



IN REPLY REFER TO

DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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FORT BELVOIR, VA 22060-6219

PPD 730.5.17.1

May 20, 2011
11-PPD-007(R)

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

SUBJECT: Audit Guidance on Discontinuance of DCAA-Initiated Contractor Financial Condition Risk Assessments and Financial Capability Audits

Effective immediately, FAOs will no longer initiate annual financial condition risk assessments or financial capability audits as separate assignments or in conjunction with any other assignment (i.e., progress payments audits or pre and post award accounting system audits). FAOs will perform financial capability audits only when requested by the contracting officer due to unique circumstances requiring DCAA audit assistance and based on requests from the contracting officer related to requests from non-DoD agencies when DCMA has not performed a financial capability assessment as part of its DoD oversight.

Regulatory requirements provide that the contracting officer will make a determination of financial responsibility. As such, DCMA established its Financial Capability Group to perform all financial analysis for the Department including preaward financial analysis, post award financial surveillance, and the monitoring of contracts receiving financing payments. As a result, we have determined that DCAA will no longer initiate financial condition risk assessments and financial capability audits. In addition, we have eliminated the requirement for DCAA to perform financial condition risk assessments or financial capability audits as part of a progress payment audit or as part of a pre or post award accounting system audit. The applicable audit programs have been revised in accordance with the revised guidance. DCAA will only perform financial capability audits when requested by the contracting officer. Contracting officers should seek DCAA assistance only when there are unique circumstances requiring DCAA audit assistance.

During the performance of audit risk assessments, auditors should contact the contracting officer to ascertain any known concerns that will impact the assessment of audit risk. During this discussion, auditors are to obtain financial condition information from the contracting officer for risk assessment purposes. If the contracting officer does not have the information regarding the contractor's financial condition available, the auditor should request that the contracting officer contact the DCMA Financial Capability Group to obtain such information.

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In those situations where information regarding the contractor's financial condition is not available from the contracting officer, the auditor, at a minimum, should perform a trend analysis of the contractor's key financial statement elements (i.e., profit/loss, sales, cash flow from operating activities, working capital) following the guidance in CAM 14-300 when documenting consideration of inherent risk. If auditors are alerted to information that may indicate unfavorable or adverse financial conditions that could impede a contractor's ability to perform on Government contracts (e.g., recurring net losses, deteriorating sales, negative cash flow from operation activities, cash flow difficulties), they should immediately communicate those concerns/risk factors to the appropriate contracting officer and adjust the audit scope and associated audit procedures accordingly.

FAOs should complete all requested and substantially in-process financial capability audits, including those initiated in conjunction with in-process progress payment audits (17500), in-process preaward accounting system surveys (17740), and post award accounting system audits (17741). Going forward, contracting officers should submit their Preaward Survey requests (i.e., any request to perform financial capability in relation to a contractor's bid on a specific solicitation) to DCMA's Financial Capability Group via DCMA's eTools at www.dcma.mil and all post award financial capability requests should be submitted to fincap@dcma.mil.

This guidance has been coordinated with DCMA Headquarters. FAOs with questions regarding this memorandum should contact their regional offices. Regions with questions should contact Policy Programs Division at (703) 767-2270 or via e-mail at dcaa-ppd@dcaa.mil.

/Signed/

Kenneth J. Saccoccia
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