



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

IN REPLY REFER TO

PAS 730.3.B.2.4

December 15, 2010
10-PAS-035(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Audit Guidance on Contractor Notification Letters

Effective immediately, auditors should provide a notification letter to the contractor for all new audits and those currently in the planning phase.

GAGAS 6.07 requires auditors to communicate certain information regarding their understanding of the services to be performed, in writing, to both the requestor and the contractor, during the planning phase of the audit. GAGAS 6.07 requires that the following specific information be communicated:

- the nature, timing, and extent of planned testing and reporting;
- the level of assurance the auditor will provide; and
- any potential restrictions on the audit report.

DCAA auditors generally provide written communication during the planning phase of the audit to the requestor/contracting officer by sending an acknowledgment or notification letter. Verbal communication with the contractor regarding the nature and scope of the audit generally occurs during the entrance conference. However, to comply fully with the GAGAS requirements, auditors should provide the required information in a notification letter to the contractor during the planning phase of the audit; generally, either during or shortly after the entrance conference. The contractor notification letter will generally be addressed to the management official who signed the proposal or submission or who is responsible for overseeing the subject matter under audit when there is no proposal or submission. The contractor notification letter does not replace the entrance conference. Auditors should also ensure that the acknowledgement to the requestor or the notification letter to the contracting officer for audits not requested includes the required information.

We are in the process of revising APPS to deliver proforma acknowledgment and contractor notification letters that meet the GAGAS requirements. In the meantime, those letters are provided as enclosures.

December 15, 2010
10-PAS-035(R)

PAS 730.3.B.2.4

SUBJECT: Audit Guidance on Contractor Notification Letters

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Auditing Standards Division at (703) 767-3274 or e-mail: DCAA-PAS@dcaa.mil.

/Signed/

Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosures: 2
a/s

DISTRIBUTION: C

Contractor Notification Letter
[Insert FAO's Letterhead]

[Assignment No.]

[Date]

[Generally the contractor notification letter will be addressed to the management official who signed the proposal/submission or to the management official who is responsible for overseeing the subject matter under audit when there is no proposal/submission. This letter should be tailored for audits other than pricing proposal audits as discussed in the individual paragraphs below.]

Mr./Ms. [Name, Title]
[Company Name]
[Street Address]
[City, State, Zip Code]

Dear Mr./Ms. [Name]:

[For other than pricing proposal audits tailor this paragraph based on the applicable language in the Subject of Audit paragraph on A-1 Planning Document.] We received a request from [Name of requestor and organization] to examine your [Date of Proposal], [Proposal Type (Fixed, Cost, etc.)] proposal submitted in response to Solicitation No. [Number] to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price.

Our audit will include: *[For other than pricing proposal audits tailor the bullets below based on the bullets in the Scope of Audit section of the applicable audit report shell.]*

- gaining an understanding of the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the proposal;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall proposal presentation; and
- determining the need for technical specialist assistance.

We will evaluate the proposed costs using the applicable requirements contained in the: *[Tailor the bullets below to reflect the applicable criteria for the current audit]*

- Federal Acquisition Regulation (FAR),
- [Defense FAR Supplement (DFARS), for non-DoD agencies, identify specific agency supplement – see 15-102.3] and
- [Cost Accounting Standards (only if the potential contract will be CAS-covered)].

[Assignment No.]
Mr./Ms. [Name, Title]

[For other than pricing proposal audits tailor the statement regarding the opinion to be expressed to be consistent with the purpose of the audit stated in the first paragraph of this letter.] We will start our audit on or about [Month, Day, Year] and expect to issue the report expressing an opinion on whether the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price on approximately [Month, Day, Year]. The audit report will be subject to the following restrictions:

[Include only the bullets below applicable to the current audit. The first two bullets will generally be included for all types of audits. The last bullet may not apply to some types of audits, e.g., CAS audits and audits of contractor business system.]

1. The contents of the report should not be released or disclosed, other than to those persons whose official duties require access, without the approval of the Contracting Officer.
2. The report will be subject to the restrictions of 18 U.S.C. 1905 which restricts the disclosure of proprietary information and if the information is contractor bid or proposal or source selection information, 41 U.S.C. 423 which restricts disclosure of contractor bid or proposal or source selection information.
3. If the report is on a subcontractor proposal/submission, the release of the report or specific information in the report to the higher-tier contractor will be restricted if the subcontractor objects to the release.

Any questions regarding this audit should be directed to [Name], Supervisory Auditor at [Phone Number] or [email address].

Sincerely,

[Name]
FAO Manager

Copy furnished:
[Requestor]

Acknowledgement/Notification to ACO	

[Note: The following acknowledgement memorandum should be modified as appropriate for assignments other than an audit of a price proposal. This memorandum should also be modified as a notification letter to the ACO for audits that were not requested.]

[Insert FAO's Letterhead]

[Office Symbol & Reference Code]

[Date]

MEMORANDUM FOR *[Requestor's name and address]*

SUBJECT: Request for Audit of *[Brief description]*

REFERENCE: *[Requestor's reference number]*

[For other than pricing proposal audits tailor this paragraph based on the applicable language in the Subject of Audit paragraph on A-1 Planning Document.] We have received your request for audit services, dated *[Date of request]*, for an audit of *[Contractor Name]*'s proposal, dated *[Date of proposal]*, submitted in response to RFP No.: *[RFP Number]*. This is a proposal in the amount of *[Amount of Proposal]*. We have established assignment number *[Assignment Number]* to determine if the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price.

Our audit will include: *[For other than pricing proposal audits tailor the bullets below based on the bullets in the Scope of Audit section of the applicable audit report shell.]*

- gaining an understanding of the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the proposal;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall proposal presentation; and
- determining the need for technical specialist assistance.

We will evaluate the proposed costs using the applicable requirements contained in the: *[Tailor the bullets below to reflect the applicable criteria for the current audit.]*

- Federal Acquisition Regulation (FAR),
- *[Defense FAR Supplement (DFARS), for non-DoD agencies, identify specific agency supplement – see 15-102.3] and*
- *[Cost Accounting Standards (only if the potential contract will be CAS-covered)].*

[Reference Number]

[Date]

SUBJECT: Request for Audit of [Brief description]

The scope of our services will be based on auditor judgment, risk assessment and your specific needs, as we discussed on [date].

As discussed with [ACO representative name], [ACO Representative Title] on [date], we [need -or- do not need] technical assistance to help us review proposed [area of technical assistance]. [If technical assistance is required, provide detailed discussion of the area of technical assistance needed.] [Identify the date the technical report will be required by.] [If technical assistance is not needed, include: However, if we do find a need for technical assistance during the audit, we will notify your office and request specific assistance.]

[For other than pricing proposal audits tailor the statement regarding the opinion to be expressed to be consistent with the purpose of the audit stated in the first paragraph of this letter.] We will start our audit on or about [Month, Day, Year] and expect to issue the report expressing an opinion on whether the proposed costs are acceptable as a basis to negotiate a fair and reasonable contract price on approximately [Month, Day, Year]. The audit report will be subject to the following restrictions:

[Include only the bullets below applicable to the current audit. The first two bullets will generally be included for all types of audits. The last bullet may not apply to some types of audits, e.g., CAS audits and audits of contractor business system.]

1. The contents of the report should not be released or disclosed, other than to those persons whose official duties require access, without the approval of the Contracting Officer.
2. The report will be subject to the restrictions of 18 U.S.C. 1905 which restricts the disclosure of proprietary information and, if the information is contractor bid and proposal or source selection information, 41 U.S.C. 423 which restrict the disclosure of proprietary information and contractor bid or proposal or source selection information.
3. If the report is on a subcontractor proposal, the release of the report or specific information in the report to the higher-tier contractor will be restricted if the subcontractor objects to the release.

We will notify your office of any significant issues as they arise during the audit. If you require additional audit services other than those cited, please contact, [Auditor Name], Auditor, or, [Supervisor Name], Supervisory Auditor, at [Phone Number] or fax [Fax Number]. Our e-mail address is [FAO email address].

[FAO Manager's Name]
Branch Manager
DCAA [Office Name]