**DFARS Case 2021-D006**

**Definition of Material Weakness**

**Final Rule**

**PART 202—DEFINITIONS OF WORDS AND TERMS**

**SUBPART 202.1—DEFINITIONS**

**202.101 Definitions.**

**\* \* \* \* \***

Major defense acquisition program is defined in 10.U.S.C. 4201.

**[*Material weakness*** **means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2)** **More than remote but less than likely (section 806 of Pub. L. 116-283).]**

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**PART 215—CONTRACTING BY NEGOTIATION**

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**SUBPART 215.4—CONTRACT PRICING**

**\* \* \* \* \***

**215.407-5 Estimating systems.**

**215.407-5-70 Disclosure, maintenance, and review requirements.**

(a) *Definitions*. **[As used in this section—]**

~~(1) “Acceptable estimating system” is defined in the clause at~~ [~~252.215-7002~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002)~~, Cost Estimating System Requirements.~~

~~(2) “Contractor” means a business unit as defined in FAR 2.101.~~

~~(3) “Estimating system” is as defined in the clause at~~ [~~252.215-7002~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002)~~, Cost Estimating System Requirements.~~

~~(4) “Significant deficiency” is defined in the clause at~~ [~~252.215-7002~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002)~~, Cost Estimating System Requirements.~~

**[*****Acceptable estimating system* means** **an estimating system that complies with the system criteria in paragraph (d) of** **252.215-7002****, Cost Estimating System Requirements, and provides for a system that—**

**(i) Is maintained, reliable, and consistently applied;**

**(ii) Produces verifiable, supportable, documented, and timely cost estimates that are an acceptable basis for negotiation of fair and reasonable prices;**

**(iii) Is consistent with and integrated with the contractor’s related management systems; and**

**(iv) Is subject to applicable financial control systems.**

***Contractor* means a business unit as defined in FAR 2.101.**

***Estimating system* means** **the contractor’s policies, procedures, and practices for budgeting and planning controls and for generating estimates of costs and other data included in proposals submitted to customers in the expectation of receiving contract awards. Estimating system includes the contractor’s—**

**(i) Organizational structure;**

**(ii) Established lines of authority, duties, and responsibilities;**

**(iii) Internal controls and managerial reviews;**

**(iv) Flow of work, coordination, and communication; and**

**(v) Budgeting, planning, estimating methods, techniques, accumulation of historical costs, and other analyses used to generate cost estimates.]**

(b) *Applicability*.

(1) DoD policy is that all contractors have acceptable estimating systems that consistently produce well-supported proposals that are acceptable as a basis for negotiation of fair and reasonable prices.

(2) A large business contractor is subject to estimating system disclosure, maintenance, and review requirements if—

(i) In its preceding fiscal year, the contractor received DoD prime contracts or subcontracts totaling $50 million or more for which certified cost or pricing were required; or

(ii) In its preceding fiscal year, the contractor received DoD prime contracts or subcontracts totaling $10 million or more (but less than $50 million) for which certified cost or pricing data were required and the contracting officer, with concurrence or at the request of the ACO, determines it to be in the best interest of the Government (e.g., significant estimating problems are believed to exist or the contractor’s sales are predominantly Government).

(c) *Policy*.

(1) The contracting officer shall—

(i) Through use of the clause at [252.215-7002](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002), Cost Estimating System Requirements, apply the disclosure, maintenance, and review requirements to large business contractors meeting the criteria in paragraph (b)(2)(i) of this section;

(ii) Consider whether to apply the disclosure, maintenance, and review requirements to large business contractors under paragraph (b)(2)(ii) of this section; and

(iii) Not apply the disclosure, maintenance, and review requirements to other than large business contractors.

(2) The cognizant contracting officer, in consultation with the auditor, for contractors subject to paragraph (b)(2) of this section, shall—

(i) Determine the acceptability of the disclosure and approve or disapprove the system; and

(ii) Pursue correction of any **[weaknesses or ]**deficiencies.

(3) The auditor conducts estimating system reviews.

(4) An acceptable system shall provide for the use of appropriate source data, utilize sound estimating techniques and good judgment, maintain a consistent approach, and adhere to established policies and procedures.

(5) In evaluating the acceptability of a contractor’s estimating system, the contracting officer, in consultation with the auditor, shall determine whether the contractor’s estimating system complies with the system criteria for an acceptable estimating system as prescribed in the clause at [252.215-7002](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002), Cost Estimating System Requirements.

(d) *Disposition of findings*—

(1) *Reporting of findings*. The auditor shall document findings and recommendations in a report to the contracting officer. If the auditor identifies any ~~significant estimating system deficiencies~~**[material weaknesses]**, the report shall describe the **[underlying]** deficiencies in sufficient detail to allow the contracting officer to understand the **[weaknesses or]** deficiencies.

(2) *Initial determination*.

(i) The contracting officer shall review all findings and recommendations and, if there are no ~~significant deficiencies~~**[material weaknesses]**, shall promptly notify the contractor, in writing, that the contractor’s estimating system is acceptable and approved; or

(ii) If the contracting officer finds that there are one or more ~~significant deficiencies (as defined in the clause at~~ [~~252.215-7002~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002)~~, Cost Estimating System Requirements)~~**[material weaknesses]** due to the contractor’s failure to meet one or more of the estimating system criteria in the clause at [252.215-7002](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002), the contracting officer shall—

(A) Promptly make an initial written determination on any ~~significant deficiencies~~**[material weaknesses]** and notify the contractor, in writing, providing a description of each ~~significant deficiency~~**[material weakness]** in sufficient detail to allow the contractor to understand the deficiency **[(see PGI 215.407-5-70(d)(2))]**;

(B) Request the contractor to respond in writing to the initial determination within 30 days; and

(C) Promptly evaluate the contractor’s responses to the initial determination, in consultation with the auditor or functional specialist, and make a final determination.

(3) *Final determination*.

(i) The contracting officer shall make a final determination and notify the contractor in writing that—

(A) The contractor’s estimating system is acceptable and approved, and no ~~significant deficiencies~~**[material weaknesses]** remain**[;]**~~,~~ or

(B) ~~Significant deficiencies~~**[Material weaknesses]** remain. The notice shall identify any remaining ~~significant deficiencies~~**[material weaknesses]**~~,~~ and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(*1*) Request that the contractor, within 45 days of receipt of the final determination, either correct the deficiencies or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~;

(*2*) Disapprove the system in accordance with the clause at [252.215-7002](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002)~~, Cost Estimating System Requirements~~; and

(*3*) Withhold payments in accordance with the clause at [252.242-7005](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7005), Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor’s corrective action and the correction of ~~significant deficiencies~~**[material weaknesses]** in [PGI 215.407-5-70](https://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI215_4.htm#215.407-5-70)(~~e~~**[d)](3]**).

(e) *System approval*. The contracting officer shall promptly approve a previously disapproved estimating system and notify the contractor when the contracting officer determines that there are no remaining ~~significant deficiencies~~**[material weaknesses]**.

(f) *Contracting officer notifications*. The cognizant contracting officer shall promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments, to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

**\* \* \* \* \***

**PART 234—MAJOR SYSTEM ACQUISITION**

**\* \* \* \* \***

**~~234.001 Definitions.~~**

~~As used in this subpart—~~

~~“Acceptable earned value management system” and “earned value management system” are defined in the clause at~~ [~~252.234-7002~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252234.htm#252.234-7002)~~, Earned Value Management System.~~

~~“Production of major defense acquisition program” means the production and deployment of a major system that is intended to achieve an operational capability that satisfies mission needs, or an activity otherwise defined as Milestone C under Department of Defense Instruction 5000.02 or related authorities.~~

~~“Significant deficiency” is defined in the clause at~~ [~~252.234-7002~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252234.htm#252.234-7002)~~, Earned Value Management System, and is synonymous with “noncompliance.”~~

**[234.001-70 Definitions.**

**As used in this part—**

***Acceptable earned value management system* means an earned value management system that generally complies with system criteria in paragraph (b) of 252.234-7002****, Earned Value Management System.**

***Earned value management system* means an earned value management system that complies with the earned value management system guidelines in the ANSI/EIA-748.**

***Production of major defense acquisition program* means the production and deployment of a major system that is intended to achieve an operational capability that satisfies mission needs, or an activity otherwise defined as Milestone C under Department of Defense Instruction 5000.02 or related authorities.]**

**\* \* \* \* \***

**SUBPART 234.2—EARNED VALUE MANAGEMENT SYSTEM**

**234.201 Policy.**

**\* \* \* \* \***

(5) The cognizant contracting officer, in consultation with the functional specialist and auditor, shall—

(i) Determine the acceptability of the contractor’s earned value management system and approve or disapprove the system; and

(ii) Pursue correction of any **[weaknesses or]** deficiencies.

**\* \* \* \* \***

(7) *Disposition of findings*—

(i) *Reporting of findings*. The functional specialist or auditor shall document findings and recommendations in a report to the contracting officer. If the functional specialist or auditor identifies any ~~significant deficiencies~~**[material weakness]** in the contractor’s earned value management system, the report shall describe the **[weaknesses or]** deficiencies in sufficient detail to allow the contracting officer to understand the **[weaknesses or]** deficiencies.

(ii) *Initial determination*.

(A) The contracting officer shall review all findings and recommendations and, if there are no ~~significant deficiencies~~**[material weaknesses]**, shall promptly notify the contractor, in writing, that the contractor’s earned value management system is acceptable and approved; or

(B) If the contracting officer finds that there are one or more ~~significant deficiencies (as defined in the clause at~~ [~~252.234-7002~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252234.htm#252.234-7002)~~, Earned Value Management System)~~**[material weaknesses]** due to the contractor’s failure to meet one or more of the earned value management system criteria in the clause at [252.234-7002](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252234.htm#252.234-7002), the contracting officer shall—

(*1*) Promptly make an initial written determination ~~on~~**[of]** any ~~significant deficiencies~~**[material weaknesses]** and notify the contractor, in writing, providing a description of each ~~significant deficiency~~**[material weakness]** in sufficient detail to allow the contractor to understand the **[weaknesses]**~~deficiencies~~ **[****(see PGI 234.201(7)(ii))]**;

**\* \* \* \* \***

(iii) *Final determination*.

(A) The contracting officer shall make a final determination and notify the contractor, in writing, that—

(*1*) The contractor’s earned value management system is acceptable and approved, and no ~~significant deficiencies~~**[material weaknesses]** remain**[;]**~~,~~ or

(*2*) ~~Significant deficiencies~~**[Material weaknesses]** remain. The notice shall identify any remaining ~~significant deficiencies~~**[material weaknesses]**~~,~~ and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(*i*) Request that the contractor, within 45 days of receipt of the final determination, either correct the deficiencies or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~;

(*ii*) Disapprove the system in accordance with the clause at [252.234-7002](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252234.htm#252.234-7002)~~, Earned Value Management System,~~ when initial validation is not successfully completed within the timeframe approved by the contracting officer, or the contracting officer determines that the existing earned value management system contains one or more ~~significant deficiencies~~**[material weaknesses]** in high-risk guidelines in ANSI/EIA-748 standards (guidelines 1, 3, 6, 7, 8, 9, 10, 12, 16, 21, 23, 26, 27, 28, 30, or 32). When the contracting officer determines that the existing earned value management system contains one or more ~~significant deficiencies~~**[material weaknesses]** in one or more of the remaining 16 guidelines in ANSI/EIA-748 standards, the contracting officer shall use discretion to disapprove the system based on input received from functional specialists and the auditor; and

(*iii*) Withhold payments in accordance with the clause at [252.242-7005](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7005), Contractor Business Systems, if the clause is included in the contract.

(B) Follow the procedures relating to monitoring a contractor’s corrective action and the correction of ~~significant deficiencies~~**[material weaknesses]** at [PGI 234.201](http://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI234_2.htm#234.201)(7)**[(iii)]**.

(8) *System approval*. The contracting officer shall promptly approve a previously disapproved earned value management system and notify the contractor when the contracting officer determines that there are no remaining ~~significant deficiencies~~**[material weaknesses]**.

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**PART 242—CONTRACT ADMINISTRATION AND AUDIT SERVICES**

**\* \* \* \* \***

**SUBPART 242.3—CONTRACT ADMINISTRATION OFFICE FUNCTIONS**

**\* \* \* \* \***

**242.302 Contract administration functions.**

(a)(7) See [242.7502](http://www.acq.osd.mil/dpap/dars/dfars/html/current/242_75.htm#242.7502) for ACO responsibilities with regard to receipt of an audit report identifying significant accounting system or related internal control **[weaknesses or]** deficiencies.

**\* \* \* \* \***

**Subpart 242.70—Contractor Business Systems**

## 242.7000 Contractor business system deficiencies.

(a) Definitions. As used in this subpart—

~~“Acceptable contractor business systems”~~~~and~~ *~~“~~*~~contractor business systems” are defined in the clause at 252.242-7005, Contractor Business Systems.~~

**[****Acceptable contractor business systems means contractor business systems that comply with the terms and conditions of the applicable business system clauses listed in the definition of “contractor business systems” in this section.**

**Contractor business systems means—**

**(i) Accounting system, if the contract includes the clause at 252.242-7006, Accounting System Administration;**

**(ii) Earned value management system, if the contract includes the clause at 252.234-7002, Earned Value Management System;**

**(iii) Estimating system, if the contract includes the clause at 252.215-7002, Cost Estimating System Requirements;**

**(iv) Material management and accounting system, if the contract includes the clause at 252.242-7004, Material Management and Accounting System;**

**(v) Property management system, if the contract includes the clause at 252.245-7003, Contractor Property Management System Administration; and**

**(vi) Purchasing system, if the contract includes the clause at 252.244-7001, Contractor Purchasing System Administration.]**

Covered contract means 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. 3841](https://www.govinfo.gov/link/uscode/10/2302) note prec., as amended by section 816 of Pub. L. 112-81).

~~Significant deficiency is defined in the clause at 252.242-7005, Contractor Business Systems.~~

(b) Determination to withhold payments. If the contracting officer makes a final determination to disapprove a contractor’s business system in accordance with the clause at 252.242-7005, Contractor Business Systems, the contracting officer shall—

(1) In accordance with agency procedures, identify one or more covered contracts containing the clause at 252.242-7005~~, Contractor Business Systems,~~ from which payments will be withheld. When identifying the covered contracts from which to withhold payments, the contracting officer shall ensure that the total amount of payment withholding under 252.242-7005~~,~~ does not exceed 10 percent of progress payments, performance-based payments, and interim payments under cost-reimbursement, labor-hour, and time-and-materials contracts billed under each of the identified covered contracts. Similarly, the contracting officer shall ensure that the total amount of payment withholding under the clause at 252.242-7005~~, Contractor Business Systems,~~ for each business system does not exceed ~~five~~**[5]** percent of progress payments, performance-based payments, and interim payments under cost-reimbursement, labor-hour, and time-and-materials contracts billed under each of the identified covered contracts. The contracting officer has the sole discretion to identify the covered contracts from which to withhold payments.

(2) 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~~. The notice of payment withholding shall be included in the contracting officer’s written final determination for the contractor business system and shall inform the contractor that—

(i) Payments shall be withheld from the contract or contracts identified in the written determination in accordance with the clause at 252.242-7005, ~~Contractor Business Systems,~~ until the contracting officer determines that there are no remaining ~~significant deficiencies~~**[material weaknesses]**; and

(ii) The contracting officer reserves the right to take other actions within the terms and conditions of the contract.

(3) Provide **[a copy of the determination to]** all contracting officers administering the selected contracts from which payments will be withheld~~, a copy of the determination~~. The contracting officer shall also provide a copy of the determination to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

(c) Monitoring contractor’s corrective action. The contracting officer, in consultation with the auditor or functional specialist, shall monitor the contractor’s progress in correcting the ~~deficiencies~~**[weaknesses]**. The contracting officer shall notify the contractor of any decision to decrease or increase the amount of payment withholding in accordance with the clause at 252.242-7005~~, Contractor Business Systems~~.

(d) Correction of ~~significant deficiencies~~**[material weaknesses]**.

(1) If the contractor notifies the contracting officer that the contractor has corrected the ~~significant deficiencies~~**[material weaknesses]**, the contracting officer shall request the auditor or functional specialist to review the correction to verify that the ~~deficiencies~~**[weaknesses]** have been corrected. If, after receipt of verification, the contracting officer determines that the contractor has corrected all ~~significant deficiencies~~**[material weaknesses]** as directed by the contracting officer’s final determination, the contracting officer shall discontinue the withholding of payments, release any payments previously withheld, and approve the system, unless other ~~significant deficiencies~~**[material weaknesses]** remain.

(2) Prior to the receipt of verification, the contracting officer may discontinue withholding payments pending receipt of verification, and release any payments previously withheld, if the contractor submits evidence that the ~~significant deficiencies~~**[material weaknesses]** have been corrected, and the contracting officer, in consultation with the auditor or functional specialist, determines that there is a reasonable expectation that the corrective actions have been implemented and are expected to correct the ~~significant deficiencies~~**[material weaknesses]**.

(3) Within 90 days of receipt of the contractor notification that the contractor has corrected the ~~significant deficiencies~~**[material weaknesses]**, the contracting officer shall—

(i) Make a determination that—

(A) The contractor has corrected all ~~significant deficiencies~~**[material weaknesses]** as directed by the contracting officer’s final determination in accordance with paragraph (d)(1) of this section;

(B) There is a reasonable expectation that the corrective actions have been implemented in accordance with paragraph (d)(2) of this section; or

(C) The contractor has not corrected all ~~significant deficiencies~~**[material weaknesses]** as directed by the contracting officer’s final determination in accordance with paragraph (d)(1) of this section, or there is not a reasonable expectation that the corrective actions have been implemented in accordance with paragraph (d)(2) of this section; or

(ii) Reduce withholding directly related to the ~~significant deficiencies~~**[material weaknesses]** covered under the corrective action plan by at least 50 percent of the amount being withheld from progress payments and performance-based payments, and direct the contractor, in writing, to reduce the percentage withheld on interim cost vouchers by at least 50 percent, until the contracting officer makes a determination in accordance with paragraph (d)(3)(i) of this section.

(4) If, at any time, the contracting officer determines that the contractor has failed to correct the ~~significant deficiencies~~**[material weaknesses]** 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~~**[material weaknesses]** as directed by the contracting officer’s final determination.

(e) **[*Sample formats.*]** For sample formats for written notifications of contracting officer determinations to initiate payment withholding, reduce payment withholding, and discontinue payment withholding in accordance with the clause at ~~DFARS~~ 252.242-7005, ~~Contractor Business Systems,~~ see PGI 242.7000.

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**subpart 242.72—contractor material management and accounting system**

**\* \* \* \* \***

**242.7201 Definitions.**

~~“Acceptable material management and accounting system,” “material management and accounting system,” and “valid time-phased requirements” are defined in the clause at~~ [~~252.242-7004~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004)~~, Material Management and Accounting System.~~

~~“Significant deficiency” is defined in the clause at~~ [~~252.242.7004~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004)~~, Material Management and Accounting System.~~

**[As used in this subpart—**

***Acceptable material management and accounting system* means a material management and accounting system that generally complies with the system criteria in paragraph (d) of** **the clause at 252.242-7004****, Material Management and Accounting System.**

***Material management and accounting system (MMAS)* means the contractor’s system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems, or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.**

***Valid time-phased requirements* means** **material that is—**

**(1) Needed to fulfill the production plan, including reasonable quantities for scrap, shrinkage, yield, etc.; and**

**(2) Charged or billed to contracts or other cost objectives in a manner consistent with the need to fulfill the production plan.]**

**242.7202 Policy.**

(a) DoD policy is for its contractors to have an MMAS that conforms to the standards in paragraph (d) of the clause at [252.242-7004](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004), Material Management and Accounting System, so that the system—

(1) Reasonably forecasts material requirements;

(2) Ensures the costs of purchased and fabricated material charged or allocated to a contract are based on valid time-phased requirements; and

(3) Maintains a consistent, equitable, and unbiased logic for costing of material transactions.

(b) The cognizant contracting officer, in consultation with the auditor and functional specialist, if appropriate, shall—

(1) Determine the acceptability of the contractor’s MMAS and approve or disapprove the system; and

(2) Pursue correction of any **[weaknesses or]** deficiencies.

(c) 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](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004), Material Management and Accounting System.

**242.7203 Review procedures.**

(a) *Criteria for conducting reviews.* Conduct an MMAS review when—

(1) A contractor has $40 million of qualifying sales to the Government during the contractor’s preceding fiscal year; and

(2) 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.

(b) *Qualifying sales*. Qualifying sales are sales for which certified cost or pricing data were required under 10 U.S.C. 3702, 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.

(c) *Disposition of findings*—

(1) *Reporting of findings*. The auditor or functional specialist shall document findings and recommendations in a report to the contracting officer. If the auditor or functional specialist identifies any ~~significant MMAS deficiencies~~**[material weakness]**, the report shall describe the **[weaknesses or]** deficiencies in sufficient detail to allow the contracting officer to understand the **[weaknesses or]** deficiencies.

(2) *Initial determination*.

(i) The contracting officer shall review findings and recommendations and, if there are no ~~significant deficiencies~~**[material weaknesses]**, shall promptly notify the contractor, in writing, that the contractor’s MMAS is acceptable and approved; or

(ii) If the contracting officer finds that there are one or more ~~significant deficiencies (as defined in the clause at~~ [~~252.242-7004~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004)~~, Material Management and Accounting System)~~**[material weaknesses]** due to the contractor’s failure to meet one or more of the MMAS system criteria in the clause at [252.242-7004](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004)~~, Material Management and Accounting System~~, the contracting officer shall—

(A) Promptly make an initial written determination on any ~~significant deficiencies~~**[material weaknesses]** and notify the contractor, in writing, providing a description of each ~~significant deficiency~~**[material weakness]** in sufficient detail to allow the contractor to understand the **[weakness or]** deficiency;

(B) Request the contractor to respond, in writing, to the initial determination within 30 days; and

(C) Promptly evaluate the contractor’s response to the initial determination in consultation with the auditor or functional specialist~~,~~ and make a final determination **[(see PGI 242.7203(c)(2))]**.

(3) *Final determination*.

(i) The ACO shall make a final determination and notify the contractor that—

(A) The contractor’s MMAS is acceptable and approved, and no deficiencies remain**[;]**~~,~~ or

(B) ~~Significant deficiencies~~**[Material weaknesses]** remain. The notice shall identify any remaining ~~significant deficiencies~~**[material weaknesses]**~~,~~ and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(*1*) Request that the contractor, within 45 days of receipt of the final determination, either correct the **[weaknesses]**~~deficiencies~~ or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~;

(*2*) Disapprove the system in accordance with the clause at [252.242-7004](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004)~~, Material Management and Accounting System~~; and

(*3*) Withhold payments in accordance with the clause at [252.242-7005](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7005), Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor’s corrective action and the correction of ~~significant deficiencies~~**[material weaknesses]** in PGI [242.7203](http://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI242_72.htm#242.7203)**[(c)(3)].**

(d) *System approval*. The contracting officer shall promptly approve a previously disapproved MMAS and notify the contractor when the contracting officer determines that there are no remaining ~~significant deficiencies~~**[material weaknesses]**.

(e) *Contracting officer notifications*. The cognizant contracting officer shall promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

**\* \* \* \* \***

**SUBPART 242.75—CONTRACTOR ACCOUNTING SYSTEMS AND RELATED CONTROLS**

**242.7501 Definitions.**

As used in this subpart—

~~“Acceptable accounting system,” and “accounting system” are defined in the clause at~~ [~~252.242-7006~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006)~~, Accounting System Administration.~~

~~“Significant deficiency” is defined in the clause at~~ [~~252.242-7006~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006)~~, Accounting System Administration.~~

**[*****Acceptable accounting system* means a system that complies with the system criteria in paragraph (c) of** **the clause at 252.242-7006****, Accounting System Administration, to provide reasonable assurance that—**

**(1) Applicable laws and regulations are complied with;**

**(2) The accounting system and cost data are reliable;**

**(3) Risk of misallocations and mischarges are minimized; and**

**(4) Contract allocations and charges are consistent with billing procedures.**

***Accounting system* means the contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.]**

**242.7502 Policy.**

(a) Contractors receiving cost-reimbursement, incentive type, time-and-materials, or labor-hour contracts, or contracts which provide for progress payments based on costs or on a percentage or stage of completion, shall maintain an accounting system.

(b) The cognizant contracting officer, in consultation with the auditor or functional specialist, shall—

(1) Determine the acceptability of a contractor’s accounting system and approve or disapprove the system; and

(2) Pursue correction of any **[weaknesses or]** deficiencies.

(c) In evaluating the acceptability of a contractor’s accounting system, the contracting officer, in consultation with the auditor or functional specialist, shall determine whether the contractor’s accounting system complies with the system criteria for an acceptable accounting system as prescribed in the clause at [252.242-7006](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006), Accounting System Administration.

(d) *Disposition of findings*—

(1) *Reporting of findings*. The auditor shall document findings and recommendations in a report to the contracting officer. If the auditor identifies any ~~significant accounting system deficiencies~~**[material weakness]**, the report shall describe the **[weaknesses or]** deficiencies in sufficient detail to allow the contracting officer to understand the **[weaknesses or]** deficiencies. Follow the procedures at PGI [242.7502](http://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI242_75.htm#242.7502) for reporting of deficiencies.

(2) *Initial determination*.

(i) The contracting officer shall review findings and recommendations and, if there are no ~~significant deficiencies~~**[material weaknesses]**, shall promptly notify the contractor, in writing, that the contractor’s accounting system is acceptable and approved; or

(ii) If the contracting officer finds that there are one or more ~~significant deficiencies (as defined in the clause at~~ [~~252.242-7006~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006)~~, Accounting System Administration)~~**[material weaknesses]** due to the contractor’s failure to meet one or more of the accounting system criteria in the clause at [252.242-7006](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006), the contracting officer shall—

(A) Promptly make an initial written determination on any ~~significant deficiencies~~**[material weaknesses]** and notify the contractor, in writing, providing a description of each ~~significant deficiency~~**[material weakness]** in sufficient detail to allow the contractor to understand the **[weakness]**~~deficiency~~**[** **(see PGI 242.7502(d)(2))]**;

(B) Request the contractor to respond, in writing, to the initial determination within 30 days; and

(C) Promptly evaluate the contractor’s response to the initial determination, in consultation with the auditor or functional specialist, and make a final determination.

(3) *Final determination*.

(i) The contracting officer shall make a final determination and notify the contractor, in writing, that—

(A) The contractor’s accounting system is acceptable and approved, and no ~~significant deficiencies~~**[material weaknesses]** remain**[;]**~~,~~ or

(B) ~~Significant deficiencies~~**[Material weaknesses]** remain. The notice shall identify any remaining ~~significant deficiencies~~**[material weaknesses]**~~,~~ and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(*1*) Request that the contractor, within 45 days of receipt of the final determination, either correct the **[weaknesses]**~~deficiencies~~ or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~;

(*2*) Make a determination to disapprove the system in accordance with the clause at [252.242-7006](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006)~~, Accounting System Administration~~; and

(*3*) Withhold payments in accordance with the clause at [252.242-7005](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7005), Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor’s corrective action and the correction of ~~significant deficiencies~~**[material weaknesses]** in [PGI 242.7502](http://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI242_75.htm#242.7502)**[(d)(3)]**.

(e) *System approval*. The contracting officer shall promptly approve a previously disapproved accounting system and notify the contractor when the contracting officer determines that there are no remaining ~~significant deficiencies~~**[material weaknesses]**.

(f) *Contracting officer notifications*. The cognizant contracting officer shall promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

(g) *Mitigating the risk of ~~accounting system~~ deficiencies on specific proposals*.

(1) Field pricing teams shall discuss identified ~~accounting system~~ deficienciesand their impact in all reports on contractor proposals until the deficiencies are resolved.

(2) The contracting officer responsible for negotiation of a proposal generated by an accounting system with an identified deficiency shall evaluate whether the deficiency impacts the negotiations. See also [PGI 242.7502](http://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI242_75.htm#242.7502)(g)(2). If it does not, the contracting officer should proceed with negotiations. If it does, the contracting officer should consider other alternatives, e.g.—

(i) Allowing the contractor additional time to correct the ~~accounting system~~ deficiency and submit a corrected proposal;

(ii) Considering another type of contract;

(iii) Using additional cost analysis techniques to determine the reasonableness of the cost elements affected by the ~~accounting system’s~~ deficiency;

(iv) Reducing the negotiation objective for profit or fee; or

(v) Including a contract (reopener) clause that provides for adjustment of the contract amount after award.

(3) The contracting officer who incorporates a reopener clause into the contract is responsible for negotiating price adjustments required by the clause. Any reopener clause necessitated by ~~an accounting system~~**[a]** deficiency should—

(i) Clearly identify the amounts and items that are in question at the time of negotiation;

(ii) Indicate a specific time or subsequent event by which the contractor will submit a supplemental proposal, including certified cost or pricing data, identifying the cost impact adjustment necessitated by the deficient accounting system;

(iii) Provide for the contracting officer to adjust the contract price unilaterally if the contractor fails to submit the supplemental proposal; and

(iv) Provide that failure of the Government and the contractor to agree to the price adjustment shall be a dispute under the Disputes clause.

**\* \* \* \* \***

**PART 244—SUBCONTRACTING POLICIES AND PROCEDURES**

**\* \* \* \* \***

**SUBPART 244.1—GENERAL**

**244.101 Definitions.**

As used in this subpart—

~~“Acceptable purchasing system” and “purchasing system” are defined in the clause at~~ [~~252.244-7001~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001)~~, Contractor Purchasing System Administration.~~

~~“Significant deficiency” is defined in the clause at~~ [~~252.244-7001~~](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001)~~, Contractor Purchasing System Administration.~~

**[*****Acceptable purchasing system* means a purchasing system that complies with the system criteria in paragraph (c) of** **the clause at 252.244-7001.**

***Purchasing system* means the contractor’s system or systems for purchasing and subcontracting, including make-or-buy decisions, the selection of vendors, analysis of quoted prices, negotiation of prices with vendors, placing and administering of orders, and expediting delivery of materials.]**

**\* \* \* \* \***

**subpart 244.3—contractors’ purchasing systems reviews**

**\* \* \* \* \***

**244.305 Granting, withholding, or withdrawing approval.**

**244.305-70 Policy.**

Use this ~~sub~~section instead of FAR 44.305-2(c) and 44.305-3(b).

(a) The cognizant contracting officer, in consultation with the purchasing system analyst or auditor, shall—

(1) Determine the acceptability of the contractor’s purchasing system and approve or disapprove the system; and

(2) Pursue correction of any deficiencies.

(b) In evaluating the acceptability of the contractor’s purchasing system, the contracting officer, in consultation with the purchasing system analyst or auditor, shall determine whether the contractor’s purchasing system complies with the system criteria for an acceptable purchasing system as prescribed in the clause at [252.244-7001](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001), Contractor Purchasing System Administration.

(c) *Disposition of findings*—

(1) *Reporting of findings*. The purchasing system analyst or auditor shall document findings and recommendations in a report to the contracting officer. If the auditor or purchasing system analyst identifies any ~~significant purchasing system deficiencies~~**[material weaknesses]**, the report shall describe the **[underlying]** deficiencies in sufficient detail to allow the contracting officer to understand the **[weaknesses or]** deficiencies.

(2) *Initial determination*.

(i) The contracting officer shall review all findings and recommendations and, if there are no ~~significant deficiencies~~**[material weaknesses]**, shall promptly notify the contractor that the contractor's purchasing system is acceptable and approved; or

(ii) If the contracting officer finds that there are one or more ~~significant deficiencies (as defined in the clause at~~ [~~252.244-7001~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001)~~, Contractor Purchasing System Administration)~~**[material weaknesses]** due to the contractor’s failure to meet one or more of the purchasing system criteria in the clause at [252.244-7001](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001), the contracting officer shall—

(A) Promptly make an initial written determination on any ~~significant deficiencies~~**[material weaknesses]**and notify the contractor, in writing, providing a description of each ~~significant deficiency~~**[material weakness]** in sufficient detail to allow the contractor to understand the **[weakness]**~~deficiency~~**[ (see PGI 244.305-70(c)(2))]**;

(B) Request the contractor to respond, in writing, to the initial determination within 30 days; and

(C) Evaluate the contractor’s response to the initial determination in consultation with the auditor or purchasing system analyst~~,~~ and make a final determination.

(3) *Final determination*.

(i) The contracting officer shall make a final determination and notify the contractor, in writing, that—

(A) The contractor’s purchasing system is acceptable and approved, and no ~~significant deficiencies~~**[material weaknesses]** remain**[;]**~~,~~ or

(B) ~~Significant deficiencies~~**[Material weaknesses]** remain. The notice shall identify any remaining ~~significant deficiencies~~**[material weaknesses]**~~,~~ and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(*1*) Request that the contractor, within 45 days of receipt of the final determination, either correct the **[weaknesses]**~~deficiencies~~ or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~;

(*2*) Disapprove the system in accordance with the clause at [252.244-7001](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001)~~, Contractor Purchasing System Administration~~; and

(*3*) Withhold payments in accordance with the clause at [252.242-7005](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7005), Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor’s corrective action and the correction of ~~significant deficiencies~~**[material weaknesses]** in [PGI 244.305-70](https://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI244_3.htm#244.305-70)**[(c)(3)]**.

(d) *System approval*. The contracting officer shall promptly approve a previously disapproved purchasing system and notify the contractor when the contracting officer determines that there are no remaining ~~significant deficiencies~~**[material weaknesses]**.

(e) *Contracting officer notifications*. The cognizant contracting officer shall promptly distribute copies of a determination to approve a system, disapprove a system and withhold payments, or approve a previously disapproved system and release withheld payments to the auditor; payment office; affected contracting officers at the buying activities; and cognizant contracting officers in contract administration activities.

(f) *Mitigating the risk of ~~purchasing system~~ deficiencies on specific proposals*.

(1) Source selection evaluation teams shall discuss identified ~~purchasing system~~ deficiencies and their impact in all reports on contractor proposals until the deficiencies are resolved.

(2) The contracting officer responsible for negotiation of a proposal generated by a purchasing system with an identified deficiency shall evaluate whether the deficiency impacts the negotiations. If it does not, the contracting officer should proceed with negotiations. If it does, the contracting officer should consider other alternatives, e.g.—

(i) Allowing the contractor additional time to correct the ~~purchasing system~~ deficiency and submit a corrected proposal;

(ii) Considering another type of contract, e.g., a fixed-price incentive (firm target) contract instead of firm-fixed-price;

(iii) Using additional cost analysis techniques to determine the reasonableness of the cost elements affected by the ~~purchasing system’s~~ deficiency;

(iv) Segregating the questionable areas as a cost-reimbursable line item;

(v) Reducing the negotiation objective for profit or fee; or

(vi) Including a contract (reopener) clause that provides for adjustment of the contract amount after award.

(3) The contracting officer who incorporates a reopener clause into the contract is responsible for negotiating price adjustments required by the clause. Any reopener clause necessitated by a ~~purchasing system~~ deficiency should—

(i) Clearly identify the amounts and items that are in question at the time of negotiation;

(ii) Indicate a specific time or subsequent event by which the contractor will submit a supplemental proposal, including certified cost or pricing data, identifying the cost impact adjustment necessitated by the deficient purchasing system;

(iii) Provide for the contracting officer to adjust the contract price unilaterally if the contractor fails to submit the supplemental proposal; and

(iv) Provide that failure of the Government and the contractor to agree to the price adjustment shall be a dispute under the Disputes clause.

**\* \* \* \* \***

**PART 245—GOVERNMENT PROPERTY**

**\* \* \* \* \***

**SUBPART 245.1—general**

**\* \* \* \* \***

**245.105 Contractors’ property management system compliance.**

(a) *Definitions***[. As used in this subpart]**—

~~(1) “Acceptable property management system” and “property management system” are defined in the clause at~~ 252.245-7003, ~~Contractor Property Management System Administration.~~

~~(2) “Significant deficiency” is defined in the clause at~~ [~~252.245-7003~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252245.htm#252.245-7003)~~, Contractor Property Management System Administration.~~

**[*****Acceptable property management system* means a property system that complies with the system criteria in paragraph (c) of** **the clause at 252.245-7003****, Contractor Property Management Administration.**

***Property management system* means the contractor’s system or systems for managing and controlling Government property.]**

(b) *Policy*. The cognizant contracting officer, in consultation with the property administrator, shall—

(1) Determine the acceptability of the system and approve or disapprove the system; and

(2) Pursue correction of any **[weaknesses or]** deficiencies.

**\* \* \* \* \***

(d) *Disposition of findings*—

(1) *Reporting of findings*. The property administrator shall document findings and recommendations in a report to the contracting officer. If the property administrator identifies any ~~significant property system deficiencies~~**[material weaknesses]**, the report shall describe the **[underlying]** deficiencies in sufficient detail to allow the contracting officer to understand the **[weaknesses or]** deficiencies.

(2) *Initial determination*.

(i) The contracting officer shall review findings and recommendations and, if there are no ~~significant deficiencies~~**[material weaknesses]**, shall promptly notify the contractor, in writing, that the contractor’s property management system is acceptable and approved; or

(ii) If the contracting officer finds that there are one or more ~~significant deficiencies (as defined in the clause at~~ [~~252.245-7003~~](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252245.htm#252.245-7003)~~, Contractor Property Management System Administration)~~**[material weaknesses]** due to the contractor’s failure to meet one or more of the property management system criteria in the clause at [252.245-7003](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252245.htm#252.245-7003), the contracting officer shall—

(A) Promptly make an initial written determination on any ~~significant deficiencies~~**[material weaknesses]** and notify the contractor, in writing, providing a description of each ~~significant deficiency~~**[material weakness]** in sufficient detail to allow the contractor to understand the ~~deficiency~~**[weakness** **(see PGI 245.105(d)(2))]**;

**\* \* \* \* \***

(3) *Final determination*.

(i) The contracting officer shall make a final determination and notify the contractor, in writing, that—

(A) The contractor’s property management system is acceptable and approved, and no ~~significant deficiencies~~**[material weaknesses]** remain**[;]**~~,~~ or

(B) ~~Significant deficiencies~~**[Material weaknesses]** remain. The notice shall identify any remaining ~~significant deficiencies~~**[material weaknesses]**~~,~~ and indicate the adequacy of any proposed or completed corrective action. The contracting officer shall—

(*1*) Request that the contractor, within 45 days of receipt of the final determination, either correct the **[weaknesses]**~~deficiencies~~ or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~;

(*2*) Disapprove the system in accordance with the clause at [252.245-7003](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252245.htm#252.245-7003)~~, Contractor Property Management System Administration~~; and

(*3*) Withhold payments in accordance with the clause at [252.242-7005](https://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7005), Contractor Business Systems, if the clause is included in the contract.

(ii) Follow the procedures relating to monitoring a contractor’s corrective action and the correction of ~~significant deficiencies~~**[material weaknesses]** in [PGI 245.105](https://www.acq.osd.mil/dpap/dars/pgi/pgi_htm/PGI245_1.htm#245.105)**[(d)(3)]**.

(e) *System approval*. The contracting officer shall promptly approve a previously disapproved property management system and notify the contractor when the contracting officer determines, in consultation with the property administrator, that there are no remaining ~~significant deficiencies~~**[material weaknesses]**.

**\* \* \* \* \***

**PART 252—SOLICITATION PROVISIONS AND CONTRACT CLAUSES**

**\* \* \* \* \***

**SUBPART 252.2—TEXT OF PROVISIONS AND CLAUSES**

**\* \* \* \* \***

**252.215-7002 Cost [E]~~e~~stimating [S]~~s~~ystem [R]~~r~~equirements.**

As prescribed in [215.408](https://www.acq.osd.mil/dpap/dars/dfars/html/current/215_4.htm#215.408)(1), use the following clause:

COST ESTIMATING SYSTEM REQUIREMENTS (~~DEC 2012~~**[JAN 2025]**)

(a) *Definitions*.

**\* \* \* \* \***

**[*Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

~~“Significant deficiency” means a shortcoming in the system that materially affects the ability of officials of the Department of Defense to rely upon data and information produced by the system that is needed for management purposes.~~

**\* \* \* \* \***

(e) *~~Significant deficiencies~~****[Material weaknesses]****.*

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying]** deficiency in sufficient detail to allow the Contractor to understand the **[weakness or]** deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s estimating system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more ~~significant deficiencies~~**[material weaknesses]** remain.

(f) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the ~~significant deficiencies~~**[material weaknesses]**.

**\* \* \* \* \***

(End of clause)

**\* \* \* \* \***

**252.234-7002 Earned Value Management System.**

As prescribed in [234.203](http://www.acq.osd.mil/dpap/dars/dfars/html/current/234_2.htm#234.203)(2), use the following clause:

EARNED VALUE MANAGEMENT SYSTEM (~~MAY 2011~~**[JAN 2025]**)

(a) *Definitions.* As used in this clause—

**\* \* \* \* \***

**[*Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

~~“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.~~

**\* \* \* \* \***

(i) *~~Significant deficiencies~~***[*Material weaknesses*]**.

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, ~~on~~**[of]** any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying]** deficiency in sufficient detail to allow the Contractor to understand the **[weakness or]** deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s EVMS. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action;

(iii) System noncompliance, when the Contractor’s existing EVMS fails to comply with the earned value management system guidelines in the ANSI/EIA-748; and

(iv) System disapproval, if initial EVMS validation is not successfully completed within the timeframe approved by the Contracting Officer, or if the Contracting Officer determines that the Contractor’s earned value management system contains one or more ~~significant deficiencies~~**[material weaknesses]** in high-risk guidelines in ANSI/EIA-748 standards (guidelines 1, 3, 6, 7, 8, 9, 10, 12, 16, 21, 23, 26, 27, 28, 30, or 32). When the Contracting Officer determines that the existing earned value management system contains one or more ~~significant deficiencies~~**[material weaknesses]** in one or more of the remaining 16 guidelines in ANSI/EIA-748 standards, the **[C]**~~c~~ontracting **[O]**~~o~~fficer will use discretion to disapprove the system based on input received from functional specialists and the auditor.

(4) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the ~~significant deficiencies~~**[material weaknesses]**.

\* \* \* \* \*

(k) **[*Subcontracts*.]** With the exception of paragraphs (i) and (j) of this clause, the Contractor shall require its subcontractors to comply with EVMS requirements as follows:

(1) \* \* \*

\* \* \* \* \*

(End of clause)

**\* \* \* \* \***

**252.242-7004 Material Management and Accounting System.**

As prescribed in [242.7204](http://www.acq.osd.mil/dpap/dars/dfars/html/current/242_72.htm#242.7204), use the following clause:

MATERIAL MANAGEMENT AND ACCOUNTING SYSTEM (~~MAY 2011~~**[JAN 2025]**)

(a) *Definitions.* As used in this clause—

~~(1) “Material management and accounting system (MMAS)” means the Contractor’s system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.~~

~~(2) “Valid time-phased requirements” means material that is—~~

~~(i) Needed to fulfill the production plan, including reasonable quantities for scrap, shrinkage, yield, etc.; and~~

~~(ii) Charged/billed to contracts or other cost objectives in a manner consistent with the need to fulfill the production plan.~~

~~(3) “Contractor” means a business unit as defined in section 31.001 of the Federal Acquisition Regulation (FAR).~~

~~(4) “Acceptable material management and accounting system” means a MMAS that generally complies with the system criteria in paragraph (d) of this clause.~~

~~(5) “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.~~

**[*****Acceptable material management and accounting system* means a material management and accounting system that generally complies with the system criteria in paragraph (d) of this clause.**

***Contractor* means a business unit as defined in Federal Acquisition Regulation (FAR) 2.101.**

***Material management and accounting system (MMAS)* means the Contractor’s system or systems for planning, controlling, and accounting for the acquisition, use, issuing, and disposition of material. Material management and accounting systems may be manual or automated. They may be stand-alone systems, or they may be integrated with planning, engineering, estimating, purchasing, inventory, accounting, or other systems.**

***Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).**

***Valid time-phased requirements* means material that is—**

**(1) Needed to fulfill the production plan, including reasonable quantities for scrap, shrinkage, yield, etc.; and**

**(2) Charged or billed to contracts or other cost objectives in a manner consistent with the need to fulfill the production plan.]**

**\* \* \* \* \***

(e) *~~Significant deficiencies~~***[*Material weaknesses*]**.

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying deficiencies]**~~deficiency~~ in sufficient detail to allow the Contractor to understand the **[weaknesses or deficiencies]**~~deficiency~~.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s MMAS. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval if the Contracting Officer determines that one or more ~~significant deficiencies~~**[material weaknesses]** remain.

(f) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the ~~significant deficiencies~~**[material weaknesses]**.

**\* \* \* \* \***

(End of clause)

**252.242-7005 Contractor [B]~~b~~usiness [S]~~s~~ystems.**

As prescribed in [242.7001](http://www.acq.osd.mil/dpap/dars/dfars/html/current/242_70.htm#242.7001), use the following clause:

CONTRACTOR BUSINESS SYSTEMS (~~FEB 2012~~**[JAN 2025]**)

(a) This clause only applies to covered contracts that are 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).

(b) *Definitions*. As used in this clause—

*Acceptable contractor business systems* means contractor business systems that comply with the terms and conditions of the applicable business system clauses listed in the definition of "contractor business systems" in this clause.

*Contractor business systems* means—

(1) Accounting system, if this contract includes the clause at [252.242-7006](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7006), Accounting System Administration;

(2) Earned value management system, if this contract includes the clause at [252.234-7002](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252234.htm#252.234-7002), Earned Value Management System;

(3) Estimating system, if this contract includes the clause at [252.215-7002](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252215.htm#252.215-7002), Cost Estimating System Requirements;

(4) Material management and accounting system, if this contract includes the clause at [252.242-7004](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252242.htm#252.242-7004), Material Management and Accounting System;

(5) Property management system, if this contract includes the clause at [252.245-7003](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252245.htm#252.245-7003), Contractor Property Management System Administration; and

(6) Purchasing system, if this contract includes the clause at [252.244-7001](http://www.acq.osd.mil/dpap/dars/dfars/html/current/252244.htm#252.244-7001), Contractor Purchasing System Administration.

**[*****Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

~~“Significant deficiency,” in the case of a contractor business system, 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.~~

(c) *General*. The Contractor shall establish and maintain acceptable business systems in accordance with the terms and conditions of this contract.

(d) *~~Significant deficiencies~~***[*Material weaknesses*]**.

(1) The Contractor shall respond, in writing, within 30 days to an initial determination that there are one or more ~~significant deficiencies~~**[material weaknesses]** in one or more of the Contractor’s business systems.

(2) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the final determination as to whether the Contractor’s business system contains ~~significant deficiencies~~**[material weaknesses]**. If the Contracting Officer determines that the Contractor’s business system contains ~~significant deficiencies~~**[material weaknesses]**, the final determination will include a notice to withhold payments.

(e) *Withholding payments*.

(1) If the Contracting Officer issues the final determination with a notice to withhold payments for ~~significant deficiencies~~**[material weaknesses]** in a contractor business system required under this contract, the Contracting Officer will withhold ~~five~~**[5]** percent of amounts due from progress payments and performance-based payments, and direct the Contractor, in writing, to withhold ~~five~~**[5]** percent from its billings on interim cost vouchers on cost-reimbursement, labor-hour, and time-and-materials contracts until the Contracting Officer has determined that the Contractor has corrected all ~~significant deficiencies~~**[material weaknesses]** as directed by the Contracting Officer’s final determination. The Contractor shall, within 45 days of receipt of the notice, either correct the **[weaknesses]**~~deficiencies~~ or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~.

(2) If the Contractor submits an acceptable corrective action plan within 45 days of receipt of a notice of the Contracting Officer’s intent to withhold payments, and the Contracting Officer, in consultation with the auditor or functional specialist, determines that the Contractor is effectively implementing such plan, the Contracting Officer will reduce withholding directly related to the ~~significant deficiencies~~**[material weaknesses]** covered under the corrective action plan, to ~~two~~**[2]** percent from progress payments and performance-based payments, and direct the Contractor, in writing, to reduce the percentage withheld on interim cost vouchers to ~~two~~**[2]** percent until the Contracting Officer determines the Contractor has corrected all ~~significant deficiencies~~**[material weaknesses]** as directed by the Contracting Officer’s final determination. However, if at any time, the Contracting Officer determines that the Contractor has failed to follow the accepted corrective action plan, the Contracting Officer will increase withholding from progress payments and performance-based payments, and direct the Contractor, in writing, to 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~~**[material weaknesses]** as directed by the Contracting Officer’s final determination.

(3) *Payment withhold percentage limits*.

(i) The total percentage of payments withheld on amounts due under each progress payment, performance-based payment, or interim cost voucher~~,~~ on this contract shall not exceed—

(A) Five percent for one or more ~~significant deficiencies~~**[material weaknesses]** in any single contractor business system; and

(B) Ten percent for ~~significant deficiencies~~**[material weaknesses]** in multiple contractor business systems.

**\* \* \* \* \***

(f) *Correction of* **[*weaknesses*]***~~deficiencies~~*.

(1) The Contractor shall notify the Contracting Officer, in writing, when the Contractor has corrected the business system’s **[weaknesses]**~~deficiencies~~.

(2) Once the Contractor has notified the Contracting Officer that all **[weaknesses]**~~deficiencies~~ have been corrected, the Contracting Officer will take one of the following actions:

(i) If the Contracting Officer determines that the Contractor has corrected all ~~significant deficiencies~~**[material weaknesses]** as directed by the Contracting Officer’s final determination, the Contracting Officer will, as appropriate, discontinue the withholding of progress payments and performance-based payments, and direct the Contractor, in writing, to discontinue the payment withholding from billings on interim cost vouchers under this contract associated with the Contracting Officer’s final determination, and authorize the Contractor to bill for any monies previously withheld that are not also being withheld due to other ~~significant deficiencies~~**[material weaknesses]**. Any payment withholding under this contract due to other ~~significant deficiencies~~**[material weaknesses]**~~,~~ will remain in effect until the Contracting Officer determines that those ~~significant deficiencies~~**[material weaknesses]** are corrected.

(ii) If the Contracting Officer determines that the Contractor still has ~~significant deficiencies~~**[material weaknesses]**, the Contracting Officer will continue the withholding of progress payments and performance-based payments, and the Contractor shall continue withholding amounts from its billings on interim cost vouchers ~~n~~**[in]** accordance with paragraph (e) of this clause, and not bill for any monies previously withheld.

(iii) If the Contracting Officer determines, based on the evidence submitted by the Contractor, that there is a reasonable expectation that the corrective actions have been implemented and are expected to correct the ~~significant deficiencies~~**[material weaknesses]**, the Contracting Officer will discontinue withholding payments, ~~and~~ release any payments previously withheld directly related to the ~~significant deficiencies~~**[material weaknesses]** identified in the Contractor notification, ~~and~~ direct the Contractor, in writing, to discontinue the payment withholding from billings on interim cost vouchers associated with the Contracting Officer’s final determination, and authorize the Contractor to bill for any monies previously withheld.

(iv) If, within 90 days of receipt of the Contractor notification that the Contractor has corrected the ~~significant deficiencies~~**[material weaknesses]**, the Contracting Officer has not made a determination in accordance with ~~paragraphs~~**[paragraph]** (f)(2)(i), (ii), or (iii) of this clause, the Contracting Officer will reduce withholding directly related to the ~~significant deficiencies~~**[material weaknesses]** identified in the Contractor notification by at least 50 percent of the amount being withheld from progress payments and performance-based payments, and direct the Contractor, in writing, to reduce the payment withholding from billings on interim cost vouchers directly related to the ~~significant deficiencies~~**[material weaknesses]** identified in the Contractor notification by a specified percentage that is at least 50 percent, but not authorize the Contractor to bill for any monies previously withheld until the Contracting Officer makes a determination in accordance with ~~paragraphs~~**[paragraph]** (f)(2)(i), (ii), or (iii) of this clause.

(v) At any time after the Contracting Officer reduces or discontinues the withholding of progress payments and performance-based payments, or directs the Contractor to reduce or discontinue the payment withholding from billings on interim cost vouchers under this contract, if the Contracting Officer determines that the Contractor has failed to correct the ~~significant deficiencies~~**[material weaknesses]** identified in the Contractor’s notification, the Contracting Officer will reinstate or increase withholding from progress payments and performance-based payments, and direct the Contractor, in writing, to 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~~**[material weaknesses]** as directed by the Contracting Officer’s final determination.

(End of clause)

**252.242-7006 Accounting [S]~~s~~ystem [A]~~a~~dministration.**

As prescribed in [242.7503](http://www.acq.osd.mil/dpap/dars/dfars/html/current/242_75.htm#242.7503), use the following clause:

ACCOUNTING SYSTEM ADMINISTRATION (~~FEB 2012~~**[JAN 2025]**)

(a) *Definitions.* As used in this clause—

~~(1)~~  *Acceptable accounting system* means a system that complies with the system criteria in paragraph (c) of this clause to provide reasonable assurance that—

(~~i~~**[1]**) Applicable laws and regulations are complied with;

(~~ii~~**[2]**) The accounting system and cost data are reliable;

(~~iii~~**[3]**) Risk of misallocations and mischarges are minimized; and

(~~iv~~**[4]**) Contract allocations and charges are consistent with billing procedures.

~~(2)~~ *Accounting system* means the Contractor’s system or systems for accounting methods, procedures, and controls established to gather, record, classify, analyze, summarize, interpret, and present accurate and timely financial data for reporting in compliance with applicable laws, regulations, and management decisions, and may include subsystems for specific areas such as indirect and other direct costs, compensation, billing, labor, and general information technology.

~~(3) “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~~.

**[*Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

**\* \* \* \* \***

(d) *~~Significant deficiencies~~***[*Material weaknesses*]***.*

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, ~~on~~**[of]** any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying]** deficiency in sufficient detail to allow the Contractor to understand the **[weakness or]** deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s accounting system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more ~~significant deficiencies~~**[material weaknesses]** remain.

(e) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the ~~significant deficiencies~~**[material weaknesses]**.

**\* \* \* \* \***

(End of clause)

**\* \* \* \* \***

**252.244-7001 Contractor [P]~~p~~urchasing [S]~~s~~ystem [A]~~a~~dministration.**

*Basic.* As prescribed in [244.305-71](https://www.acq.osd.mil/dpap/dars/dfars/html/current/244_3.htm#244.305-71) and [244.305-71](https://www.acq.osd.mil/dpap/dars/dfars/html/current/244_3.htm#244.305-71)(a), use the following clause:

CONTRACTOR PURCHASING SYSTEM ADMINISTRATION—BASIC (~~MAY 2014~~**[JAN 2025]**)

(a) *Definitions.* As used in this clause—

*Acceptable purchasing system* means a purchasing system that complies with the system criteria in paragraph (c) of this clause.

**[*Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

*Purchasing system* means the Contractor’s system or systems for purchasing and subcontracting, including make-or-buy decisions, the selection of vendors, analysis of quoted prices, negotiation of prices with vendors, placing and administering of orders, and expediting delivery of materials.

~~“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.~~

**\* \* \* \* \***

(d) *~~Significant deficiencies~~***[*Material weaknesses*]**.

(1) The Contracting Officer will provide notification of initial determination to the Contractor, in writing, of any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying]** deficiency in sufficient detail to allow the Contractor to understand the **[weakness or]** deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s purchasing system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more ~~significant deficiencies~~**[material weaknesses]** remain.

(e) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~.

**\* \* \* \* \***

(End of clause)

*Alternate I*. As prescribed in [244.305-71](https://www.acq.osd.mil/dpap/dars/dfars/html/current/244_3.htm#244.305-71) and [244.305-71](https://www.acq.osd.mil/dpap/dars/dfars/html/current/244_3.htm#244.305-71)(b), use the following clause, which amends paragraph (c) of the basic clause by deleting paragraphs (c)(1) through (c)(18) and (c)(22) through (c)(24), and revising and renumbering paragraphs (c)(19) through (c)(21) of the basic clause:

CONTRACTOR PURCHASING SYSTEM ADMINISTRATION—ALTERNATE I (~~MAY 2014~~**[JAN 2025]**)

The following paragraphs (a) through (f) of this clause do not apply unless the Contractor 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.

(a) *Definitions.* As used in this clause—

*Acceptable purchasing system* means a purchasing system that complies with the system criteria in paragraph (c) of this clause.

**[*Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

*Purchasing system* means the Contractor’s system or systems for purchasing and subcontracting, including make-or-buy decisions, the selection of vendors, analysis of quoted prices, negotiation of prices with vendors, placing and administering of orders, and expediting delivery of materials.

~~“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.~~

**\* \* \* \* \***

(d) *~~Significant deficiencies~~***[*Material weaknesses*]**.

(1) The Contracting Officer will provide notification of initial determination to the Contractor, in writing, of any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying]** deficiency in sufficient detail to allow the Contractor to understand the **[weaknesses or]** deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s purchasing system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more ~~significant deficiencies~~**[material weaknesses]** remain.

(e) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the **[weaknesses]**~~deficiencies~~.

**\* \* \* \* \***

(End of clause)

**\* \* \* \* \***

**252.245-7003 Contractor Property Management System Administration.**

As prescribed in [245.107](https://www.acq.osd.mil/dpap/dars/dfars/html/current/245_1.htm#245.107)(3), insert the following clause:

CONTRACTOR PROPERTY MANAGEMENT SYSTEM ADMINISTRATION

(~~APR 2012~~**[JAN 2025]**)

(a) *Definitions.* As used in this clause—

*Acceptable property management system* means a property system that complies with the system criteria in paragraph (c) of this clause.

**[*Material weakness* means a deficiency or combination of deficiencies in the internal control over information in contractor business systems, such that there is a reasonable possibility that a material misstatement of such information will not be prevented, or detected and corrected, on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is—**

**(1) Probable; or**

**(2) More than remote but less than likely (section 806 of Pub. L. 116-283).]**

*Property management system* means the Contractor’s system or systems for managing and controlling Government property.

~~“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.~~

**\* \* \* \* \***

(c) *System criteria*. The Contractor’s property management system shall be in accordance with paragraph**[s (b) and]** (f) of the contract clause at Federal Acquisition Regulation 52.245-1.

(d) *~~Significant deficiencies~~***[*Material weaknesses*]***.*

(1) The Contracting Officer will provide an initial determination to the Contractor, in writing, of any ~~significant deficiencies~~**[material weaknesses]**. The initial determination will describe the **[underlying]** deficiency in sufficient detail to allow the Contractor to understand the **[weaknesses or]** deficiency.

(2) The Contractor shall respond within 30 days to a written initial determination from the Contracting Officer that identifies ~~significant deficiencies~~**[material weaknesses]** in the Contractor’s property management system. If the Contractor disagrees with the initial determination, the Contractor shall state, in writing, its rationale for disagreeing.

(3) The Contracting Officer will evaluate the Contractor’s response and notify the Contractor, in writing, of the Contracting Officer’s final determination concerning—

(i) Remaining ~~significant deficiencies~~**[material weaknesses]**;

(ii) The adequacy of any proposed or completed corrective action; and

(iii) System disapproval, if the Contracting Officer determines that one or more ~~significant deficiencies~~**[material weaknesses]** remain.

(e) If the Contractor receives the Contracting Officer’s final determination of ~~significant deficiencies~~**[material weaknesses]**, the Contractor shall, within 45 days of receipt of the final determination, either correct the ~~significant deficiencies~~**[material weaknesses]** or submit an acceptable corrective action plan showing milestones and actions to eliminate the ~~significant deficiencies~~**[material weaknesses]**.

**\* \* \* \* \***

(End of clause)