

Baker Tilly Virchow Krause
Observations & Analysis: Business System Compliance (DFARS
Case 2012–D042)



Let's talk about an opportunity.

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Ensure Criteria are Adequate for Audits

- > “Auditors performing attestation engagements in accordance with GAGAS should comply with the American Institute of Certified Public Accountants (AICPA) **general attestation standard on criteria**” – GAGAS 5.01 (Chapter 5 – *Standards for Attestation Engagements*)
- > AICPA standards on suitability of criteria require each criteria to have the following attributes:
 - Objectivity
 - Measurability
 - Completeness
 - Relevance
- > Many current business system criteria are not objective or measurable. Words such as sound, adequate, appropriate, reliable, logical, etc. are neither objective nor measurable.
- > **Recommendation:** Government and industry experts collaborate to review/edit the existing business system criteria to ensure they are acceptable under GAGAS/AICPA standards

Definitions of Significant Deficiency

- > The statutory and DFARS definition of 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”
 - DFARS 252.242-7005 *Contractor Business Systems*
- > GAGAS incorporates the AICPA definition of significant deficiency which is defined as being “less severe than a material weakness”
 - GAGAS 5.22, *Deficiencies in Internal Control*
 - AICPA AT Section 501.07, *Definitions and Underlying Concepts*
- > AICPA definition of material weakness more appropriately aligns with the DFARS definition of significant deficiency
 - AICPA AT Section 501.07, *Definitions and Underlying Concepts*
- > **Recommendation:** The DFARS business system rule must clarify the definition of significant deficiency to align it with GAGAS / AICPA definition of material weakness to eliminate potential for confusion amongst auditors or independent CPAs

CPA Selection

- > The proposed rule requires CPA firm key engagement team members to have “current knowledge and experience in the type of work to be done”
- > GAGAS and AICPA standards have similar requirements for auditors to have sufficient knowledge and training
- > **Recommendation:** Remove the duplicative requirements from the proposed rule related to independent CPA qualifications
 - If the proposed DFARS requirement is additive (as opposed to redundant) it must clarify the meaning of “current knowledge” and “experience in the type of work to be done”

Government Auditor Report on Findings

- > The proposed DFARS changes include a requirement for the Government auditor to “***document findings and recommendations in a report***” to the contracting officer regarding any identified significant” system deficiencies
- > This requirement is in addition to proposed requirements for contractor self-assessment reports and independent CPA audit reports
- > The purpose of the rule states that contractors will be entrusted with reporting on business system compliance
- > **Recommendation:** Remove duplicative, costly, and non-value added requirement for the Government auditor to submit an additional report on contractors’ compliance