



**Richard F. Chambers**  
Certified Internal Auditor  
Qualification in Internal Audit Leadership  
Certified Government Auditing Professional  
Certification in Control Self-Assessment  
Certification in Risk Management Assurance  
*President and Chief Executive Officer*

T: +1-407-937-1200  
E-mail: richard.f.chambers@theiia.org

September 15, 2014

Defense Acquisition Regulations System  
Attn: Mr. Mark Gomersall  
OUSD(AT&L)DPAP(DARS)  
Room 3B941  
3060 Defense Pentagon  
Washington DC 20301-3060

Dear Mr. Gomersall:

RE: DFARS Case 2012-D042

On behalf of more than 180,000 global members of The Institute of Internal Auditors (IIA), one-third of whom reside in the United States, I am pleased to provide our observations and comments on the Department of Defense's (DoD) proposed rule to amend the Defense Federal Acquisition Regulations Supplement (DFARS) "to ensure appropriate contractor accountability for adequate contractor business systems." As the global standards-setting body for the professional practice of internal auditing, The IIA supports the American Center for Government Auditing (ACGA), a premier resource for public sector auditors serving more than 9,500 government members of The IIA throughout the United States. We appreciate the opportunity to provide comment on this guidance and fully concur with the concept of strengthening contractor business systems and internal controls as the first line of defense against waste, fraud, and abuse.

Our view is that the proposed rule would provide for a good, high-level system of checks and balances comprising contractor self-evaluations, CPA audits, and government auditor reviews. The background information states that "contractor business systems and internal controls are the first line of defense against waste, fraud, and abuse." That aligns with The IIA's Three Lines of Defense model<sup>1</sup>, in which:

Global Headquarters  
247 Maitland Avenue  
Altamonte Springs, FL  
32701-4201 USA  
T: +1-407-937-1100  
F: +1-407-937-1101  
www.theiia.org

---

<sup>1</sup> The IIA's Position Paper, The Three Lines of Defense in Effective Risk Management and Control, 2013

- 1) The first line of defense comprises operational managers that own and manage risks. (In this case, managers responsible for business systems and internal controls over waste, fraud, and abuse.)
- 2) The second line of defense comprises functions that oversee risks, such as risk management and compliance.
- 3) The third line of defense is an internal audit function that provides independent assurance on the effectiveness of governance, risk management, and controls.

However, we believe there are opportunities to provide principle-based guidance with enough detail to further advance the proposed rule's objective. Specifically:

The proposed rule refers to the objective of improving the "efficiency and effectiveness of auditing contractor business systems by entrusting contractors with the capability to demonstrate compliance with the Defense Federal Acquisition Regulation Supplement (DFARS) system criteria for contractors' accounting, estimating, and material management and accounting systems, based on contractors' self-evaluations and audits by independent Certified Public Accountants (CPAs) of their choosing." Principles-based guidance to consider in furthering this objective includes:

**1. Guidance that addresses the rigor of the contractor's self-evaluation.**

We recommend that the proposed rule include language that strongly encourages or requires the contractor to perform its self-evaluation consistent with the *Standards for Internal Control in the Federal Government* (known as the Green Book) or The Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Internal Control-Integrated Framework*.

**2. Guidance that addresses the competencies and qualifications of individuals performing the self-evaluation as well as the capabilities of the function performing the self-evaluation.**

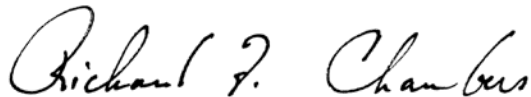
We recommend that the proposed rule include language that sets minimum expectations for **individuals** performing the contractor's self-evaluation. Internal auditors, especially those acting in accordance with The IIA's International Standards for the Professional Practice of Internal Auditing (*Standards*), would be well-qualified to perform such self-evaluations and bring the objectivity necessary to provide meaningful, reliable, and competent assurance regarding the efficiency and effectiveness of contractor business systems.

We recommend that the proposed rule include language that sets minimum expectations for **the function** performing the self-evaluation. For contractors with internal audit functions, such functions, especially those that conform with the *Standards*, are particularly well-positioned and bring the independence necessary to provide meaningful, reliable, and competent assurance regarding the efficiency and effectiveness of contractor business systems. An added benefit is that external auditors are able to rely on the work of the internal audit activity, potentially reducing the time and cost of triennial CPA audits.

Please do not hesitate to contact Kathy Anderson, Director, North American Advocacy, with any questions about this response or if you would like to schedule a time to meet in person or via conference call. Ms. Anderson can be reached by email at [kathy.anderson@theiia.org](mailto:kathy.anderson@theiia.org) or by phone at 1-407-937-1101.

Again, we applaud the efforts of the Department of Defense to propose a rule that would strengthen contractor business systems and internal controls to defend against waste, fraud, and abuse. I look forward to future opportunities to continue our discussions and further build awareness of the critical role internal auditing can and does play in ensuring good governance, risk management, and internal controls, thereby enhancing the financial stability of the Department of Defense and other public sector organizations.

Best Regards,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA  
President and Chief Executive Officer