applicable; and recommending non-award of potential contracts due to disapproved business systems, if the business system clauses are included in the solicitation.

3.5.2. When the contractor notifies the CO in writing that the contractor has corrected all system deficiencies, the CO shall request an auditor or functional specialist review to determine if all cited significant deficiencies have been resolved.

3.5.2.1. The CO shall promptly approve a previously disapproved system and notify the contractor, in writing, when the CO determines the contractor has corrected all cited significant deficiencies. When the CO approves a previously disapproved system, the ACO shall discontinue payment withholding related to the specific CBS (see paragraph 3.6 of this Instruction, Apply Payment Withhold). Upon system approval, the CO shall close Level III or IV CARs related to the specific contractor business system and document the CMO CAR log (see DCMA-INST 1201 (Reference (i))).

3.5.2.2. After notifying the contractor, the CO shall record the status of the approved business system in the CBAR eTool.

3.5.2.3. If the CO determines the significant deficiencies still exist, the ACO will continue the withholding of payments.

NOTE: Contractor deficiencies can be discovered at any time (e.g., during or outside the business system determination process). The type and scope of corrective action(s), therefore, may differ based on the circumstances. DCMA functional specialists may at any time issue a Level I or II CAR, as defined and prescribed in Table 1 of DCMA-INST 1201 (Reference (i)), for deficiencies unlikely to be considered significant, or cite deficiencies as a part of the BSAS/audit report (without issuing a CAR). If the CO determines that the deficiencies are not significant, the functional specialist may issue a Level II CAR.

3.6. APPLY PAYMENT WITHHOLD.

3.6.1. If the CO makes a final determination to disapprove a contractor's business system due to significant deficiencies, the ACO shall withhold payments in accordance with DFARS 252.242.7005 (Reference (e)), only when DFARS 252.242-7005 (Reference (e)) and the applicable business system specific clause are in the contract. When a CACO/DACO/ACO network exists, the CO responsible for making the final determination shall coordinate with the ACO(s) for identified contracts as necessary to implement, increase, decrease, discontinue or release payment withholds.

3.6.2. The ACO responsible for contract administration shall establish and maintain a business system withholding tracking worksheet for each contract against which payments will be withheld. MOCAS shall not be used to track these types of withholds. The withhold tracking spreadsheet located on the CBS resource page shall be used by the ACO for tracking payment withholds. A separate spreadsheet should be used for each contract, and will be maintained in the contractor's general file in EDW. The ACO must request the CMO trusted agent to input MOCAS Special Provision Code "U" for each contract from which payments will be withheld.

3.6.3. The CO will identify covered contracts from which payments will be withheld and list them in the final determination. For systems approved/disapproved at the CACO/DACO level, those individuals shall coordinate with the appropriate ACO(s) to identify the contracts from which payments will be withheld; however, the ACO will execute the withhold. When a business system is disapproved, DFARS 252.242-7005 (Reference (e)), requires the ACO to

withhold against progress payments, performance based payments, and interim payments billed under cost, labor-hour, and time and materials contracts. Billing and payment occurs at the task/delivery order level under an indefinite delivery contract (IDC); therefore, when applying a withhold to an IDC, the ACO must apply the withhold to the IDC task/delivery order.

3.6.3.1. The ACO shall withhold payments from all contracts that contain DFARS 252.242-7005 (Reference (e)), the applicable business system specific clause, and have a total contract value greater than or equal to \$50 million. If the contractor has not received a contract(s) with a total contract value greater than or equal to \$50 million and the CO determines it is necessary to protect the Government's interest, the ACO may implement payment withholding on contract(s) valued less than \$50 million meeting the above criteria, with the approval of the CMO contracts director or the director of the CACO/DACO division of the Cost and Pricing Center.

3.6.3.2. It is recommended that ACOs query MOCAS to identify contracts with R9 Code "30" (DFARS 252.242-7005 (Reference (e))) having a total contract value greater than or equal to \$50 million and containing the applicable business systems clause.

3.6.4. The ACO will withhold five percent of amounts due from progress payments and performance based payments and direct the contractor to withhold five percent from its billings on interim cost vouchers on cost, labor-hour, and time and material contracts until the CO has determined the contractor has corrected all significant deficiencies as directed by the CO's final determination. The withhold will only be applicable to billings submitted after the date of the final determination. Payment withholds shall not apply to payments on fixed-price line items where performance is complete and the items or services were accepted by the Government.

3.6.5. The CO shall ensure the withhold does not exceed five percent for any single business system or ten percent for two or more CBS that have been disapproved. The CO must ensure that the total amount of payment withholding under a single contract does not exceed ten percent of progress payments, performance based payments and interim payments billed under that contract, if DFARS 252.242-7005 (Reference (e)) is included in the contract and it has been selected for payment withholding.

3.6.6. If the contractor submits an acceptable CAP within 45 days of receiving the CO's final determination, and the CO, in consultation with the auditor or functional specialist, determines the contractor is effectively implementing this plan, the ACO will reduce withholding to two percent.

3.6.6.1. The CO's review and determination of effective implementation of the CAP and the ACO's subsequent reduction of payment withholding should be completed within 15 days of receiving the contractor's CAP. If the CO (in consultation with the functional specialist or auditor) cannot review the CAP and determine effective implementation within 15 days, the CO shall document the file with actions taken and CAP status every 15 days until the determination is made. In addition, the CO shall routinely update the contractor on the status of the CAP review.

3.6.6.2. The reduction is prospective; previous amounts withheld will not be reduced or released at this time. However, if at any time the CO determines that the contractor has failed to follow the CAP, the ACO will increase the withhold back to the percentage initially withheld.

Such increases in withholds shall be prospective from the date of the letter notifying the contractor of the increase and are subject to the withholding limitations identified in paragraph 3.6.5. of this Instruction. See DFARS PGI 242.7000(b)(2), Reduction of Temporary Payment Withholding (Reference (q)), for a sample format for reducing payment withholds.

3.6.7. If the contractor notifies the CO that the significant deficiencies were corrected, the CO shall review the contractor's response in consultation with the auditor or functional specialist. If, after verification, the CO determines the contractor has corrected all significant deficiencies cited in the CO's final determination, the CO will approve the business system, in writing. The ACO will discontinue withholds and authorize the contractor to bill for amounts previously withheld. The ACO may discontinue withholding payments pending receipt of verification, and release any payments previously withheld, if the contractor submits evidence that the significant deficiencies were corrected and the CO, in consultation with the functional specialist or auditor, determines that there is reasonable expectation the corrective actions have been implemented.

3.6.7.1. Within 90 days of receipt of contractor notification that the significant deficiencies were corrected, the CO will do one of the following:

3.6.7.1.1. Make a determination if the contractor has corrected all significant deficiencies.

3.6.7.1.2. Determine if there is a reasonable expectation that the corrective actions were implemented.

3.6.7.2. If the CO has not made one of the two decisions in 3.6.7.1. the ACO will reduce the withholding directly related to the cited significant deficiencies by at least 50 percent. The business system will remain disapproved until corrective actions are verified in accordance with paragraph 3.6.7. of this Instruction and the CO makes one of the two decisions in 3.6.7.1.

3.6.8. DFARS PGI 242.7000, Contractor Business Systems Deficiencies (Reference (r)), provides sample language for written notifications of CO determinations to initiate payment withholding, reducing payment withholding and discontinue payment withholding in accordance with DFARS 252.242-7005 (Reference (e)). COs shall use the business system determination templates located on the CBS resource page for this Instruction; however, specific circumstances may require tailoring of the template.

3.6.9. Payment withholding under DFARS 252.242-7005 (Reference (e)) is not subject to the interest penalty provisions of the Prompt Payment Act.

3.6.10. When a business system withhold has been implemented, the ACO will ensure the contract is not on the Post Pay Table in Wide Area Work Flow (WAWF). This will allow all progress payment requests to be routed to the ACO for manual review and approval. It should be noted that a contractor CAGE code may remain on the Direct Bill Table in WAWF, if DCAA has not withdrawn Direct Bill Authority.

3.6.10.1. For progress payment and performance based payment requests, the ACO must reduce the amount requested by the appropriate withholding percentage and approve a lesser amount than was requested in the appropriate "Approved (\$)" block.

3.6.10.1.1. When approving a lesser amount for progress payment, the ACO will use the comment block on the “miscellaneous” tab in WAWF to record the amount requested, amount withheld, amount approved and cumulative amount withheld to date, as well as the specific business system withhold percentage (e.g., Comments: Accounting System Withhold of 5 percent applied to this request per final determination letter date 12 Oct 11: Amount Requested = \$1,842,867; Amount Withheld = \$92,108; Amount Approved = \$1,750,059; Total Amount Withheld to Date: \$345,399).

3.6.10.1.1.1. When administering progress payments under FAR 52.232-16, Progress Payments (Reference (s)), ACOs should not confuse the implementation of a payment withhold for disapproved business systems with a reduction or suspension of progress payment action. The ACO may reduce, suspend, or increase the rate of liquidation when any of the conditions listed in FAR 52.232-16(c), Reduction or Suspension (Reference (t)), exist. These actions may be taken in order to protect against loss of unliquidated progress payments and ensure contractor compliance with the terms of the progress payment clause itself. Before exercising the Government’s right to reduce or suspend progress payments, the ACO must analyze reduction or suspension actions, considering all possible effects on both contractor and government. The ACO shall conduct a detailed discussion of the proposed reduction or suspension action with both the contractor and PCO before deciding the best course of action. Reduced or suspended payments are not “released” to the contractor upon correction of the conditions that prompted the action.

3.6.10.1.2. When approving a lesser amount for performance based payments, the ACO will enter “payment instructions” by accounting classification reference number (ACRN) and contract line item number (CLIN) on the ACRN worksheet (WS) Tab in WAWF and use the comments block on the “miscellaneous information” tab in WAWF to record the amount requested, amount withheld, amount approved and cumulative amount withheld to date, as well as the specific business system withhold percentage (e.g., Comments: Accounting System Withhold of 5 percent applied to this request per final determination letter date 12 Oct 11: Amount Requested = \$1,842,867; Amount Withheld = \$92,108; Amount Approved = \$1,750,059; Total Amount Withheld to Date: \$345,399).

3.6.11. For payments under cost, labor hour, and time and material contracts, the contractor shall apply the appropriate withholding percentage to the amount being billed and prepare a cost voucher in WAWF for the net amount due. The contractor shall record amounts withheld in the CLIN description field on the cost voucher. If the contractor provides a statement of current and cumulative costs incurred, current, and cumulative amounts withheld should be reflected on the statement. DCAA will determine if Direct Billing should be discontinued. If discontinued, DCAA should manually review interim cost vouchers to ensure withhold compliance prior to WAWF approval. If not discontinued, the ACO should request DCAA perform post-payment review of vouchers on contracts with withholds to ensure withhold compliance.

3.6.12. When discontinuing withholds taken against payments, the CO shall issue a notice of discontinuance of payment withholding to the contractor (see DFARS PGI 242.7000 (Reference (r))) and authorize the contractor to bill the Government for the released amount using the same type of invoice on which the withhold was originally taken. The CO’s notice shall identify the amount previously withheld and the amount the contractor is authorized to bill. When authorizing the contractor to submit a bill for previous amounts withheld against progress

payments, the ACO shall validate the contractor is still in a position to receive progress payments (e.g., if the contractor has completed deliveries, they may not be eligible for additional progress payments).

3.6.12.1. If no other business system withholds were applied to the contract, the ACO shall request the CMO trusted agent to remove the MOCAS Special Provision Code “U” from the contract. The ACO shall ensure the contract is added to the “Post Pay” table in WAWF, unless some other contractual condition exists that requires the ACO’s manual review and approval of progress payments (e.g., contract in loss condition).

3.7. OTHER WITHHOLDING CONSIDERATIONS.

3.7.1. If a contract is physically complete and all necessary closeout actions are accomplished, then the ACO may release the withhold. The CO should determine if it is necessary to implement withholds on other contracts with the relevant clauses to protect the Government’s interests. Withholds may not be “transferred” between contracts. When the CO determines it is in the best interest of the Government to release the withhold in order to proceed with contract closeout, and a CACO/DACO network exists, the ACO shall coordinate actions with the CACO/DACO prior to releasing payment withholds or implementing a payment withhold on other contracts. The CO shall notify the contractor of any changes in payment withholding as a result of contract closeout actions.

3.7.2. If there are withholds against contracts with funds due to cancel, the ACO may release the withhold. The CO should determine if it is necessary to implement withholds on other contracts with the relevant clauses to protect the Government’s interests. When the CO determines it is in the best interest of the Government to release the withhold in order to prevent funds from canceling, and a CACO/DACO network exists, the ACO shall coordinate actions with the CACO/DACO prior to releasing payment withholds or implementing a payment withhold on other contracts with relevant clauses. The CO shall notify the Contractor of any changes in payment withholding as a result of canceling funds actions.

3.7.3. Before implementing a contractor business system payment withhold on a contract that contains pre-existing withholds, the ACO shall consider if the application of any subsequent payment withhold will cause payment withholding under the contract to exceed payment withhold percentage limits defined in DFARS 252.242-7005(e)(3), Payment Withhold Percentage Limits (Reference (u)). If the pre-existing withhold will cause the withholding under DFARS 252.242-7005 (Reference (e)) to exceed the payment withholding percentage limitations, the ACO shall reduce the payment withhold percentage in the final determination to a percentage that will not exceed the established limits. Payment withhold percentage limits under DFARS 252.242-7005 (Reference (e)), are 5 percent for one disapproved business system, and 10 percent for multiple disapproved CBS.

3.7.3.1. If a contract has a pre-existing withhold under an authority other than the current DFARS CBS clause and the contract is modified to add DFARS clause 252.242-7005, Contractor Business Systems (Reference (e)), the ACO shall reduce the withhold to 5 percent if one system is disapproved or 10 percent if more than one system is disapproved. In addition, the ACO must coordinate the reduction of the withhold with the CACO/DACO/ACO network when one exists.

3.7.4. In accordance with DFARS business system specific clauses, contractors are encouraged, or in some cases may be required, to perform self-assessments. A self-assessment process that identifies deficiencies, root causes, and implements effective corrective actions is beneficial to both the contractor and the Government. Leveraging contractor self-assessments may reduce audit time and potentially offers dollar savings or reductions in losses to programs.

3.7.4.1. When significant deficiencies are identified as a result of contractor self-assessment of a business system, the contractor normally implements corrective actions. In such cases, the ACO shall not apply payment withholds to contracts containing DFARS 252.242-7005 (Reference (e)), unless the contractor is given due process. When the due process results in the disapproval of a business system and the contractor has submitted an acceptable CAP and is effectively implementing the plan, the CO should consider initiating withholding at 2 percent to applicable contracts. The application of this withhold considers corrective actions already taken by the contractor.

3.7.4.1.1. System deficiencies identified by the contractor as a result of a self-assessment are generally reported to the functional specialist or auditor responsible for performing a review of the business system. When the contractor identifies deficiencies, as a result of a self-assessment, the functional specialist or auditor should validate the accuracy of the contractor's findings, identifying significant deficiencies as well as the sufficiency of corrective action. If the contractor reports system deficiencies as a result of a self-assessment to the CO, then the CO shall request the functional specialist or auditor to validate the accuracy of the contractor's findings, identify significant deficiencies and comment on any corrective action implemented.

3.7.4.1.2. If the functional specialist or auditor validates the contractor has corrected all self-disclosed significant deficiencies, the results of the validation should be documented in a report to the CO and no further action is required.

3.7.4.1.3. If the functional specialist or auditor finds the contractor has not corrected the self-disclosed deficiencies, the functional specialist should document the findings in a report to the CO. The CO shall begin the "initial determination" process for the business system.

3.8. NOTIFICATION AND DISTRIBUTION.

3.8.1. The CO shall promptly distribute copies of the determination to approve a system, disapprove a system and withhold payments, or approve a disapproved system and release withheld payments, to: the auditor or functional specialist, affected COs at the buying activities, and any other impacted COs.

CHAPTER 4

ISSUING FINAL DETERMINATIONS ON LEGACY DETERMINATIONS AND REPORTS

4.1. ADDRESSING LEGACY DETERMINATIONS AND REPORTS.

4.1.1. COs shall review functional specialist or auditor reports and decide whether the report is a legacy report. Legacy report means a report issued to the CO, prior to the interim DFARS rule dated May 18, 2011, by a DCMA functional specialist or DCAA auditor documenting findings based on business system clauses. Findings in legacy reports may or may not be considered to be significant deficiencies under the terms and conditions of current business systems clauses. After establishing that a report is a “legacy report,” the CO shall:

4.1.1.1. Review the legacy report findings and deficiencies, in consultation with the functional specialist or auditor, and based on the report/audit, make an integrated assessment to determine whether any identified deficiencies are considered significant deficiencies.

4.1.1.2. If there are no deficiencies or the deficiencies are not considered significant, the CO shall, after obtaining approval for issuance of the determination from the CMO contracts director or the director of CACO/DACO group, issue a determination, notifying the contractor, in writing, that the system is approved and shall update CBAR eTool to ensure it is current and accurate. A copy of the determination letter shall be uploaded to the CBAR eTool.

4.1.1.3. If the findings are considered significant or if the CO cannot determine if the deficiencies in the report/audit have been corrected or determine that the contractor’s system has changed since the legacy report was issued, the CO shall consider the following risk factors before requesting a follow-up review or audit:

4.1.1.3.1. Age of the legacy report.

4.1.1.3.2. Information available since the date of the last report (e.g., DCAA ICAPS findings, flash reports, deficiency reports, proposal reviews (for estimating systems), disclosure statements (if covered by Cost Accounting Standards (CAS)), post payment reviews (for contract financing), Program Assessment Reports, and financial capability reviews).

4.1.1.3.3. Whether the contractor submitted an adequate CAP.

4.1.1.3.4. Was the CAP reviewed for implementation?

4.1.1.3.5. Does the DCAA auditor or the DCMA functional specialist have any indication, through follow-up or other reviews, the noted significant deficiencies still exist?

4.1.1.3.6. Since the legacy report, has the company reorganized, been acquired/sold, or acquired business segments such that the legacy report does not reflect the company’s current organization?

4.1.1.4. If after a thorough review of all the risk factors the CO determines a follow-up review is necessary, the CO shall request a follow-up review from the functional specialist/auditor and indicate the system status in the CBAR eTool as “Not Evaluated.” The CO

needs solid evidence of a significant deficiency traceable to one or more of the systems criteria in order to disapprove a business system. Once the follow-up report/audit has been received, the CO shall proceed in accordance with the process outlined in Chapter 3 of this Instruction.

4.1.2. Legacy determinations are those determinations where the CO has documentation of an existing business system determination made prior to May 18, 2011 and that determination was other than Approved, Disapproved, Adequate, Acceptable, No Non-Compliances Found, Approval Withheld, or Approval Withdrawn. Consequently, they should be coded Not Evaluated. For legacy determinations (other than Approved, Disapproved, Adequate, Acceptable, No Non-Compliances Found, Approval Withheld, or Approval Withdrawn) issued to a Contractor, the CO shall:

4.1.2.1. Review all available documentation and consult with the functional specialist/auditor to make an integrated assessment to determine whether the deficiencies are considered significant deficiencies. Factors that should be considered in converting the Not Evaluated status of a business system to approval or disapproval include but are not limited to the following:

4.1.2.1.1. Age of legacy report.

4.1.2.1.2. Information available since the date of the last report (e.g., DCAA ICAPS audits, flash reports, deficiency reports, proposal reviews (for estimating systems), disclosure statements (if CAS-covered), post payment reviews (for contract financing), PARs, financial capability reviews).

4.1.2.1.3. Whether the contractor submitted an adequate CAP.

4.1.2.1.3.1. Was the CAP reviewed for implementation?

4.1.2.1.3.2. Does DCAA auditor or DCMA functional specialist have any indication, through follow-up reviews, the noted significant deficiencies still exists?

4.1.2.1.4. Since the legacy report, has the company reorganized, been acquired/sold, or acquired business segments such that the legacy report does not reflect the current company's organization.

4.1.2.2. If there are no deficiencies or the deficiencies are not considered significant, the CO shall, after obtaining approval for issuance of the determination from the CMO contracts director or the director of CACO/DACO group, issue a determination, notifying the contractor, in writing, that the system is approved and shall update CBAR eTool to ensure it is current and accurate.

4.1.2.3. If the deficiencies are considered significant or if the CO cannot determine if the deficiencies in the report/audit have been corrected or determine that the contractor's system has changed since the legacy report was issued, the CO shall request a follow-up review from the functional specialist/auditor and will indicate the system status in the CBAR eTool as "Not Evaluated." The CO needs solid evidence of a significant deficiency traceable to one or more of the systems criteria in order to disapprove a business system.

4.1.3. The CO shall follow the applicable DFARS business system policy, clauses, and this Instruction for issuing an initial determination, issuing a final determination, monitoring contractor's corrective actions, and for actions to be taken when the contractor notifies the CO in writing that all system deficiencies have been corrected.

4.1.3.1. The CMO contracts director or the director of the CACO/DACO division of the Cost and Pricing Center shall approve the initial determination notice before issuance.

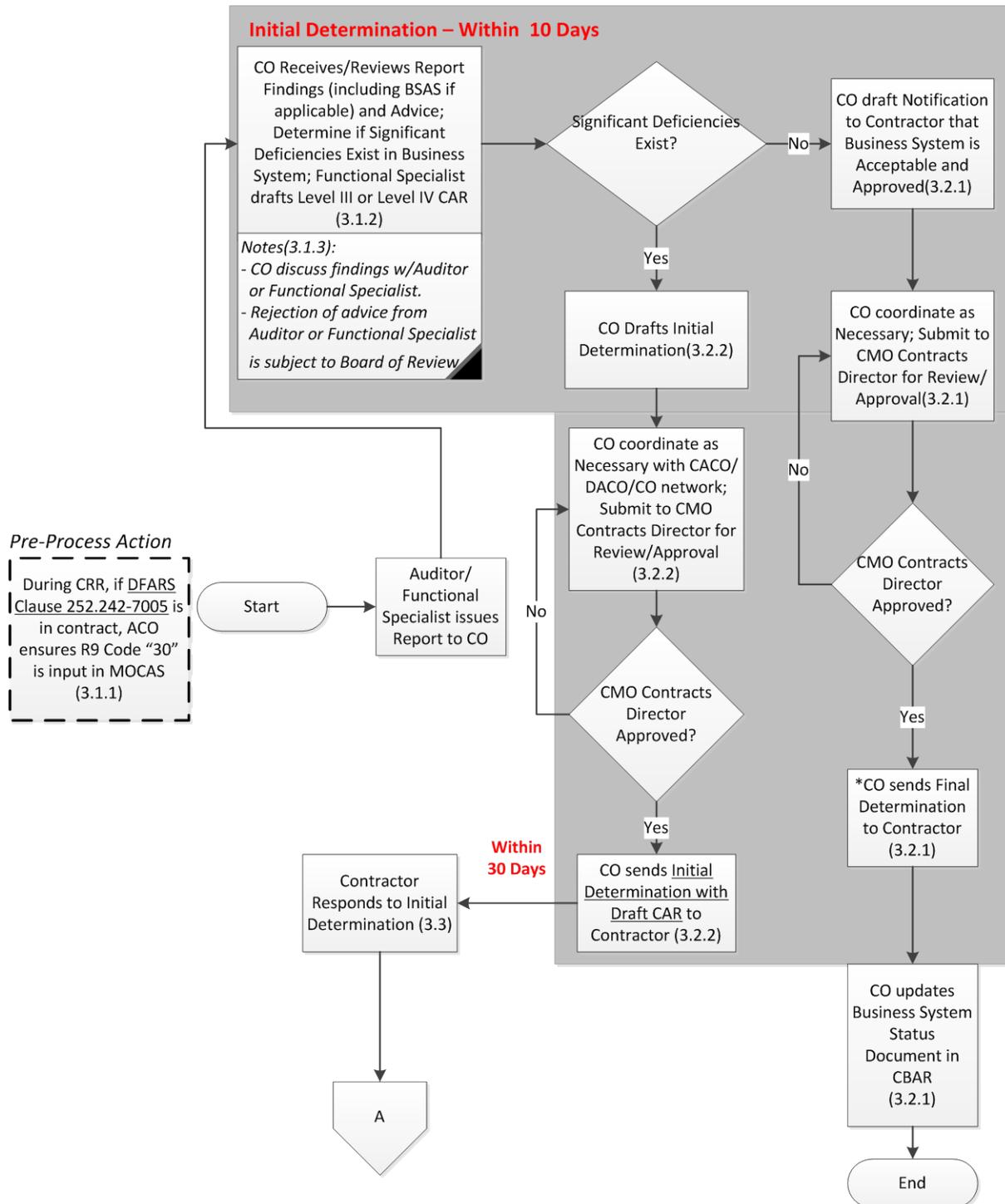
4.1.3.2. Rejection of advice from the functional specialist or auditor on a business system is subject to HQ BoR requirements.

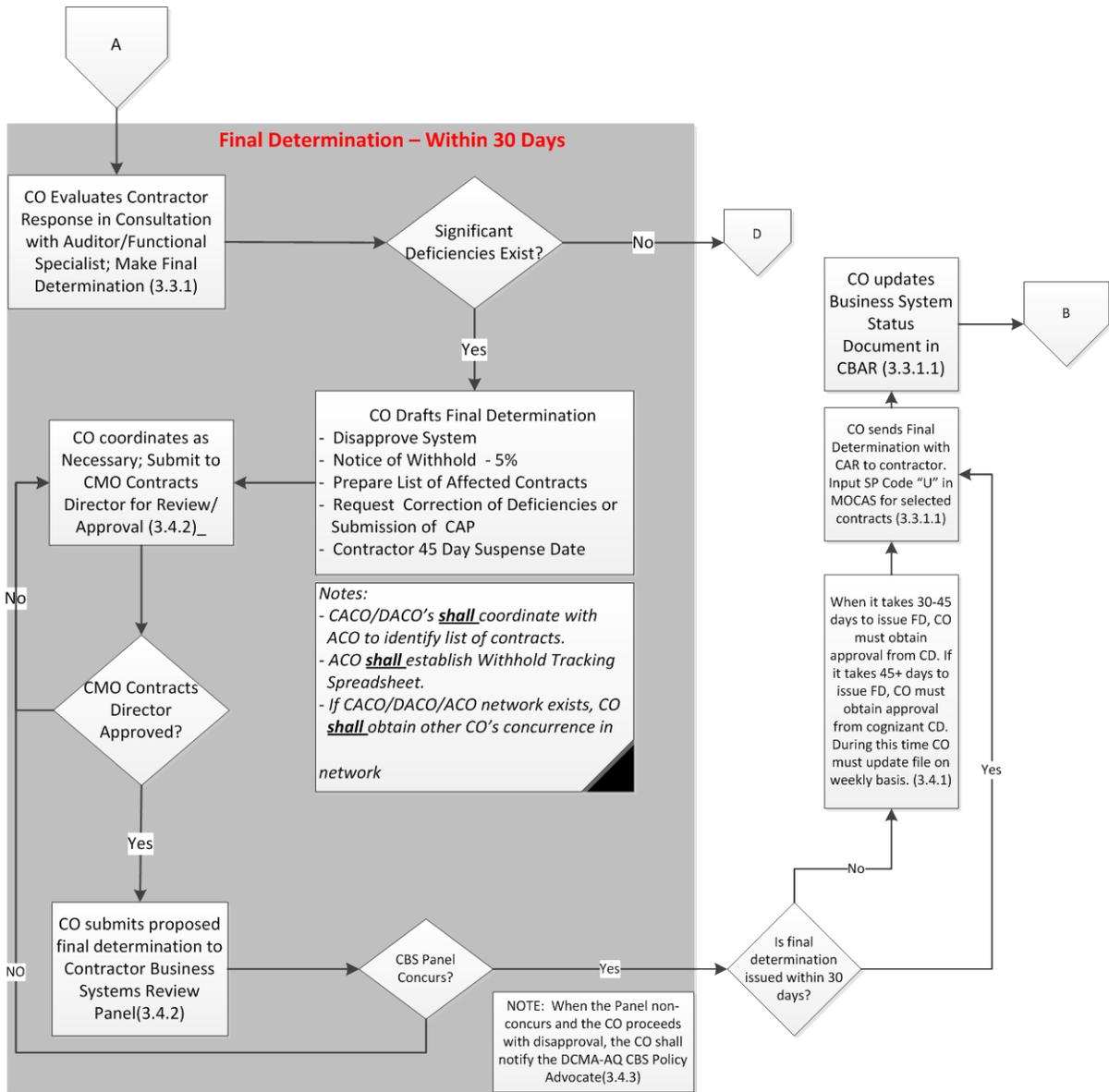
4.1.3.3. COs shall follow the procedures in Chapter 3 of this Instruction for final determination issuance procedures.

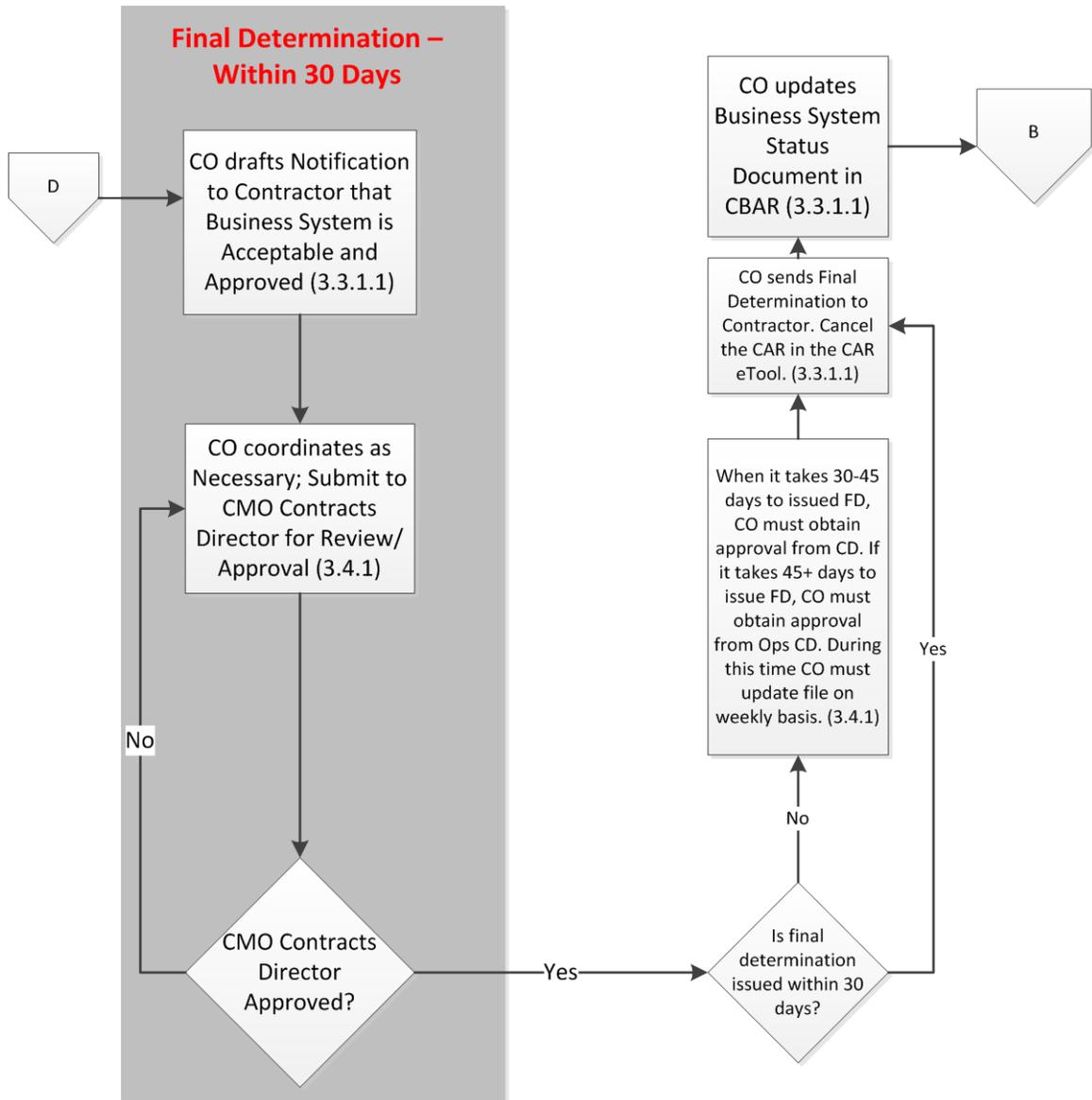
4.1.4. Payment Withhold. In the absence of the applicable business system clause and DFARS 252.242-7005 (Reference (e)), the ACO shall not implement a payment withhold. There may be instances where findings in legacy reports are considered to be significant deficiencies in accordance with the terms and conditions of the current business system clause, and the contractor has already submitted an acceptable CAP and is effectively implementing the plan. In those instances, the ACO should consider applying a 2 percent payment withhold to contracts containing DFARS 252.242-7005 (Reference (e)), and applicable business systems clause. ACO's shall follow DFARS 242.70, Contractor Business Systems (Reference (v)) and this Instruction when implementing and administering payment withholds.

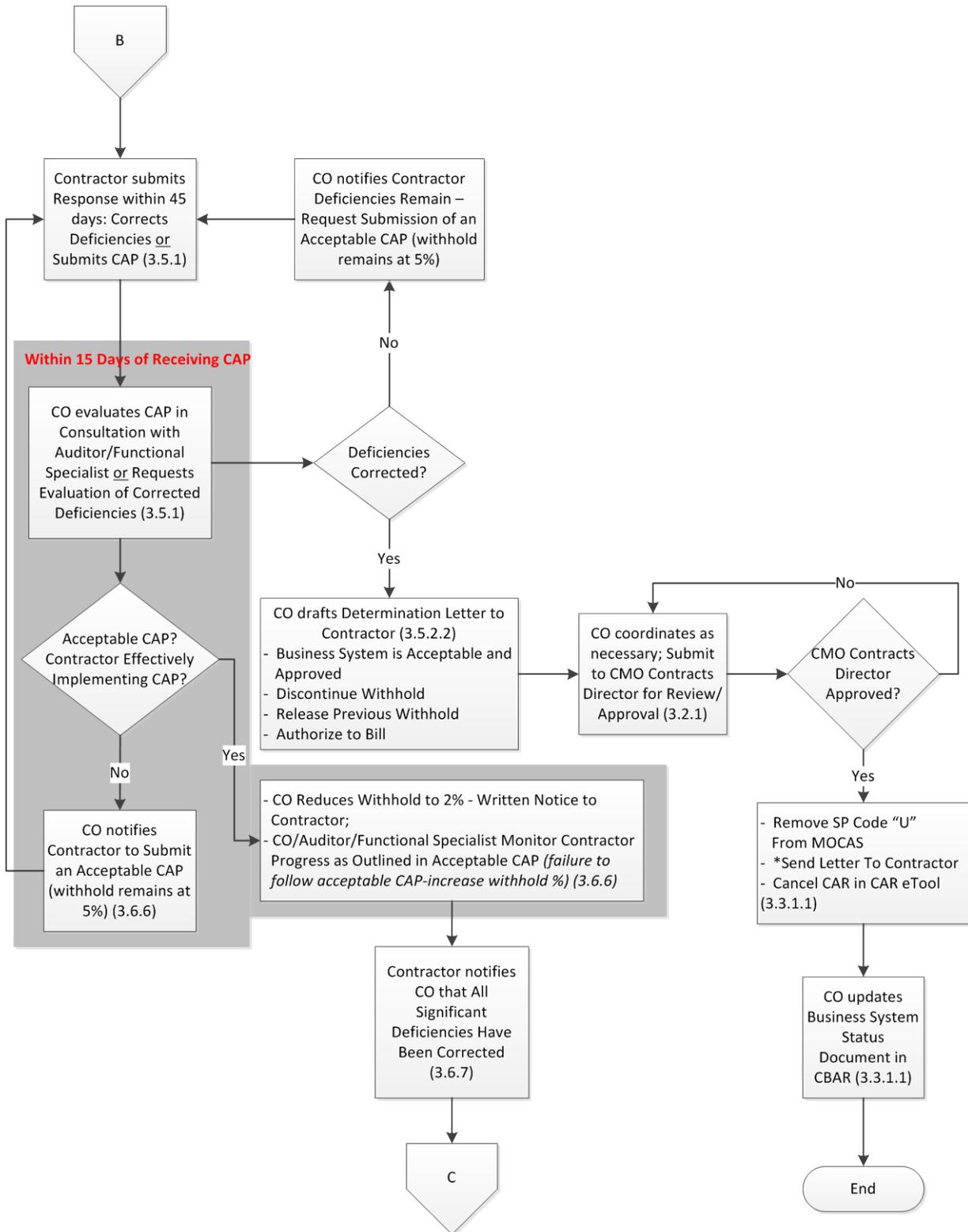
APPENDIX A

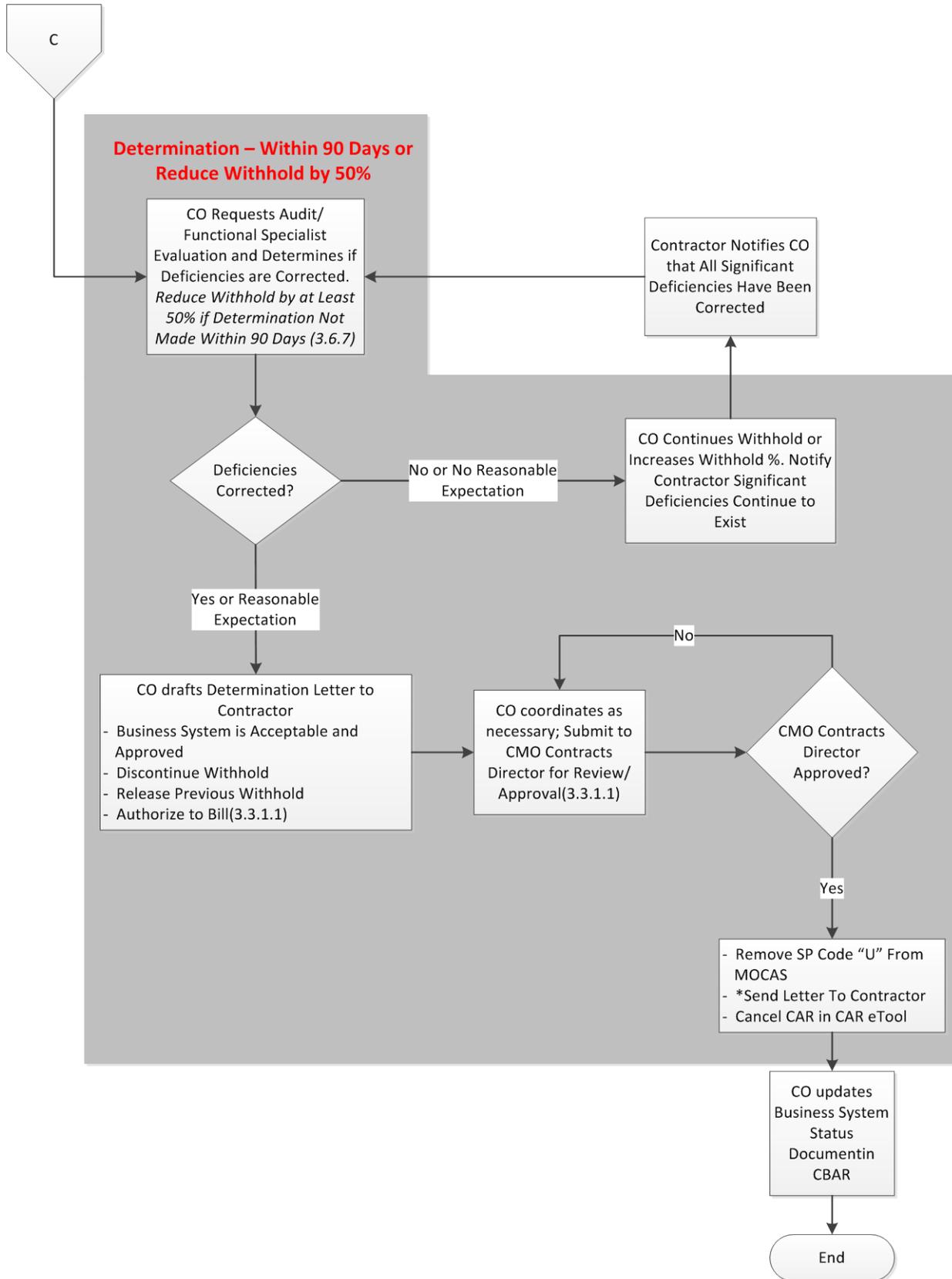
Contractor Business Systems Process Flow





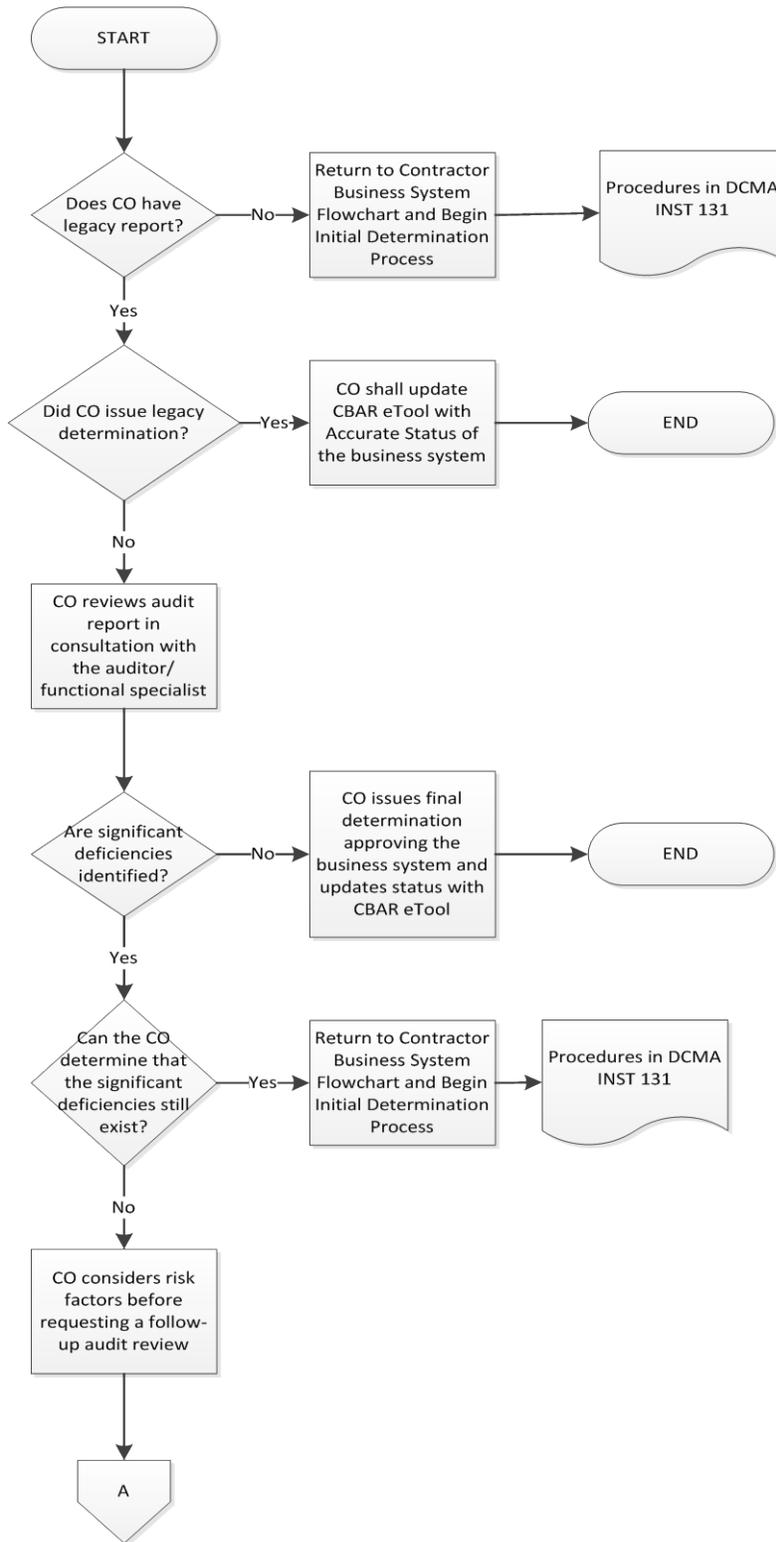


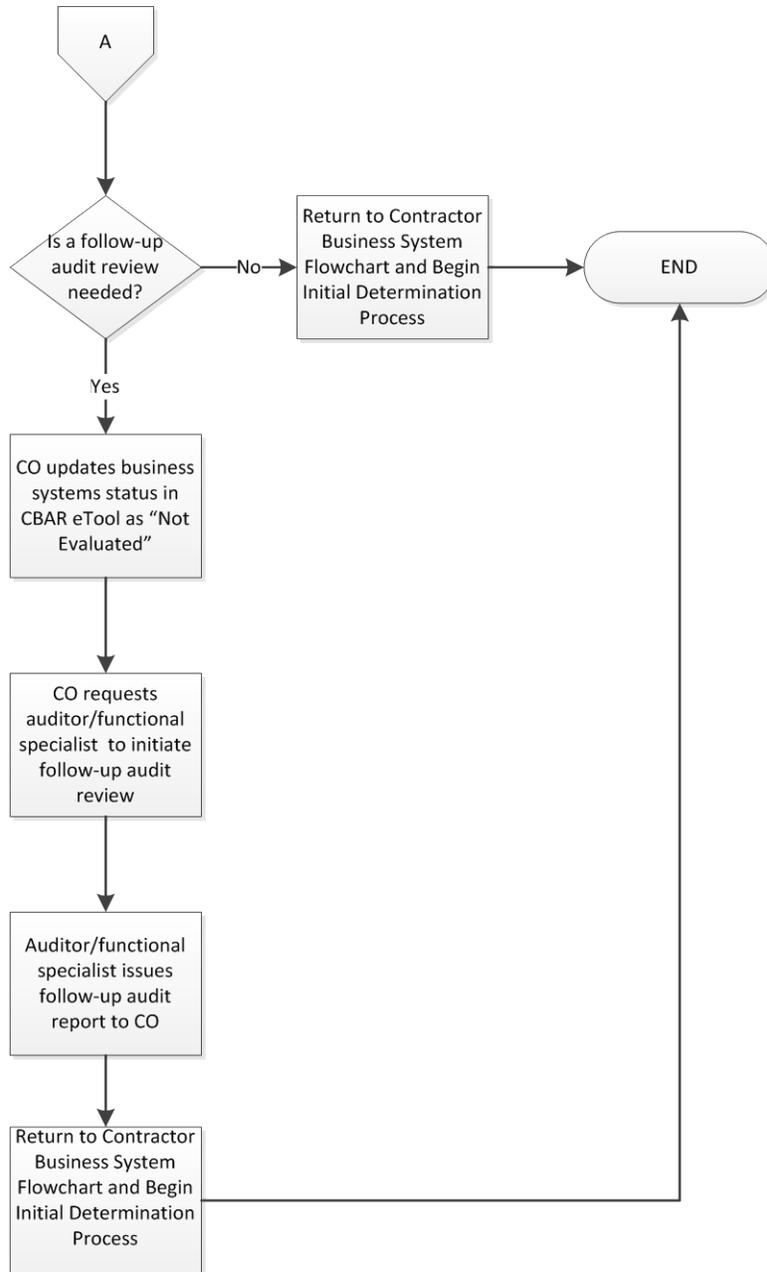




APPENDIX B

Legacy Determinations and Reports Process Flow





GLOSSARY

DEFINITIONS

Acceptable Contractor Business Systems. A contractor's business system(s) that complies with the terms and conditions of the applicable business system clauses.

Contractor Business Systems. Accounting, earned value management (DCMA-INST 208 (Reference (n))), estimating (DCMA-INST 133, Estimating System Review (Reference (w))), material management and accounting (DCMA-INST 211, Material Management and Accounting Systems, (Reference (x))), property management (DCMA-INST 124 (Reference (o))), and purchasing systems (DCMA-INST 109, Contractor Purchasing System Reviews (Reference (y))).

Contracting Officer. The appropriate CACO, DACO or ACO responsible for determining the acceptability of the Contractor's business system and approving or disapproving the system.

Significant Deficiency. 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.

Legacy Determination. A determination issued by a CO as other than "approved" or "disapproved" based on terms and conditions of business system clauses dated prior to the interim DFARS rule issued May 18, 2011.

Legacy Report. A report issued prior to the interim DFARS rule dated May 18, 2011 by a DCMA functional specialist or DCAA auditor documenting findings based on business system clauses.

GLOSSARY

ACRONYMS

ACO	Administrative Contracting Officer
ACRN	Accounting Classification Reference Number
BoR	Board of Review
BSAS	Business Systems Analysis Summary
CACO	Corporate Administrative Contracting Officer
CAFU	Contract Audit Follow Up
CAGE	Commercial and Government Entity
CAP	Corrective Action Plan
CAR	Corrective Action Request
CAS	Cost Accounting Standards
CBAR	Contract Business Analysis Repository
CBS	Contractor Business Systems
CLIN	Contract Line Item Number
CO	Contracting Officer
CMO	Contract Management Office
DACO	Divisional Administrative Contracting Officer
DCAA	Defense Contract Audit Agency
DCMA-INST	Defense Contract Management Agency Instruction
DCMAI	DCMA International Directorate
DCMAO	DCMA Operations Directorate
DCMAS	DCMA Special Programs Directorate
DFARS	Defense Federal Acquisition Regulation Supplement
DoDD	Department of Defense Directive
EDW	Electronic Document Workflow
EVMS	Earned Value Management System
FAR	Federal Acquisition Regulation
HQ	Headquarters
ICAPS	Internal Control Audit Planning Summary
IDC	Indefinite Delivery Contract
MOCAS	Mechanization Of Contract Administration System
OPR	office of primary responsibility
PGI	Procedures Guidance and Information
PLAS	Performance Labor Accounting System

WAWF

Wide Area Work Flow