



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

IN REPLY REFER TO

PPD 730.5.17.1

January 21, 2005  
05-PPD-010(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA  
DIRECTOR, FIELD DETACHMENT, DCAA

**SUBJECT: Audit Guidance for Financial Condition Risk Assessments and Financial Capability Audits Requested under the Utility Privatization Initiative**

As a result of the Department of Defense's privatization of military installation utility systems, DCAA has been called upon to provide audit and financial advisory services to support the buying commands in the award of the base utilities privatization contracts. Under the utility privatization contracts, the Department typically transfers the utility distribution system ownership and operating responsibility to a non-Federal government entity such as a municipality, utility cooperative, or an investor-owned utility. Utility privatization contracts generally include only the sale and subsequent maintenance of the system assets and not the purchase of the utility commodity itself (e.g., electricity, water, gas). Specifically, FAOs are being requested to perform financial condition risk assessments and/or financial capability audits related to this initiative. Based on the unique nature of the contracts anticipated for award (i.e., 50-year contracts) and the uniqueness of the industry involved (i.e., regulated utility industry), we believe it is necessary to modify our existing guidance on financial capability risk assessments and audits to reflect the unique characteristics of the entities competing for the base utility privatization contracts.

Eastern Region led a team of key individuals, with specialized knowledge in this area, to help draft the guidance and associated audit program. Using their knowledge and skills, as well as input from our customers and selected utility privatization entities, the team developed supplemental guidance and tools to aid in the performance of and reporting on the financial condition of municipalities, utility cooperatives, and investor-owned utilities that bid on the utility privatization contracts. The team developed unique audit steps, procedures, and proforma report language to address the various types of entities usually involved in the utility privatization contracts.

The following items are being transmitted with this memorandum and should be used when requested to perform a financial condition risk assessment or financial capability audit related to the award of a utility privatization contract. Note that the guidance requires coordination with the cognizant Financial Liaison Advisor (FLA) who has experience and expertise with utility privatization issues and source selection processes that are common to this unique type of procurement.

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- CAM Section 14-310 – Establishes a new CAM section describing financial capability audit requirements for entities entering into a contract to provide the utility service for base operations under the utility privatization initiative, types of contractors/entities, and audit guidance and procedures unique to this process.
- Utility Privatization Financial Capability Audit Program – Establishes a new audit program to be used for financial condition risk assessments or financial capability audits requested by the buying commands under the utility privatization initiative.  
Proforma Audit Report for the Utility Privatization Financial Capability Audit  
Proforma Memorandum to Contracting Officer on the Financial Condition Risk Assessment for the Utility Privatization Initiative  
Proforma Municipality Data Request  
Proforma Utility Cooperative Data Request

The Eastern Region-led team also developed two electronic workbooks for calculating financial ratios for municipalities and cooperatives called MUNI-DCAA and COOP-DCAA, respectively. Both workbooks can be found on the Eastern Region website under Financial Capability Ratios Workbook.

Attachments 2 through 14 will be incorporated into APPS. Until then, auditors performing these assignments will need to copy and paste the proforma data requests, audit steps, proforma memorandum, and report language from the attachments into the generic audit program and audit report currently generated in APPS under activity code 17600.

If FAO personnel have any questions, they should contact their regional staff. If regional personnel have any questions, they may contact the Headquarters, Policy Programs Division, at (703) 767-2278.

/Signed/

Robert DiMucci  
Assistant Director  
Policy and Plans

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ATTACHMENTS: (Attachments not available on the Intranet)

- ATT 1 Draft CAM Section 14-310
- ATT 2 Utility Privatization Audit Program
- ATT 3 Proforma Audit Report for the Utility Privatization Financial Capability Audit
- ATT 4 Proforma Memorandum to Contracting Officer on the Financial Condition Risk Assessment for the Utility Privatization Initiative
- ATT 5 Proforma Municipality Data Request
- ATT 6 Proforma Utility Cooperative Data Request

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Audits Requested under the Utility Privatization Initiative

ATT 7 A-0-19 Sum 17600 Fin Cap.doc

ATT 8 B-0-1 RA Fin Capability.doc

ATT 9 B-2-12 Fin Cap Major Contractors.doc

ATT 10 B-2-13 Fin Cap Nonmajor Contractors.doc

ATT 11 B-3-0 Need for Technical Assistance.doc

ATT 12 C-1-0 Detailed Audit Steps.doc

ATT 13 COOP - DCAA Financial Ratios Workbook Ver 1.3.xls

ATT 14 MUNI-DCAA Financial Ratios Workbook (Version 1.2).xls