



DEPARTMENT OF DEFENSE
Defense Contract Management Agency

INSTRUCTION

Financial Analysis

Contracts Directorate
OPR: DCMA-AQ

DCMA INST 105
June 26, 2014

1. PURPOSE. This Instruction:

- a. Revises DCMA Instruction (DCMA-INST) 105, “Financial Analysis” (Reference (a)).
- b. Is established in accordance with (IAW) the authority in DoD Directive 5105.64, “Defense Contract Management Agency (DCMA)” (Reference (b)).
- c. Establishes policy, assigns responsibilities, identifies work products, and establishes procedures in providing customers with reliable financial analysis reports.

2. APPLICABILITY. This Instruction applies to all DCMA activities that prepare, manage, review, validate, and use DCMA policies.

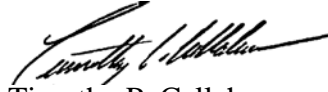
3. MANAGERS’ INTERNAL CONTROL PROGRAM. IAW DCMA-INST 710, “Managers’ Internal Control Program” (Reference (c)), this Instruction is subject to evaluation and testing. The Process flowcharts are located on the policy resource Web page for this Instruction.

4. RELEASABILITY – UNLIMITED. This Instruction is approved for public release.

5. LABOR CODES. Located on resource page.

6. RESOURCE PAGE. <https://360.dcma.mil/sites/policy/AQ/SitePages/105r.aspx>

7. EFFECTIVE DATE. By order of the Director, DCMA, this Instruction is effective June 26, 2014, and all applicable activities shall be fully compliant within 60 days from this date.



Timothy P. Callahan
Executive Director
Contracts

SUMMARY OF CHANGES

This Instruction has been rewritten and shall be read in its entirety. The following identifies the most notable changes.

- The superseded version, dated May 2004, was determined to be outdated and was rewritten in its entirety.
- Defines the roles and responsibilities of individuals who are primarily responsible in the execution of the policy.
- Defines the three primary categories of work products:
 - Preaward Financial Capability Reviews
 - Postaward Financial Capability Reviews
 - Financial Analysis Assessment Reports in support of Industrial Base Analysis.
- Establishes Financial Analysis procedures:
 - Determine the need for a Financial Review
 - Preaward Financial Capability Review
 - Postaward Financial Capability Review
 - Financial Analysis Assessment Report in Support of Industrial Base Analysis
 - Installment Payments and Deferment of Collections

TABLE OF CONTENTS

SUMMARY OF CHANGES	3
REFERENCES	5
CHAPTER 1 – POLICY	
1.1. Policy.....	6
CHAPTER 2 – ROLES AND RESPONSIBILITIES	
2.1. Executive Director, Contracts Directorate.....	7
2.2. Director, Cost and Pricing Center.....	7
2.3. Director, Financial Capability Group (FCG).....	7
2.4. Financial Analyst (FA).....	7
2.5. Preaward Survey Manager (PASM).....	7
2.6. Administrative Contracting Officer (ACO).....	8
2.7. Industrial Analysis Center (IAC) Personnel.....	8
CHAPTER 3 – WORK PRODUCTS	
3.1. Work Products.....	9
CHAPTER 4 – PROCEDURES	
4.1. Financial Analysis Introduction.....	11
4.2. Financial Responsibility of Contractors.....	11
4.3. Determine the Need for a Financial Review.....	11
4.4. Preaward Financial Capability Review.....	12
4.5. Postaward Financial Capability Review.....	12
4.6. Financial Analysis Assessment Report in Support of Industrial Base Analysis.....	13
4.7. Installment Agreement or a Deferment of Debt.....	13
GLOSSARY	
Definitions.....	15
Acronyms.....	17

REFERENCES

- (a) DCMA-INST 105, "Financial Analysis," May 2004 (hereby cancelled)
- (b) DoD Directive 5105.64, "Defense Contract Management Agency (DCMA)," January 10, 2013
- (c) DCMA-INST 710, "Managers' Internal Control Program," April 21, 2014
- (d) Under Secretary of Defense, Acquisition, Technology and Logistics (USD AT&L) Memorandum, "Better Buying Power," January 4, 2011
- (e) DCMA-INST 402, "Workload Acceptance," April 3, 2014
- (f) DoD Contract Pricing Reference Guide, Volume 4, Chapter 9
- (g) DCMA-INST 209, "Preaward Surveys," February 2012
- (h) Federal Acquisition Regulation (FAR)
- (i) DCMA-INST 104 "Contract Debt," December 11, 2012
- (j) DCMA-INST 401, "Industrial Analysis," August 14, 2012
- (k) Defense Federal Acquisition Regulation Supplement (DFARS)
- (l) DoD 7000.14-R, Financial Management Regulation, Volume 10, Chapter 18, "Contractor Debt Collection," July 2009

CHAPTER 1

POLICY

1.1. POLICY.

1.1.1. The Financial Capability Group (FCG) within DCMA's Cost and Pricing Center shall perform all financial analysis within DCMA.

1.1.2. DCMA shall perform financial analysis of current and prospective contractors for DoD when needed to determine the contractor's ability to meet the financial requirements of current and future U.S. Government contracts.

1.1.3. IAW the Under Secretary of Defense for Acquisition, Technology, and Logistics Memorandum, "Better Buying Power" (Reference (d)), DCMA shall provide financial analysis to DoD customers regardless of whether or not the contracts are expected to be administered by DCMA.

1.1.4. DCMA shall provide financial analysis to non-DoD customers IAW the procedures in DCMA-INST 402 "Workload Acceptance" (Reference (e)).

CHAPTER 2

ROLES AND RESPONSIBILITIES

2.1. EXECUTIVE DIRECTOR, CONTRACTS DIRECTORATE. The Executive Director, Contracts, shall serve as final approval authority for all waiver and deviation requests, relative to the requirements of this Instruction.

2.2. DIRECTOR, COST AND PRICING CENTER. The Director, Cost and Pricing Center shall provide recommendations to the Executive Director, Contracts Directorate, for waivers and deviations submitted for this Instruction.

2.3. DIRECTOR, FINANCIAL CAPABILITY GROUP (FCG). The Director, FCG shall:

2.3.1. Supervise the review and administration of this Instruction.

2.3.2. Provide recommendations to the Director, Cost and Pricing Center, for waivers and deviations submitted for this Instruction.

2.4. FINANCIAL ANALYST (FA). FAs shall:

2.4.1. Perform the financial analyses described in this Instruction.

2.4.2. Perform analysis of contractor financial capability IAW this Instruction and the guidance in the DoD Contract Pricing Reference Guide, Volume 4, Chapter 9 (Reference (f)).

2.4.3. Negotiate due dates and scope of reviews/assessments.

2.5. PREAWARD SURVEY MANAGER (PASM). PASM shall:

2.5.1. Obtain information regarding contractor financial capability from the FCG when the “Financial Capability” factor is included in the buying activity’s preaward survey request and the request otherwise complies with the Federal Acquisition Regulation (FAR) and Defense Federal Acquisition Regulation Supplement (DFARS).

2.5.2. Obtain and send to the FCG supporting documentation related to the preaward survey request (such as the solicitation) when requested by the FCG.

2.5.3. Compile completed results of all factors reviewed in a Preaward Survey and make recommendations to the procuring contracting officer (PCO).

2.5.4. Follow the policy and procedures of DCMA-INST 209, “Preaward Surveys,” (Reference (g)).

2.6. ADMINISTRATIVE CONTRACTING OFFICER (ACO). The term ACO as used in this Instruction can also refer to a Corporate Administrative Contracting Officer (CACO) or a Divisional Administrative Contracting Officer (DACO). ACOs shall:

2.6.1. Request postaward financial capability reviews when needed to assist them in meeting their delegated responsibilities to:

2.6.1.1. Monitor the financial condition of contractors and advise the (procuring) contracting officer when such condition jeopardizes contract performance (FAR 42.302(a)(17)) (Reference (h)).

2.6.1.2. Process and execute novation and change of name agreements (FAR 42.302(a)(26)) (Reference (h)).

2.6.1.3. Review and approve/disapprove payment of progress payments (FAR 32.503-4) (Reference (h)).

2.6.1.4. Identify and demand payment of contract debts, except those resulting from errors made by the payment office (DCMA-INST 104, "Contract Debt" (Reference (i)) and FAR 32.602 (Reference (h))).

2.6.2. Determine the need for financial capability reviews (see paragraph 4.3).

2.6.3. Request postaward financial capability reviews via e-mail. The e-mail address is located on the on the Resource page for this Instruction.

2.6.4. Follow the guidance of the DoD Contract Pricing Reference Guide, Chapter 9, Sections 9.3 to 9.7 (Reference (f)) after receiving a completed financial capability report from the FCG.

2.6.5. Refer to FAR Part 32 Contract Financing (Reference (h)), and consider the contractor's financial condition, as required by such FAR Part, when making decisions on contract financing, including progress payments, performance based payments, advance payments, loan guarantees for defense production, etc.

2.7. INDUSTRIAL ANALYSIS CENTER (IAC) PERSONNEL. IAC personnel shall:

2.7.1. Follow the DCMA-INST 401, "Industrial Analysis," (Reference (j)) to determine when financial analysis is required for its assessments.

2.7.2. Notify the FCG Director or his or her designee as soon as possible when IAC personnel anticipate they will require significant financial analysis in support of their work products.

2.7.3. Request reviews for Financial Analysis Assessment Reports via e-mail. The e-mail address is located on the Resource page for this Instruction.

CHAPTER 3

WORK PRODUCTS

3.1. WORK PRODUCTS. The majority of the FCG's work products fall into three primary categories:

3.1.1. Preaward Financial Capability Reviews.

3.1.1.1. The FCG completes Standard Form (SF) 1407 "Preaward Survey of Prospective Contractor Financial Capability." The work product (report) of the Preaward Financial Capability Review is a SF 1407.

3.1.1.2. Preaward Financial Capability Reviews detail the findings of the FCG's evaluations of prospective contractors and may or may not be related to a particular solicitation.

3.1.1.3. The SF 1407 shall provide assessments of the prospective contractor's financial condition (satisfactory or unsatisfactory) and its financial risk (High, Moderate, or Low) if there is sufficient information to warrant such assessments.

3.1.1.4. If no or inadequate financial data are received during a Preaward Financial Capability Review, the FCG will indicate "high risk; no financial data received from contractor" in the Narrative section of the SF 1407.

3.1.1.5. All SF 1407s require a review by either a FCG supervisor or a FCG subject matter expert (SME) prior to submission to the PASM.

3.1.2. Postaward Financial Capability Reviews.

3.1.2.1. Postaward Financial Capability Review reports detail the FCG's evaluations of contractor financial capabilities in performing its existing DoD contracts.

3.1.2.2. Each report shall provide assessments of the prospective contractor's financial condition (satisfactory or unsatisfactory) and its financial risk (High, Moderate, or Low) if there is sufficient information to warrant such assessments.

3.1.2.3. If no or inadequate financial data are received during a Postaward Financial Capability Review, the FCG will express no opinion regarding a contractor's financial condition, and the FCG will not issue a report. The FCG will issue a statement to the customer that no analysis of the contractor was possible given the lack of or inadequate financial data submitted by the contractor.

3.1.2.4. Refer to DoD Contract Pricing Reference Guide, Volume 4, Chapter 9 (Reference (f)) when a Guaranty Agreement for Corporate Guarantor (such as DCMA Form 1620) applies.

3.1.2.5. All reports require review by either a FCG supervisor or a FCG SME prior to release to the customer.

3.1.3. Financial Analysis Assessment Reports in Support of Industrial Base Analysis.

3.1.3.1. FCG shall perform all required financial analysis for industrial analysis lines of service to include Industrial Capabilities Assessments (ICA) and other Analytical Products (AP).

3.1.3.2. Financial Analysis Assessment Reports detail the findings of the FCG's evaluations of the financial capabilities of current and potential contractors. These reports assist in determinations of the overall financial health of a contractor within a particular industrial sector and whether or not government intervention may be required to preserve a critical defense capability.

3.1.3.3. Each report shall provide assessments of the prospective contractor's financial condition (Satisfactory or Unsatisfactory) and its financial risk (High, Moderate, or Low) if there is sufficient information to warrant such assessments.

3.1.3.4. If no or inadequate financial data are received during the financial analysis, the FCG will express no opinion regarding a contractor's financial condition, and the FCG will not issue a report. The FCG will issue a statement to the customer that no analysis of the contractor was possible given the lack of or inadequate financial data submitted by the contractor.

3.1.3.5. All reports require review by either a FCG supervisor or a FCG SME prior to release to the customer.

CHAPTER 4

PROCEDURES

4.1. FINANCIAL ANALYSIS INTRODUCTION.

4.1.1. As described within the DoD Contract Pricing Reference Guide, Volume 4, Chapter 9, (Reference (f)) Financial Analysis involves the analysis of:

4.1.1.1. Financial capability of potential contractors. Decisions on contractor responsibility must consider whether the offeror has adequate financial resources or the ability to obtain them.

4.1.1.2. Effect that Government financing decisions will have on contractor financial management. Decisions on Government financing, including progress payments or performance based payments, must consider the contractor's financial condition.

4.1.1.3. Need for Government protection from performance problems that may result from contractor financial problems. Decisions on whether to require performance bonds for contracts other than construction contracts or require subordination agreements should consider the financial risk associated with Government financing.

4.1.2. When making decisions on contract financing, including progress payments, performance based payments, advance payments, loan guarantees for defense production, etc., the contractor's financial condition must be considered. Refer to FAR Part 32, Contract Financing (Reference (h)).

4.2. FINANCIAL RESPONSIBILITY OF CONTRACTORS. Use the policies and procedures as described at DFARS 232.072 (Reference (k)) in determining the financial capability of current or prospective contractors.

4.3. DETERMINE THE NEED FOR A FINANCIAL REVIEW. IAW DFARS 232.072-1 (Reference (k)), the contracting officer shall perform a financial review when the contracting officer does not otherwise have sufficient information to make a positive determination of financial responsibility. In addition, the contracting officer shall consider performing a financial review:

4.3.1. As cited at DFARS 232.072-1(a) (Reference (k)), prior to award of a contract, when:

- The contractor is on a list requiring preaward clearance or other special clearance before award;
- The contractor is listed on the Consolidated List of Contractors Indebted to the Government (Hold-Up List), or is otherwise known to be indebted to the Government;
- The contractor may receive Government assets such as contract financing payments or Government property;

- The contractor is experiencing performance difficulties on other work; or
- The contractor is a new company or a new supplier of the item.

4.3.2. As cited at DFARS 232-072-1(b) (Reference (k)), at periodic intervals after award of a contract, when:

- Any of the conditions in paragraphs 4.3.1. are applicable, or
- There is any other reason to question the contractor's ability to finance performance and completion of the contract.

4.4. PREAWARD FINANCIAL CAPABILITY REVIEW.

4.4.1. The PCO or PCO designee electronically enters request for Preaward Financial Capability Review via Preaward Survey System (PASS) eTool.

4.4.2. FCG assigns the review to an FA.

4.4.3. FCG enters the request in the FCG's Assignment Log.

4.4.4. After evaluation of the contractor's financial data, FA prepares an SF 1407 (see paragraph 3.1.1.).

4.4.5. If no or inadequate financial data is received during a Preaward Financial Capability Review, the FCG will indicate "high risk; no financial data received from contractor" in the Narrative section of SF 1407.

4.4.6. The Preaward Financial Capability Report is reviewed and approved by the FCG supervisor or FCG SME.

4.4.7. The Preaward Financial Capability Report is submitted to PASM through eTools.

4.5. POSTAWARD FINANCIAL CAPABILITY REVIEW.

4.5.1. The Contracting Officer submits Request for Postaward Financial Capability Review via e-mail to the FCG's Postaward Financial Capability Review Request Inbox. The e-mail address is located on the on the Resource page for this Instruction. Request should include the purpose of the request (e.g., periodic financial surveillance, new progress payment request, novation application), and the contractor's full name, address, CAGE Code, and point of contact information.

4.5.2. The FCG assigns the review to an FA.

4.5.3. The FCG enters the request in the FCG's Assignment Log.

4.5.4. After evaluation of the contractor's financial data, the FA prepares the Postaward Financial Capability Report (see paragraph 3.1.2.).

4.5.5. If no or inadequate financial data is received during a Postaward Financial Capability Review, the FCG will express no opinion regarding a contractor's financial condition, and the FCG will not issue a report. The FCG will issue a statement to the customer that no analysis of the contractor was possible given the lack of or inadequate financial data submitted by the contractor.

4.5.6. The Postaward Financial Capability Report is reviewed and approved by the FCG supervisor or FCG SME.

4.5.7. The Postaward Financial Capability Report is issued to the customer.

4.6. FINANCIAL ANALYSIS ASSESSMENT REPORT IN SUPPORT OF INDUSTRIAL BASE ANALYSIS.

4.6.1. IAC submits Request for Financial Analysis Assessment Reports via e-mail to the FCG's Postaward Financial Capability Review Request Inbox. The e-mail address is located on the Resource page for this Instruction. This Inbox supports requests for both Financial Analysis Assessments and Postaward Financial Capability Reviews. The request should include the name of the Industrial Base Analysis study, the requested due date, and the names, CAGE Codes, and points of contact of the contractors to be evaluated within the study.

4.6.2. FCG assigns the assessment to an FA.

4.6.3. FCG enters the request in the FCG's Assignment Log.

4.6.4. After evaluation of the contractor's financial data, the FA prepares the Financial Analysis Assessment Report (see paragraph 3.1.3.).

4.6.5. If no or inadequate financial data is received, the FCG will express no opinion regarding a contractor's financial condition, and the FCG will not issue a report. The FCG will issue a statement to the customer that no analysis of the contractor was possible given the lack of or inadequate financial data submitted by the contractor.

4.6.6. The Financial Analysis Assessment Report is reviewed and approved by the FCG supervisor or FCG SME.

4.6.7. The Financial Analysis Assessment Report is issued to the customer.

4.7. INSTALLMENT PAYMENTS AND DEFERMENT OF COLLECTION.

4.7.1. Whenever a contractor requests an installment agreement or a deferment of debt, relative to a contract debt owed to the Government, the ACO should immediately request the FCG to furnish a report on the contractor's financial condition via e-mail to the FCG's Postaward Financial Capability Review Request Inbox, so it can be considered by the ACO in making a recommendation as to whether or not the contractor's request should be granted by the

Government, pursuant to FAR 32.607(b)(1) and 32.607-2(e) (Reference (h)) and DCMA-INST-104 (Reference (i)). The e-mail address is located on the Resource page for this Instruction.

4.7.2. FAR 32.607(b)(1) (Reference (h)) provides that the office designated in Agency procedures may arrange for deferment or installment payments if the contractor is unable to pay at once in full, a debt which the ACO has demanded payment of, or such payment would seriously impair the contractor's operations under national defense contracts.

4.7.3. When a contractor has appealed a debt demand (to an appeal authority such as the Armed Services Board of Contract Appeals (ASBCA), Federal Court of Claims, etc.), deferments of payment of such debt pending disposition of the appeal, may be granted to small business concerns and financially weak contractors, balancing the need for Government security against loss and undue hardship on the contractor. FAR 32.607-2(e) (Reference (h))

GLOSSARY

DEFINITIONS

Financial Analysis: Although financial analysis is often broadly defined, for purposes of this Instruction it is limited to the following types of analyses described in Volume 4, Chapter 9 of the DoD Contract Pricing Reference Guide (Reference (f)):

- Analysis to determine the financial capability of potential contractors.
- Analysis of the need for Government protection from performance problems that may result from contractor financial problems.
- Analysis of the financial condition of current and potential contractors to determine if there is a need for government action to preserve a critical defense capability.
- Analysis to determine the effect that Government financing decisions will have on contractor financial management.

Industrial Analysis: An evaluation of the skills, knowledge, facilities, equipment, processes, and technologies necessary to research, develop, manufacture, repair, and maintain DoD products to determine whether the industrial capabilities needed to meet current and future national security requirements are available. Financial analysis is often incorporated into an industrial analysis to determine if intervention by DoD will be required to maintain the industrial capabilities. See the DCMA-INST 401 (Reference (j)) for additional information on this process.

Installment Payments and Deferment of Collection: Installment Payments – a series of payments that will provide for repayment of a contract debt over a period of time. Deferment of Collection – an authorized deferment in the Government’s commencement of collection efforts of a contract debt. Refer to FAR 32.607, “Installment Payments and Deferment of Collection” for regulatory guidance. Follow the procedures in DCMA-INST 104 (Reference (i)), when processing requests for installment payments and/or deferment of collection. Also refer to DoD Financial Management Regulation, Volume 10, Chapter 18, “Contractor Debt Collection.” (Reference (l)).

Postaward Review: A review of a contractor’s financial capability. Postaward reviews in non-financial areas may uncover problems that generate a request for a financial capability review. For example, postaward reviews by an ACO of late deliveries may ultimately be traced to contractor financial difficulties. Resources permitting, postaward financial capability reviews may be performed routinely on an annual basis or more frequently (semi-annually or quarterly) if a contractor is known to be high risk. They may also be performed at an intervening time if there is a sudden deterioration in the contractor’s financial condition.

Preaward Survey: A review of a prospective contractor that is normally required only when the information on hand or readily available to the contracting officer is not sufficient to make a determination regarding responsibility. In addition, if the contemplated contract will have a fixed price at or below the simplified acquisition threshold or will involve the acquisition of commercial items, the contracting officer should not request a preaward survey unless

circumstances justify its cost. A preaward survey may be of a single factor, such as financial capability, or of multiple factors. See FAR 9.1, “Responsible Prospective Contractors” (Reference (h)); DFARS 232.072-1(a), “Required Financial Reviews” (Reference (k)); DFARS 253.209-1, “Responsible Prospective Contractors” (Reference (k)); and DCMA-INST 209 (Reference (g)) for additional information on this process.

GLOSSARY

ACRONYMS

ACO	administrative contracting officer
DCMA-INST	DCMA Instruction
DFARS	Defense Federal Acquisition Regulation Supplement
FA	financial analyst
FAR	Federal Acquisition Regulation
FCG	Financial Capability Group
IAC	Industrial Analysis Center
IAW	in accordance with
PASM	Preaward Survey Manager
PCO	procuring contracting officer
PLAS	Performance Labor Accounting System
SF	standard form
SME	subject matter expert