

# Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates

## Defense Contract Audit Agency

(DCAA)



## February 2003

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**APPROPRIATION HIGHLIGHTS**  
**(Dollars in Millions)**

	<u>FY 2002</u>	<u>Price</u>	<u>Program</u>	<u>FY 2003</u>	<u>Price</u>	<u>Program</u>	<u>FY 2004</u>	<u>Price</u>	<u>Program</u>	<u>FY 2005</u>
	<u>Actuals</u>	<u>Change</u>	<u>Change</u>	<u>Estimate</u>	<u>Change</u>	<u>Change</u>	<u>Estimate</u>	<u>Change</u>	<u>Change</u>	<u>Estimate</u>
<b>Appropriation Summary:</b>	335.1	10.2	6.8	352.1	7.8	4.6	364.5	10.2	(1.1)	373.6
<b>Budget Activity 3:</b>										
<b>Training and Recruiting</b>	4.4	0.1	0.8	5.4	0.1	0.0	5.5	0.1	0.0	5.6
<b>Budget Activity 4:</b>										
<b>Admin and Servicewide Act</b>	330.6	10.0	6.0	346.7	7.7	4.6	359.0	10.1	(1.1)	368.0

NOTE: Numbers may not add due to rounding.

**Description of Operations Financed:**

**Budget Activity 3**

The Defense Contract Audit Institute (DCAI), an element of the Defense Contract Audit Agency, develops and delivers training for approximately 3,400 auditors in the contract auditing field and is an affiliated member of the Defense Acquisition University. The Institute directs and controls the development and delivery of classroom courses, one and two-day seminars, and computer based self-study courses. The Institute has program management responsibility for training and career development in the Defense Contract Audit Agency. It assures that programs of instruction, courses, and training materials meet DoD standards and Generally Accepted Government Auditing Standards (GAGAS). DCAI provides policy guidance to the regional offices and field audit offices, where appropriate, regarding training and education, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. Development of new classroom courses, seminars, and self-study courses, as well as maintenance of established courses, is a key responsibility. In addition, the Institute produces videos to support training and for the Agency to provide basic information or highlight current events. The Institute, located on the south campus of the University of Memphis, often serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Center in Memphis, Tennessee.

**Budget Activity 4**

Narrative Description: The Defense Contract Audit Agency (DCAA) is responsible for providing audit services and financial advice to all Department of Defense (DoD) acquisition officials to assist them in achieving fair and reasonable contract prices and assuring compliance with contractual terms and conditions. This is done by responding to specific acquisition official requests for services across the entire spectrum of contract financial and business matters as well as fulfilling recurring audit work required to monitor cost performance and approve contract payments.

It should be noted that savings to the Government, as a result of contract audit services, far exceed the cost of DCAA operations. For example, in FY 2002 the Agency audited \$88.4 billion of incurred cost and reviewed 9,447 forward pricing proposals amounting to \$123.2 billion. Approximately \$2.5 billion in net savings were reported during the year. When compared to the \$0.39 billion expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately \$6.40 for each dollar invested.

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**SUMMARY OF INCREASES AND DECREASES**  
**(Dollars in Thousands)**

	<u>BA-3</u>	<u>BA-4</u>	<u>Total</u>
<b>FY 2003 President's Budget Request</b>	<b>4,865</b>	<b>377,495</b>	<b>382,360</b>
1. Congressional Adjustment(s)			
a) Distributed Adjustment - Legislative proposal for CSRS adjustment		-20,504	-20,504
b) Undistributed Adjustment(s)			
i) FECA Surcharge Reduction		-369	-369
ii) Unobligated balances		-614	-614
c) General Provisions			
i) Section 8100 - Management Efficiency		-4,861	-4,861
ii) Section 8103 - Government Purchase Card		-237	-237
iii) Section 8109 - Reduce Cost Growth of Information Technology		-476	-476
iv) Section 8133 - Reduce Growth of Travel Costs		-239	-239
v) Section 8135 - Revised Economic Assumptions		-2,024	-2,024
d) Congressional Earmarks - Indian Lands Environmental Impact		-70	-70
<b>FY 2003 Appropriated Amount (subtotal)</b>	<b>4,865</b>	<b>348,101</b>	<b>352,966</b>
2. Functional Transfers-In			
a) Intra-Agency Transfers-In			
b) Other Functional Transfers-In			
Total Functional Transfers-In			
3. Other Transfers-In			
4. Functional Transfers-Out			
a) Intra-Agency Transfers-Out			
b) Other Functional Transfers-Out			
Total Functional Transfers-Out			

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**SUMMARY OF INCREASES AND DECREASES**  
**(Dollars in Thousands)**

	<u>BA-3</u>	<u>BA-4</u>	<u>Total</u>
5. Other Transfers-Out (Non-Functional)			
6. Price Change for change to pay raise/inflation indices	7	508	515
7. Program Increase			
Technical Adjustments:			
Transfer from Budget Activity 4 for fact-of-life adjustments	529		529
8. Program Decreases			
Technical Adjustments:			
Reduction for change in pay raise/inflation indices - supplies and equipment	-7	-508	-515
Defense Property Accountability System - realign funds to program office		-17	-17
This program decrease funds a portion of emergent fact-of-life requirements for: Government-wide E-Gov initiatives, adaptive planning models to reduce planning timelines, establishment of a Defense Continuity Program Office, increased rent payments, additional general counsel personnel for growing security clearance adjudications, and for other emergent requirements		-863	-863
Transfer to Budget Activity 3 for fact-of-life adjustments		-529	-529
<b>Revised FY 2003 Current Estimate</b>	<b>5,394</b>	<b>346,692</b>	<b>352,086</b>
9. Price Change	114	7,688	7,802

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**SUMMARY OF INCREASES AND DECREASES**  
**(Dollars in Thousands)**

	<u>BA-3</u>	<u>BA-4</u>	<u>Total</u>
10. Program Increase	<b>11</b>	<b>6,686</b>	<b>6,697</b>
- One additional paid day	11	1,084	1,095
- Increase of 5 Direct workyears		438	438
- Increase in anticipated overtime		130	130
- Increase in anticipated health benefits		865	865
- Increase in anticipated relocation expenses		216	216
- Increase in communications necessary to support the agency Intranet and other ADP communication requirements		433	433
- Increase for implementation of child care subsidy program		400	400
- Increase in software purchases to support Intranet requirements and access to DoD standard systems and to the Internet and World Wide Web		3,097	3,097
- Other program growth		23	23
11. Program Decrease	<b>-2</b>	<b>-2,055</b>	<b>-2,057</b>
- Decrease to computer purchases as a result of planned FY 2003 pre-financing of FY 2004 purchases		-1,735	-1,735
- Decrease in anticipated other purchases services from other agencies		-320	-320
- Other program decreases	-2		-2
<b>FY 2004 Budget Request</b>	<b>5,517</b>	<b>359,011</b>	<b>364,528</b>
12. Price Change	133	10,105	10,238
13. Program Increase			
14. Program Decrease	-8	-1,135	-1,143
<b>FY 2005 Budget Estimate</b>	<b>5,642</b>	<b>367,981</b>	<b>373,623</b>

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operations and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**Manpower Changes in Full-time Equivalent**  
**FY 2002 through FY 2005**

	<u>U.S. Direct Hire</u>	<u>Foreign National</u>		<u>Total</u>
		<u>Direct Hire</u>	<u>Indirect Hire</u>	
1. FY 2002 Full-Time Equivalents (Authorized)	3,965	1	5	3,971
Civilian Manpower Change	6	-	-	6
2. FY 2003 Full-Time Equivalents (Authorized)	3,971	1	5	3,977
Civilian Manpower Change	5	-	-	5
3. FY 2004 Full-Time Equivalents (Authorized)	3,976	1	5	3,982
Civilian Manpower Change	11	-	-	11
4. FY 2005 Full-Time Equivalents (Authorized)	3,987	1	5	3,993
5. SUMMARY				
FY 2002				3,971
O&M Total				3,971
Direct Funded				3,435
Reimbursable Funded				536
FY 2003				3,977
O&M Total				3,977
Direct Funded				3,446
Reimbursable Funded				531
FY 2004				3,982
O&M Total				3,982
Direct Funded				3,451
Reimbursable Funded				531
FY 2005				3,993
O&M Total				3,993
Direct Funded				3,477
Reimbursable Funded				516

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operations and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**Personnel Summary**

	FY 2002	FY 2003	FY 2004	FY 2005
<u>Civilian End Strength (Total)</u>	<u>4,136</u>	<u>4,053</u>	<u>4,121</u>	<u>4,145</u>
U.S. Direct Hire	4,130	4,047	4,115	4,139
Foreign National Direct Hire	1	1	1	1
Total Direct Hire	4,131	4,048	4,116	4,140
Foreign National Indirect Hire	5	5	5	5
(Reimbursable Civilians Included Above (Memo)	536	531	531	516
<u>Civilian FTEs (Total)</u>	<u>3,971</u>	<u>3,977</u>	<u>3,982</u>	<u>3,993</u>
U.S. Direct Hire	3,965	3,971	3,976	3,987
Foreign National Direct Hire	1	1	1	1
Total Direct Hire	3,966	3,972	3,977	3,988
Foreign National Indirect Hire	5	5	5	5
(Reimbursable Civilians Included Above (Memo)	536	531	531	516

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**Agency Summary**

	<b>FY 2002</b>	<b>Price</b>	<b>Program</b>	<b>FY 2003</b>	<b>Price</b>	<b>Program</b>	<b>FY 2004</b>	<b>Price</b>	<b>Program</b>	<b>FY 2005</b>
	<b>Actuals</b>	<b>Change</b>	<b>Change</b>	<b>Est.</b>	<b>Change</b>	<b>Change</b>	<b>Est.</b>	<b>Change</b>	<b>Change</b>	<b>Est.</b>
	(Dollars in Thousand)									
<b>I.</b> Appropriation Summary	335,081	10,168	6,837	352,086	7,802	4,640	364,528	10,238	1,143	373,623
A. Budget Activity 3: Training and Recruiting	4,446	120	828	5,394	114	9	5,517	133	-8	5,642
B. Budget Activity 4: Administration and Servicewide Act.	330,635	10,048	6,009	346,692	7,688	4,631	359,011	10,105	-1,135	367,981

*NOTE: Numbers may not add due to rounding.*

**II. Description of Operations Financed:**

**A. Budget Activity 3**

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**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
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**Agency Summary**

**II. Description of Operations Financed: (Continued)**

In addition, the Institute produces videos to support training and for the Agency to provide basic information or highlight current events. The Institute, located on the south campus of the University of Memphis, often serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Center in Memphis, Tennessee.

**B. Budget Activity 4**

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DEFENSE CONTRACT AUDIT AGENCY  
 Operation and Maintenance, Defense-Wide  
 Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates  
 Agency Summary

III. Force Structure Summary: See Budget Activity Detail

IV. Summary of Increases and Decreases (Dollars in Thousands):

	<u>BA-3</u>	<u>BA-4</u>	<u>TOTAL</u>
1. <b>FY 2003 President's Budget</b>	4,865	377,495	382,360
2. Congressional Adjustments		-29,394	-29,394
3. <b>FY 2003 Appropriated Amount</b>	4,865	348,101	352,966
4. Functional Transfers-In			
5. Other Transfers-In			
6. Functional Transfers-Out			
7. Other Transfers-Out			
8. Price Change	7	508	515
9. Program Increases	529		529
10. Program Decreases	-7	-1,917	-1,924
11. <b>Revised FY 2003 Current Estimate</b>	5,394	346,692	352,086
12. Price Change	114	7,688	7,802
13. Program Increases	11	6,686	6,697
14. Program Decreases	-2	-2,055	-2,057
15. <b>FY 2004 Budget Request</b>	5,517	359,011	364,528
16. Price Change	133	10,105	10,238
17. Program Increases			
18. Program Decreases	-8	-1,135	-1,143
19. <b>FY 2005 Budget Estimate</b>	5,642	367,981	373,623

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
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**Agency Summary**

<b>V. Personnel Summary:</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Change FY 2002 / FY 2003</b>	<b>Change FY 2003 / FY 2004</b>	<b>Change FY 2004 / FY 2005</b>
<b>Civilian End Strength (Total)</b>	<b>4,136</b>	<b>4,053</b>	<b>4,121</b>	<b>4,145</b>	<b>(83)</b>	<b>68</b>	<b>24</b>
U.S. Direct Hire	4,130	4,047	4,115	4,139	(83)	68	24
Foreign National Direct Hire	1	1	1	1	-	-	-
Total Direct Hire	4,131	4,048	4,116	4,140	(83)	68	24
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5 (536)	5 (531)	5 (531)	5 (516)	- (5)	- -	- (15)
<b>Civilian FTEs (Total)</b>	<b>3,971</b>	<b>3,977</b>	<b>3,982</b>	<b>3,993</b>	<b>6</b>	<b>5</b>	<b>11</b>
U.S. Direct Hire	3,965	3,971	3,976	3,987	6	5	11
Foreign National Direct Hire	1	1	1	1	-	-	-
Total Direct Hire	3,966	3,972	3,977	3,988	6	5	11
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5 (536)	5 (531)	5 (531)	5 (516)	- (5)	- -	- (15)

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
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**Agency Summary**

<b>VI. Outyear Summary:</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Civilian End Strength (Total)</b>	<b>4,125</b>	<b>4,145</b>	<b>4,133</b>	<b>4,145</b>
U.S. Direct Hire	4,119	4,139	4,127	4,139
Foreign National Direct Hire	1	1	1	1
Total Direct Hire	4,120	4,140	4,128	4,140
Foreign National Indirect Hire (Reimbursable Civilians	5	5	5	5
Included in Above (Memo))	(516)	(516)	(516)	(516)
<b>Civilian FTEs (Total)</b>	<b>3,995</b>	<b>3,995</b>	<b>3,999</b>	<b>3,999</b>
U.S. Direct Hire	3,989	3,989	3,993	3,993
Foreign National Direct Hire	1	1	1	1
Total Direct Hire	3,990	3,990	3,994	3,994
Foreign National Indirect Hire (Reimbursable Civilians	5	5	5	5
Included in Above (Memo))	(516)	(516)	(516)	(516)

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**Agency Summary**

VII. OP 32 Line Items as Applicable (Dollars in Thousands):

	FY 2002 Actuals	Change From FY 2002 - FY 2003		FY 2003 Estimate	Change From FY 2003 - FY 2004		FY 2004 Estimate	Change From FY 2004 - FY 2005		FY 2005 Estimate
		Price Growth	Program Growth		Price Growth	Program Growth		Price Growth	Program Growth	
<b>CIVILIAN PERSONNEL COMPENSATION</b>										
Executive, General & Special Schedules	281,420	9,811	1,696	292,927	6,696	2,721	302,344	9,242	1,507	313,093
Wage Board	80	3	-	83	1	-	84	2	-	86
Foreign National Direct Hire (FNDH)	37	1	-	38	1	-	39	1	-	40
Separation Liability (FNDH)	-	-	-	-	-	-	-	-	-	-
Benefits to Former Employees	102	4	(106)	-	-	-	-	-	-	-
Voluntary Separation Incentive Payments	-	-	-	-	-	-	-	-	-	-
Disability Compensation	1,372	-	145	1,517	-	-	1,517	-	-	1,517
Total Civilian Personnel Compensation	283,011	9,819	1,735	294,565	6,698	2,721	303,984	9,245	1,507	314,736
<b>TRAVEL</b>										
Travel of Persons	10,810	119	(224)	10,705	160	15	10,880	174	77	11,131
Total Travel	10,810	119	(224)	10,705	160	15	10,880	174	77	11,131
<b>OTHER FUND PURCHASES</b>										
Defense Financing & Accounting Service	1,906	(86)	78	1,898	270	-	2,168	93	-	2,261
Total Purchases	1,906	(86)	78	1,898	270	-	2,168	93	-	2,261
<b>TRANSPORTATION</b>										
Commercial Transportation	603	6	7	616	10	(1)	625	10	-	635
Total Transportation	603	6	7	616	10	(1)	625	10	-	635
<b>OTHER PURCHASES</b>										
Rental Payments to GSA (SLUC)	8,349	175	354	8,878	151	-	9,029	135	1	9,165
Purchased Utilities (Non-Fund)	47	1	-	48	1	(1)	48	1	-	49
Purchased Communications (Non-Fund)	4,897	54	-	4,951	74	433	5,458	87	-	5,545
Rents (Non-GSA)	926	10	1	937	14	-	951	15	-	966
Postal Services (U.S.P.S.)	124	1	1	126	2	-	128	2	-	130
Supplies & Materials (Non-Fund)	5,521	60	296	5,877	89	3,095	9,061	145	(1,409)	7,797
Printing & Reproduction	5	-	-	5	-	-	5	-	1	6
Equipment Maintenance by Contract	130	2	(1)	131	2	-	133	2	-	135
Equipment Purchases (Non-Fund)	2,675	30	3,731	6,436	96	(1,735)	4,797	77	(830)	4,044
Other Contracts	14,771	(23)	859	15,607	235	113	15,955	252	(490)	15,717
Other Costs	1,306	-	-	1,306	-	-	1,306	-	-	1,306
Total Other Purchases	38,751	310	5,241	44,302	664	1,905	46,871	716	(2,727)	44,860
<b>TOTAL</b>	<b>335,081</b>	<b>10,168</b>	<b>6,837</b>	<b>352,086</b>	<b>7,802</b>	<b>4,640</b>	<b>364,528</b>	<b>10,238</b>	<b>(1,143)</b>	<b>373,623</b>

**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
**Fiscal Year (FY) 2004/FY 2005 Biennial Budget Estimates**  
**Budget Activity-3 Training and Recruiting**

**I. Description of Operations Financed:**

The Defense Contract Audit Institute (DCAI), an element of the Defense Contract Audit Agency, develops and delivers training for approximately 3,400 auditors in the contract auditing field and is an affiliated member of the Defense Acquisition University. The Institute directs and controls the development and delivery of classroom courses, one and two-day seminars, and computer based self-study courses. The Institute has program management responsibility for training and career development in the Defense Contract Audit Agency. It assures that programs of instruction, courses, and training materials meet DoD standards and Generally Accepted Government Auditing Standards. DCAI provides policy guidance to the regional offices and field audit offices, where appropriate, regarding training and education, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. Development of new classroom courses, seminars, and self-study courses, as well as maintenance of established courses, is a key responsibility. In addition, the Institute produces videos to support training and for the Agency to provide basic information or highlight current events. The Institute, located on the south campus of the University of Memphis, often serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Division in Memphis, Tennessee.

**II. Force Structure Summary: N/A**

**DEFENSE CONTRACT AUDIT AGENCY**  
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**Budget Activity-3 Training and Recruiting**

III. Financial Summary (O&M: Dollars in Thousands):

A. Budget Activity Group	FY 2002	FY 2003			FY 2004	FY 2005
	Actuals	Budget Request	Appropriation	Current Estimate	Estimate	Estimate
DCAA Operations	4,431	4,865	4,865	5,379	5,502	5,626
DCAA Communications	15	0	0	15	15	16
DCAA Major HQ	0	0	0	0	0	0
<b>TOTAL</b>	<b>4,446</b>	<b>4,865</b>	<b>4,865</b>	<b>5,394</b>	<b>5,517</b>	<b>5,642</b>

  

B. Reconciliation Summary	Change	Change	Change
	FY 2003 / FY 2003	FY 2003 / FY 2004	FY 2004 / FY 2005
<b>Baseline Funding</b>	<b>4,865</b>	<b>5,394</b>	<b>5,517</b>
Congressional Adjustments (Dist.)			
Congressional Adjustments (Undist.)			
Cong. Adj. (General Provisions)			
Congressional Earmarks			
<b>Subtotal Appropriated Amount</b>	<b>4,865</b>	<b>5,394</b>	<b>5,517</b>
<i>Fact-of-Life Changes (CY to CY only)</i>	529		
<b>Subtotal Baseline Funding</b>	<b>5,394</b>	<b>5,394</b>	<b>5,517</b>
Anticipated Supplemental			
Reprogrammings			
Price Changes		114	133
Functional Transfers			
Program Changes		9	-8
<b>Current Estimate</b>	<b>5,394</b>	<b>5,517</b>	<b>5,642</b>

DEFENSE CONTRACT AUDIT AGENCY  
 Operation and Maintenance, Defense-Wide  
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 Budget Activity-3 Training and Recruiting

III. Financial Summary (O&M: Dollars in Thousands):

C. Reconciliation of Increases and Decreases

<b>FY 2003 President's Budget Request</b>	<b>4,865</b>
1. Congressional Adjustment(s)	
<b>FY 2003 Appropriated Amount (subtotal)</b>	<b>4,865</b>
2. Functional Transfers-In	
a) Intra-Agency Transfers-In	
b) Other Functional Transfers-In	
Total Functional Transfers-In	
3. Other Transfers-In	
4. Functional Transfers-Out	
a) Intra-Agency Transfers-Out	
b) Other Functional Transfers-Out	
Total Functional Transfers-Out	
5. Other Transfers-Out (Non-Functional)	
6. Price Change for change to pay raise/inflation indices	7
7. Program Increase	
Technical Adjustments:	
Transfer to Budget Activity 3:	529
One additional workyear - increase in number of instructors to handle training for new hires.	93

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**III. Financial Summary (O&M: Dollars in Thousands): (Continued)**

**C. Reconciliation of Increases and Decreases (Continued)**

7. Program Increase (Continued)		
One additional PCS move	65	
Video production contract	360	
Other	11	
8. Program Decreases		
Technical Adjustments:		
Reduction for change in pay raise/inflation indices - supplies	-7	
<b>Revised FY 2003 Current Estimate</b>		<b>5,394</b>
9. Price Change		114
10. Program Increase		11
- One additional paid day	11	
11. Program Decrease		-2
- Other program decreases	-2	
<b>FY 2004 Budget Request</b>		<b>5,517</b>
12. Price Change		133
13. Program Increase		
14. Program Decrease		-8
<b>FY 2005 Budget Estimate</b>		<b>5,642</b>

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**IV. Performance Criteria and Evaluation Summary:**

The Defense Contract Audit Institute's primary mission is to design, develop, and deliver courses for essential contract audit training. DCAI assures appropriate technical content of the courses, instructional methods, and techniques and performs cost effectiveness analyses for new or existing training to include identifying the selection of an appropriate training delivery system. The Institute gathers training requirements and prepares an annual training plan and budget. The Institute monitors accomplishment of training programs within the approved training budget and conducts on-site surveys of regional training programs to evaluate program effectiveness and ensure compliance with Agency policies, plans, and objectives. Administration of a training attendance program and maintenance of an Agency-wide database of completed training assists in monitoring the Institute's evaluation criteria. Metrics include: number of personnel trained, number of resident and on-site courses offered, number of self-study courses taken, average instructor platform hours, average hours of training per employee, training expenditures per employee, number of courses revised and/or developed and cost per training hour.

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V. Personnel Summary:	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Change FY 2002 / FY 2003</u>	<u>Change FY 2003 / FY 2004</u>	<u>Change FY 2004 / FY 2005</u>
<b>Civilian End Strength (Total)</b>	<b>38</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
U.S. Direct Hire	38	37	37	37	(1)	-	-
Foreign National Direct Hire	-	-	-	-	-	-	-
Total Direct Hire	38	37	37	37	(1)	-	-
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	-	-	-	-	-	-	-
 <b>Civilian FTEs (Total)</b>	 <b>37</b>	 <b>37</b>	 <b>37</b>	 <b>37</b>	 <b>-</b>	 <b>-</b>	 <b>-</b>
U.S. Direct Hire	37	37	37	37	-	-	-
Foreign National Direct Hire	-	-	-	-	-	-	-
Total Direct Hire	37	37	37	37	-	-	-
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	-	-	-	-	-	-	-

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VI. Outyear Summary:	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<b>Civilian End Strength (Total)</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>
U.S. Direct Hire	37	37	37	37
Foreign National Direct Hire	0	0	0	0
Total Direct Hire	37	37	37	37
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	0	0	0	0
<b>Civilian FTEs (Total)</b>	<b>37</b>	<b>37</b>	<b>37</b>	<b>37</b>
U.S. Direct Hire	37	37	37	37
Foreign National Direct Hire	0	0	0	0
Total Direct Hire	37	37	37	37
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	0	0	0	0

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VII. OP 32 Line Items as Applicable (Dollars in Thousands):

	FY 2002 Actuals	Change FY 2002 - FY 2003		FY 2003 Estimate	Change FY 2003 - FY 2004		FY 2004 Estimate	Change FY 2004 - FY 2005		FY 2005 Estimate
		Price	Program		Price	Program		Price	Program	
		Growth	Growth		Growth	Growth		Growth	Growth	
<b>CIVILIAN PERSONNEL COMPENSATION</b>										
Executive, General & Special Schedules	2,819	97	170	3,086	68	11	3,165	95	(13)	3,247
Wage Board	39	2	-	41	1	-	42	1	-	43
Foreign National Direct Hire (FNDH)	-	-	-	-	-	-	-	-	-	-
Separation Liability (FNDH)	-	-	-	-	-	-	-	-	-	-
Benefits to Former Employees	-	-	-	-	-	-	-	-	-	-
Voluntary Separation Incentive Payments	-	-	-	-	-	-	-	-	-	-
Disability Compensation	-	-	-	-	-	-	-	-	-	-
<b>Total Civilian Personnel Compensation</b>	<b>2,858</b>	<b>99</b>	<b>170</b>	<b>3,127</b>	<b>69</b>	<b>11</b>	<b>3,207</b>	<b>96</b>	<b>(13)</b>	<b>3,290</b>
<b>TRAVEL</b>										
Travel of Persons	230	3	0	233	3	-	236	4	-	240
<b>Total Travel</b>	<b>230</b>	<b>3</b>	<b>0</b>	<b>233</b>	<b>3</b>	<b>-</b>	<b>236</b>	<b>4</b>	<b>-</b>	<b>240</b>
<b>OTHER FUND PURCHASES</b>										
Defense Financing & Accounting Service	0	-	43	43	6	-	49	2	-	51
<b>Total Purchases</b>	<b>0</b>	<b>-</b>	<b>43</b>	<b>43</b>	<b>6</b>	<b>-</b>	<b>49</b>	<b>2</b>	<b>-</b>	<b>51</b>
<b>TRANSPORTATION</b>										
Commercial Transportation	-	-	6	6	-	-	6	-	-	6
<b>Total Transportation</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>6</b>
<b>OTHER PURCHASES</b>										
Rental Payments to GSA (SLUC)	400	8	-	408	7	-	415	6	1	422
Purchased Utilities (Non-Fund)	-	-	-	-	-	-	-	-	-	-
Purchased Communications (Non-Fund)	15	-	-	15	-	-	15	-	-	15
Rents (Non-GSA)	-	-	-	-	-	-	-	-	-	-
Postal Services (U.S.P.S.)	1	-	-	1	-	-	1	-	-	1
Supplies & Materials (Non-Fund)	828	9	476	1,313	20	(2)	1,331	21	3	1,355
Printing & Reproduction	-	-	-	-	-	-	-	-	-	-
Equipment Maintenance by Contract	-	-	-	-	-	-	-	-	-	-
Equipment Purchases (Non-Fund)	48	1	11	60	1	-	61	1	-	62
Other Contracts	66	-	122	188	8	-	196	3	1	200
Other Costs	-	-	-	-	-	-	-	-	-	-
<b>Total Other Purchases</b>	<b>1,358</b>	<b>18</b>	<b>609</b>	<b>1,985</b>	<b>36</b>	<b>(2)</b>	<b>2,019</b>	<b>31</b>	<b>5</b>	<b>2,055</b>
<b>TOTAL</b>	<b>4,446</b>	<b>120</b>	<b>828</b>	<b>5,394</b>	<b>114</b>	<b>9</b>	<b>5,517</b>	<b>133</b>	<b>(8)</b>	<b>5,642</b>

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**I. Description of Operations Financed:**

1. Narrative Description: The Defense Contract Audit Agency (DCAA) is responsible for providing audit services and financial advice to all Department of Defense (DoD) acquisition officials to assist them in achieving fair and reasonable contract prices and assuring compliance with contractual terms and conditions. This is done by responding to specific acquisition official requests for services across the entire spectrum of contract financial and business matters as well as fulfilling recurring audit work required to monitor cost performance and approve contract payments.

DCAA's workload originates primarily from the effort required to audit and monitor DoD acquisitions of equipment, materials, and/or services from civilian contractors and universities by expenditure of Procurement, and Research, Development, Test and Evaluation (RDT&E) funds appropriated by Congress each year. Other factors affecting contract audit workload are (i) DoD procurement policies, (ii) the implementation of existing Cost Accounting Standards (PL 100-679), (iii) audits performed for the military departments in connection with the Foreign Military Sales (FMS) Program, (iv) the interest by DoD officials and the Congress in the nature of costs charged to defense contracts, (v) audits for economy and efficiency, and (vi) requests for contract audit support from the Defense Procurement Fraud Unit and U.S. attorneys during the conduct of investigations and prosecution of perpetrators of contract fraud.

Projected staffing requirements are commensurate with planned changes in DoD procurement levels, departmental acquisition streamlining initiatives, and required effort to complete audits of prior year contract expenditures. These staffing levels also reflect incorporation of previous Quadrennial Defense Review recommendations, Major Headquarters reductions, and related DoD initiatives. In the mid-1990's, DCAA's implemented performance based metrics. The core metrics include our cost per direct audit hour, cost per million dollars audited, and dollars audited per employee workyear. All metrics are continuously reviewed by Agency management and are included in our Agency Performance Plan.

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**I. Description of Operations Financed (Continued) :**

2. Performance Measures and Results: DCAA has an agreed to performance plan with the Under Secretary of Defense (Comptroller) that sets performance standards for its two major product lines - forward pricing and incurred cost audits. The plan includes deliverables of average cost per million dollars audited and dollars audited per work year. This submission results in the following values for the plan metrics.

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Forward Pricing:								
Cost per \$M audited	\$ 643	\$ 647	\$ 651	\$ 649	\$ 648	\$ 649	\$ 642	\$ 641
\$M audited per WY	\$126.6	\$131.5	\$135.3	\$139.4	\$143.5	\$147.8	\$152.1	\$156.9
Incurred Cost:								
Cost per \$M audited	\$1302	\$1,321	\$1,340	\$1,350	\$1,361	\$1,376	\$1,374	\$1,387
\$M audited per WY	\$ 62.5	\$ 64.4	\$ 65.7	\$ 67.0	\$ 68.3	\$ 69.7	\$ 71.1	\$ 72.5

In addition to the unit cost and productivity standards, the plan has measures for customer responsiveness and a requirement to complete customer surveys. DCAA has a goal to achieve an agency-wide average of 30 days or less audit cycle time on forward pricing audits. It also has a goal to complete the audits of at least 97% of adequate incurred cost submissions within 12 months of receipt at major contractors and corporate offices; and 99% of all other adequate incurred cost submissions within 24 months of receipt. These goals

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**I. Description of Operations Financed (Continued) :**

were established to meet contracting office needs for awarding and closing out contracting actions.

It should be noted that savings to the Government, as a result of contract audit services, far exceed the cost of DCAA operations. For example, in FY 2002 the Agency audited \$88.4 billion of incurred cost and reviewed 9,447 forward pricing proposals amounting to \$123.2 billion. Approximately \$2.5 billion in net savings were reported during the year. When compared to the \$0.39 billion expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately \$6.40 for each dollar invested.

**II. Force Structure Summary:** The workload of DCAA is divided into the major functional categories described below:

1. Forward Pricing Effort. The Federal Acquisition Regulations (FAR) and Public Law 100-679, Cost Accounting Standards (CAS) require DoD procurement officials to comply with various administrative procedures before entering into contracts. These procedures include obtaining pertinent accounting and financial advice before making decisions related to prospective contract prices. The ultimate goal of forward pricing audit effort is to assist contracting officers in determining and negotiating fair and reasonable prices for negotiated Government contracts. Preaward services furnished to contracting officers by DCAA include:

a. Price Proposal Audits. These audits are performed to determine the reasonableness of contractors' price proposals submitted in anticipation of negotiating Government contracts. They are specifically requested by contracting officers and must be accomplished within a short period of time to avoid delaying the procurement process. DCAA has no control over the number or timing of price proposal audits and must respond to each audit request.

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**II. Force Structure Summary (Continued):**

b. Could Cost or Should Cost Studies and Participation on Integrated Product Teams (IPTs). Should cost studies are initiated by procuring activities that organize a team of specialists and review a contractor's price proposal to determine what a particular procurement could or should cost, depending on which study is being performed. DCAA auditors participate as members of the team of specialists. Such studies usually involve large major weapon system procurements. DCAA auditors also participate on IPTs that include representatives from all appropriate organizations and functional disciplines (normally DCAA, the buying activities, Defense Contract Management Agency, and the contractor). Working together with the team leader, the objective is to avoid rework at the end of process by identifying problems and finding potential solutions at the earliest possible point in the procurement process.

c. Forward Pricing Rate Reviews. These reviews are performed to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. These rates are normally separately negotiated by a contracting officer and then used by the contractor in subsequent price proposals. Since FY 2000, DCAA has been providing "rapid rates" services to major buying commands for contractors that are expected to do business with the Government during the year. The DCAA initiative is, proactively, to seek out and audit rate information from prospective Government contractors so that the information can be available for buying offices to use within hours of a request. This initiative supports the Department's Civil-Military Integration/Commercial Buying activities and will both reduce the procurement cycle time and provide better data within the time frames available for decision making.

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**II. Force Structure Summary (Continued):**

d. Audits of Parts of Proposals and Agreed Upon Procedures. Audits of parts of proposals are audits of only specific cost elements within a proposal (e.g., only proposed material or labor costs, or overhead rates). Applications of agreed-upon procedures include cost realism reviews and all reviews of information other than cost or pricing data submitted in support of a price proposal.

e. System Surveys. These reviews are performed to determine the reliability, propriety, and accuracy of contractors' estimating, accounting, internal control, and other systems relating to or providing the basis for Government contract costs or pricing. Systems surveys may be either a joint team review in which the experience and capabilities of the auditor and technical specialist are combined, or they may be comprehensive reviews performed solely by auditors. Additionally, these reviews include effort to recommend corrective actions on conditions causing deficiencies disclosed in price proposal evaluations or other audit areas which require immediate reporting and resolution. This also includes the effort required to determine the status of corrective actions taken by contractors on previously disclosed deficiencies.

f. Other. This effort includes providing verbal information to procurement officials on labor rates, overhead rates, and similar factors for smaller procurements.

2. Incurred Cost Effort. The FAR requires DCAA to perform audits of claimed costs incurred and submitted by contractors for reimbursement under cost reimbursable, fixed price incentive, and other types of flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, FAR, and CAS rules and regulations, if applicable. Although the performance of these incurred cost audits and CAS compliance audits are normally self-initiated, they must be accomplished in order for the Government to make final payment to the contractor. They include reviews of direct labor and material, indirect

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**II. Force Structure Summary (Continued):**

expenses, and performance and financial controls. Although the primary purpose of incurred cost audits is to express an opinion on the acceptability of costs claimed under Government contracts, knowledge of contractors' accounting, estimating, and internal control systems gained during these audits is invaluable to the evaluation of contractors' price proposals.

3. Operations Audits. DCAA also performs a variety of economy and efficiency audits of contractor operations. DCAA operations audits are systematic reviews of contractor organizational units and functions to evaluate the reasonableness of methods and practices employed on Government contracts.

4. Special Audits. These audits are normally requested by the contracting officer and include reviews of termination claims, progress payment requests, equitable adjustment claims, hardship claims, escalation claims, and contractor financial capability. They must be accomplished within a short period of time to avoid adverse effects such as additional claims for interest on amounts due or contractor financial failure. DCAA has little control over the number or timing of these reviews and must respond to all such requests.

5. Defective Pricing Reviews. The Truth in Negotiations Act (TINA), as codified in 10 USC §2306a, requires contracting officers to obtain cost or pricing data from contractors before awarding a contract unless an exception applies. Under TINA the Government has the right to examine these records to evaluate the accuracy, completeness, and currentness of the cost or pricing data required to be submitted.

DCAA is responsible for performing these reviews which assist in determining whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete, or current cost or pricing information in negotiating a contract.

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**II. Force Structure Summary (Continued):**

6. Cost Accounting Standards. Contracts and subcontracts not qualifying for an exemption are subject to CAS coverage as a condition of Government contracting. The FAR assigns DCAA responsibility for reviewing contractors' implementation and compliance with the CAS rules and regulations.

7. Other Direct Audit Effort. DCAA's audit mission includes other audit-related activities such as providing on-site assistance to procurement and contract administration offices, contract audit coordinator programs, and negotiation support. Testing performed during development of Agency policies and procedures, and follow-up effort related to Congressional, General Accounting Office (GAO), DoD Inspector General (DoD IG), and other external requests, surveys, and reports are also a part of this activity. The major items within this activity are further described below:

a. Procurement Liaison. DoD Directive 5105.36, dated 9 June 1965, authorized the Director, DCAA to establish and maintain liaison auditors, as appropriate, at major procuring and contract administration offices. The primary functions of procurement liaison auditors are to (i) facilitate effective communication and coordination between procurement officers and auditors, (ii) provide on-the-spot personal consultation and advice in connection with contractors' cost representations and related matters, (iii) provide DCAA management with information regarding specific awards, trends in type and volume of awards, and other data impacting on immediate or long range DCAA responsibilities, and (iv) provide DCAA management with information on the adequacy, responsiveness and timeliness of audit services rendered to procurement and contract administration offices.

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**II. Force Structure Summary (Continued) :**

b. Financial Advisory Service Center. Financial advisory services positions have been established to provide on-site financial analysis and professional auditing advice to contracting officers at buying command locations. These positions were established to meet the changing needs of the procurement community as acquisition reform has changed the face of Government contracting and auditing. The shift to commercial pricing practices has caused a decrease in the use of audits performed at contractor locations in favor of analysis of financial data available at the procurement offices.

c. Contract Audit Coordinator (CAC) Program. A CAC program has been established at the largest DoD contractors whose accounting functions, operations, and contract performance occur at multiple locations under the audit cognizance of multiple DCAA field offices. The program is designed to maintain effective communications and audit coordination at these contractor locations. The CAC program includes effort to (i) disseminate information, (ii) monitor and track problem areas to assure uniform resolution, (iii) arrange and attend CAC conferences, and (iv) coordinate with other DCAA personnel, contractor representatives, and cognizant procurement officials on CAC problems.

d. Negotiation Conferences. A fundamental requirement of DCAA's mission is to provide contract audit services and to be the principal accounting and financial advisor to contracting officials. Many times, audit results involve complex accounting issues and/or quantitative analyses that dispute contractors' cost estimates or representations. On these occasions, the best interests of the Government are served by having auditors present at negotiations to further explain the audit position, perform analyses of additional contractor data presented at the negotiation table, and provide any other accounting and/or financial assistance the contracting officer may require during the negotiation process.

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**II. Force Structure Summary (Continued):**

e. External Audit Interface. This activity includes effort expended to develop information and comment on reports from the GAO, DoD IG, or other government inspector general offices. This activity also includes effort related to discussions and conferences, and any interface involving any other government audit organization.

f. Suspected Irregular Conduct (SIC). This activity represents effort expended related to SIC referrals, and responses to requests from investigative agencies or the Department of Justice regarding fraud or other irregular practices. This activity includes the development of evidence for presentation to an U.S. attorney or a grand jury, and/or for use at a trial.

g. Audit Support and Planning. This activity represents effort expended by the field to prepare annual audit program plan information as well as effort expended on projects and studies requested by the regions or Headquarters. The projects normally relate to new and/or innovative ways of performing DCAA's audit mission, and often add to the body of knowledge needed to enhance Agency mission accomplishment through the development and application of improved audit and/or audit management technology and techniques.

8. Field Support. This category includes support personnel in the five regional offices, the Information Technology Division, Technical Audit Services Division, and Defense Legal Services.

a. Regional Offices. These offices provide technical audit management and supervision, and logistical support in the form of personnel services, payroll, budgeting and accounting, and travel services to field office personnel.

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**II. Force Structure Summary (Continued) :**

b. Information Technology Division (OIT). OIT is responsible for the development, maintenance, and enhancement of DCAA's management information system hardware and software to meet management, administrative, and audit requirements. It is also responsible for operating the Agency-wide telecommunications network, and defining and controlling data management standards.

c. Technical Audit Services Division (OTS). OTS conducts research and distributes information to the field on operations audits, quantitative audit techniques, computer assisted audit techniques, and other auditing topics that have Agency-wide application. OTS also provides technical assistance to auditors in planning reviews of contractor's electronic data processing systems and engineering operations.

d. Field Administrative Support. Field administrative support personnel provide administrative and resource management services to the Field Detachment, the Defense Contract Audit Institute, and the Defense Legal Services staff assigned to DCAA.

e. Other. This category includes personnel from the Defense Legal Service.

9. Headquarters. DCAA Headquarters performs the work normally associated with the central office of a professional organization. It develops policy and promulgates instructions and operating directives needed to perform the Agency mission. It performs oversight reviews of regional and field office operations, and advises regional offices on resource management matters, including the recruitment and training of personnel. In addition, Headquarters personnel interface with other DoD components as well as other Government agencies and Congressional committees on contract audit matters.

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III. Financial Summary (O&M: Dollars in Thousands):

A. Budget Activity Group	FY 2002 Actuals	FY 2003			FY 2004 Estimate	FY 2005 Estimate
		Budget Request	Appropriation	Current Estimate		
DCAA Operations	313,989	358,835	329,917	329,365	341,021	349,633
DCAA Communications	4,882	6,579	6,103	4,951	5,458	5,546
DCAA Major HQ	11,764	12,081	12,081	12,376	12,532	12,802
<b>TOTAL</b>	<b>330,635</b>	<b>377,495</b>	<b>348,101</b>	<b>346,692</b>	<b>359,011</b>	<b>367,981</b>

B. Reconciliation Summary	Change	Change	Change
	FY 2003 / FY 2003	FY 2003 / FY 2004	FY 2004 / FY 2005
<b>Baseline Funding</b>	<b>377,495</b>	<b>346,692</b>	<b>359,011</b>
Congressional Adjustments (Dist.)	-20,504		
Congressional Adjustments (Undist.)	-983		
Cong. Adj. (General Provisions)	-7,837		
Congressional Earmarks	-70		
<b>Subtotal Appropriated Amount</b>	<b>348,101</b>	<b>346,692</b>	<b>359,011</b>
<i>Fact-of-Life Changes (CY to CY only)</i>	-1,409		
<b>Subtotal Baseline Funding</b>	<b>346,692</b>	<b>346,692</b>	<b>359,011</b>
Anticipated Supplemental Reprogrammings			
Price Changes		7,688	10,105
Functional Transfers			
Program Changes		4,631	-1,135
<b>Current Estimate</b>	<b>346,692</b>	<b>359,011</b>	<b>367,981</b>

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**III. Financial Summary (O&M: Dollars in Thousands):**

**C. Reconciliation of Increases and Decreases**

<b>FY 2003 President's Budget Request</b>	<b>377,495</b>
1. Congressional Adjustment(s)	
a) Distributed Adjustment - Legislative proposal for CSRS adjustment	-20,504
b) Undistributed Adjustment(s)	
i) FECA Surcharge Reduction	-369
ii) Unobligated balances	-614
c) General Provisions	
i) Section 8100 - Management Efficiency	-4,861
ii) Section 8103 - Government Purchase Card	-237
iii) Section 8109 - Reduce Cost Growth of Information Technology	-476
iv) Section 8133 - Reduce Growth of Travel Costs	-239
v) Section 8135 - Revised Economic Assumptions	-2,024
d) Congressional Earmarks - Indian Lands Environmental Impact	-70
<b>FY 2003 Appropriated Amount (subtotal)</b>	<b>348,101</b>
2. Functional Transfers-In	
a) Intra-Agency Transfers-In	
b) Other Functional Transfers-In	
Total Functional Transfers-In	
3. Other Transfers-In	
4. Functional Transfers-Out	
a) Intra-Agency Transfers-Out	
b) Other Functional Transfers-Out	
Total Functional Transfers-Out	

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**III. Financial Summary (O&M: Dollars in Thousands): (Continued)**

**C. Reconciliation of Increases and Decreases (Continued)**

5. Other Transfers-Out (Non-Functional)	
6. Price Change for change to pay raise/inflation indices	508
7. Program Increase	
8. Program Decreases	
Technical Adjustments:	
Reduction for change in pay raise/inflation indices - equipment	-508
Defense Property Accountability System - realign funds to program office	-17
This program decrease funds a portion of emergent fact-of-life requirements for: Government-wide E-Gov initiatives, adaptive planning models to reduce planning timelines, establishment of a Defense Continuity Program Office, increased rent payments, additional general counsel personnel for growing security clearance adjudications, and for other emergent requirements	-863
Transfer to Budget Activity 3:	-529
One additional workyear - increase in number of instructors to handle training for new hires	-93
One additional PCS move	-65
Video production contract	-360
Other	-11

**Revised FY 2003 Current Estimate**

**346,692**

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**III. Financial Summary (O&M: Dollars in Thousands): (Continued)**

**C. Reconciliation of Increases and Decreases (Continued)**

9. Price Change		7,688
10. Program Increase		6,686
- One additional paid day	1,084	
- Increase of 5 Direct workyears	438	
- Increase in anticipated overtime	130	
- Increase in anticipated health benefits	865	
- Increase in anticipated relocation expenses	216	
- Increase in communications necessary to support the agency Intranet and other ADP communication requirements	433	
- Increase for implementation of child care subsidy program	400	
- Increase in software purchases to support Intranet requirements and access to DoD standard systems and to the Internet and World Wide Web	3,097	
- Other program growth	23	
11. Program Decrease		-2,055
- Decrease to computer purchases as a result of FY 2003 purchases	-1,735	
- Decrease in anticipated other purchases services from other agencies	-320	
<b>FY 2004 Budget Request</b>		<b>359,011</b>
12. Price Change		10,105
13. Program Increase		
14. Program Decrease		-1,135
<b>FY 2005 Budget Estimate</b>		<b>367,981</b>

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**IV. Performance Criteria and Evaluation Summary:**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>Notes</u>
Forward Pricing	640	658	663	663	658	663	651	638	1
Incurring Cost Effort:									
Regular Incurred Cost	1,337	1,300	1,305	1,321	1,331	1,333	1,354	1,371	
CAS Compliance Audits	78	75	74	73	72	70	69	68	
Total Incurred Cost	1,415	1,375	1,379	1,394	1,403	1,403	1,423	1,439	2
Operations Audits	57	60	60	60	60	60	60	60	3
Special Audits	544	532	539	546	553	560	567	573	4
Defective Pricing	89	90	88	87	86	84	83	82	5
Cost Accounting Standards: Disclosure Statements, Cost Impact Audits, Etc.	107	108	107	105	104	102	100	99	6
Other Direct Audit Effort:									
Procurement Support	290	348	345	342	339	336	333	330	7
Audit Support & Planning	368	326	321	316	312	307	302	298	8
Total Other Direct	658	674	666	658	651	643	635	628	
Field Support:									
Regional Offices	299	288	288	288	288	288	288	288	
Field Support	67	72	72	72	72	72	72	72	
Total Field Support	366	360	360	360	360	361	360	360	9
Headquarters	86	83	83	83	83	83	83	83	10
Total Workyears	3962	3,940	3,945	3,956	3,958	3,958	3,962	3,962	

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**IV. Performance Criteria and Evaluation Summary (Continued) :**

Note 1 - The estimated forward pricing audit effort is based on an assessment of contracting officials' demand requirements for forward pricing assistance. This assessment includes an analysis of the actual workload accomplishments during the past several years, adjusted for anticipated productivity improvements, published changes in the DoD Procurement and RDT&E budget authority, and the estimated impact of applicable acquisition reform initiatives. With the increase in DoD procurement and RDT&E expenditures projected by the Department, we have incorporated a substantial increase in forward pricing dollars examined into our budget estimate.

The forward pricing dollars examined and workyear estimates result in the following productivity metrics.

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Amount Examined During Year (Dollars in Millions)	\$81,021	\$86,500	\$89,700	\$92,400	\$94,400	\$98,000	\$99,000	\$100,100
Workyears	640	658	663	663	658	663	651	638
Examined Per Workyear (Dollars in Millions)	\$126.6	\$131.5	\$135.3	\$139.4	\$143.5	\$147.8	\$152.1	\$156.9

Note 2 - The FAR requires an audit of contractor costs incurred under flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, the FAR, and CAS rules and regulations, if applicable. While the performance of these incurred cost audits is normally self-initiated, they must be accomplished to facilitate the Government's final contract payment to contractors on flexibly priced contracts. However, since the incurred cost area is essentially the only major audit area for which DCAA has any

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**IV. Performance Criteria and Evaluation Summary (Continued):**

control over the initiation of audit performance, budget constraints impact this area more severely than other areas.

The Agency's performance plan includes a goal of completing the audits of at least 97% of adequate incurred cost submissions within 12 months of receipt at major contractors and corporate offices; and 99% of all other adequate incurred cost submissions within 24 months of receipt. Any delay in performing these incurred cost audits will also impact DCAA's ability to provide timely support to the Department's expedited and paperless Contract Closeout Initiative and increase the probability of expiring funds.

Workload statistics for incurred cost audits are based on historical data, current field audit requirements, annual field risk assessments, productivity factors, and anticipated changes in the DoD Procurement and RDT&E outlays. The incurred cost inventory, estimated workyears and productivity are shown below.

<u>(All Dollars in Millions)</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
On Hand Beginning Of Year	\$ 60,200	\$ 69,070	\$ 72,370	\$ 77,170	\$82,370	\$ 88,070	\$ 93,670	\$ 97,970
Received During Year (ADV)	97,295	91,900	95,400	98,600	101,500	103,400	105,500	106,500
Dollars Subject To Audit	\$157,495	\$160,970	\$167,770	\$175,770	\$183,870	\$191,470	\$199,170	\$204,470
Examined During Year	88,425	88,600	90,600	93,400	95,800	97,800	101,200	104,300
Ending Inventory	\$ 69,070	\$ 72,370	\$ 77,170	\$ 82,370	\$ 88,070	\$ 93,670	\$ 97,970	\$ 100,170
Workyears	1,415	1,375	1,379	1,394	1,403	1,403	1,423	1,439
Examined Per Workyear	\$ 62.5	\$ 64.4	\$ 65.7	\$ 67.0	\$ 68.3	\$ 69.7	\$ 71.1	\$ 72.5

Note 3 - DCAA's operations audits are designed, in part, to evaluate the economy and efficiency of contractor functions or operations, the costs of which are reimbursed through the contractors' overhead expense rates. Because of the continuing interest in reducing the

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**IV. Performance Criteria and Evaluation Summary (Continued) :**

risk that excessive contractor overhead costs are priced into or reimbursed on DoD contracts, projected workyears provide staffing levels that will allow DCAA to perform required reviews.

Note 4 - Special audit activity is performed in response to requests from contracting officials. Special requests range from simple verification of costs to analyzing complex accounting issues. Contractor claims for contract price adjustments involve accounting issues requiring a high level of audit expertise and oftentimes, substantial audit effort. Oversight of DoD contract costs during contract performance by DoD management and Congressional inquiry, contract terminations, progress payment requests, financial capability audits, earned value management system reviews and other contract claims represent a substantial portion of this workload. Our estimates reflect consideration of historical experience as well as expectations for productivity improvements. We have projected several workyears of new business for each fiscal year. As procurement practices have changed within the Government, we have been requested to become involved in new areas outside of our traditional forward pricing and incurred cost audit activity. For example, we conducted a pilot project in support of Defense Reform Initiative Directive (DRID) 53, Reconciliation of Contracts in the Mechanization of Contract Administration Services (MOCAS) System (23 Mar 2000), where we reviewed reconciliations between contractor and Defense Finance and Accounting (DFAS) records which then allowed DFAS to close these contracts. We have further expanded our assistance to DFAS during FY 2002 and will add additional services in FY 2003.

Note 5 - The Truth in Negotiations Act (TINA), as codified in 10 USC §2306a, requires contracting officers to obtain cost or pricing data from contractors before awarding a contract unless an exception applies. Under TINA the Government has the right to examine these records to evaluate the accuracy, completeness, and currentness of the cost or pricing data required to be submitted. DCAA is responsible for performing these reviews which assist in determining whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete, or current cost or pricing information in negotiating the contract. Contracts/subcontracts are selected for defective pricing review

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**IV. Performance Criteria and Evaluation Summary (Continued):**

based on established selection criteria that consider contract types, dollar amounts, contractor estimating and accounting systems, historical experience, and audit leads. The projected workyears will allow DCAA to perform defective pricing reviews at the required levels of effort. Our estimates reflect consideration of current required audits as adjusted for anticipated productivity improvements.

Note 6 - Public Law 100-679 requires contractors to comply with Cost Accounting Standards (CAS). Contractors subject to full CAS-coverage are required to submit disclosure statements describing their significant accounting practices. In addition, any voluntary or required changes in accounting practices require DCAA to review their propriety and cost impact on negotiated Government contracts. Projected workyears reflect an anticipated level of activity required to perform reviews of disclosure statements for adequacy and audits of cost impact statements during times of a transforming defense industrial base with increased corporate mergers and acquisitions.

Note 7 - Major activities within procurement support include negotiation assistance, investigative support, the contract audit coordinator program, financial advisory service centers, and procurement liaison auditor effort. Auditors are frequently asked by Government contracting representatives to attend contract negotiation conferences to provide accounting and financial advice. DCAA is also frequently requested to provide contract audit assistance to investigative organizations from all branches of the Government in its battle to combat fraud, waste, and mismanagement. Required staffing levels are based on historical performance levels adjusted for additional financial advisory services and anticipated productivity improvements.

In FY 1999 we began locating Financial Advisory Service Centers at our major customer sites and continue to fill additional positions based on requests from our customers. Financial advisory service positions have been established to provide on-site financial analysis and professional auditing advice to contracting officers. These positions were

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**IV. Performance Criteria and Evaluation Summary (Continued) :**

established to meet the changing needs of the procurement community as acquisition reform has changed the face of Government contracting and auditing. The shift to commercial pricing practices has caused a decrease in the use of audits performed at contractor locations in favor of analysis of financial data available at the procurement offices.

Note 8 - The audit support and planning effort includes the development of DCAA's audit program plans necessary to accomplish the assigned audit mission at contractor locations. This planning effort enhances audit coverage and the quality of information available to DCAA management and DoD officials responsible for making resource/staffing decisions. Effort associated with performing process improvement projects and studies, and the processing and approval of contract payments is also included in this category. Workyears required for special projects and studies, and requirements and program planning represent the Agency's continuing efforts to improve audit quality and audit management oversight through data analyses, surveys, and the testing of new policies and operating procedures. The estimated staffing levels are based on historical performance levels adjusted for anticipated productivity improvements.

Note 9 - Estimated staffing levels for DCAA Field Support include those required for the Agency's regional offices, the Information Technology and Technical Audit Services divisions, and other field support units.

Note 10 - Estimated staff levels for DCAA Headquarters reflect the 15% reduction in major headquarters personnel required by the FY 2000 National Defense Authorization Act. The workyears reflect the definition of major headquarters contained the Department of Defense Directive 5100.73, entitled "Major Department of Defense Headquarters Activities."

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<b>V. Personnel Summary:</b>	<b>FY 2002</b>	<b>FY 2003</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Change FY 2002 / FY 2003</b>	<b>Change FY 2003 / FY 2004</b>	<b>Change FY 2004 / FY 2005</b>
<u>Civilian End Strength (Total)</u>	4,098	4,016	4,084	4,108	<b>(82)</b>	<b>68</b>	<b>24</b>
U.S. Direct Hire	4,092	4,010	4,078	4,102	(82)	68	24
Foreign National Direct Hire	1	1	1	1	-	-	-
Total Direct Hire	4,093	4,011	4,079	4,103	(82)	68	24
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5  (536)	5  (531)	5  (531)	5  (516)	-  (5)	-  -	-  (15)
<u>Civilian FTEs (Total)</u>	3,934	3,940	3,945	3,956	<b>6</b>	<b>5</b>	<b>11</b>
U.S. Direct Hire	3,928	3,934	3,939	3,950	6	5	11
Foreign National Direct Hire	1	1	1	1	-	-	-
Total Direct Hire	3,929	3,935	3,940	3,951	6	5	11
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5  (536)	5  (531)	5  (531)	5  (516)	-  (5)	-  -	-  (15)

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VI. Outyear Summary:	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
<b>Civilian End Strength (Total)</b>	<b>4,088</b>	<b>4,108</b>	<b>4,096</b>	<b>4,108</b>
U.S. Direct Hire	4,082	4,102	4,090	4,102
Foreign National Direct Hire	1	1	1	1
Total Direct Hire	4,083	4,103	4,091	4,103
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5  (516)	5  (516)	5  (516)	5  (516)
<b>Civilian FTEs (Total)</b>	<b>3,958</b>	<b>3,958</b>	<b>3,962</b>	<b>3,962</b>
U.S. Direct Hire	3,952	3,952	3,956	3,956
Foreign National Direct Hire	1	1	1	1
Total Direct Hire	3,953	3,953	3,957	3,957
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5  (516)	5  (516)	5  (516)	5  (516)

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VII. OP 32 Line Items as Applicable (Dollars in Thousands):

	FY 2002 Estimate	Change FY 2002 - FY 2003		FY 2003 Estimate	Change FY 2003 - FY 2004		FY 2004 Estimate	Change FY 2004 - FY 2005		FY 2005 Estimate
		Price Growth	Program Growth		Price Growth	Program Growth		Price Growth	Program Growth	
<b>CIVILIAN PERSONNEL COMPENSATION</b>										
Executive, General & Special Schedules	278,601	9,714	1,526	289,841	6,628	2,710	299,179	9,147	1,520	309,846
Wage Board	41	1	-	42	0	-	42	1	-	43
Foreign National Direct Hire (FNDH)	37	1	-	38	1	-	39	1	-	40
Separation Liability (FNDH)	-	-	-	-	-	-	-	-	-	-
Benefits to Former Employees	102	4	(106)	-	-	-	-	-	-	-
Voluntary Separation Incentive Payments	-	-	-	-	-	-	-	-	-	-
Disability Compensation	1,372	-	145	1,517	-	-	1,517	-	-	1,517
Total Civilian Personnel Compensation	280,153	9,720	1,565	291,438	6,629	2,710	300,777	9,149	1,520	311,446
<b>TRAVEL</b>										
Travel of Persons	10,580	116	(224)	10,472	157	15	10,644	170	77	10,891
Total Travel	10,580	116	(224)	10,472	157	15	10,644	170	77	10,891
<b>OTHER FUND PURCHASES</b>										
Defense Financing & Accounting Service	1,906	(86)	35	1,855	264	-	2,119	91	-	2,210
Total Purchases	1,906	(86)	35	1,855	264	-	2,119	91	-	2,210
<b>TRANSPORTATION</b>										
Commercial Transportation	603	6	1	610	10	(1)	619	10	-	629
Total Transportation	603	6	1	610	10	(1)	619	10	-	629
<b>OTHER PURCHASES</b>										
Rental Payments to GSA (SLUC)	7,949	167	354	8,470	144	-	8,614	129	-	8,743
Purchased Utilities (Non-Fund)	47	1	-	48	1	(1)	48	1	-	49
Purchased Communications (Non-Fund)	4,882	54	-	4,936	74	433	5,443	87	-	5,530
Rents (Non-GSA)	926	10	1	937	14	-	951	15	-	966
Postal Services (U.S.P.S.)	123	1	1	125	2	-	127	2	-	129
Supplies & Materials (Non-Fund)	4,693	51	(180)	4,564	69	3,097	7,730	124	(1,412)	6,442
Printing & Reproduction	5	-	-	5	-	-	5	-	1	6
Equipment Maintenance by Contract	130	2	(1)	131	2	-	133	2	-	135
Equipment Purchases (Non-Fund)	2,627	29	3,720	6,376	95	(1,735)	4,736	76	(830)	3,982
Other Contracts	14,705	(23)	737	15,419	227	113	15,759	249	(491)	15,517
Other Costs	1,306	-	-	1,306	-	-	1,306	-	-	1,306
Total Other Purchases	37,393	292	4,632	42,317	628	1,907	44,852	685	(2,732)	42,805
<b>TOTAL</b>	<b>330,635</b>	<b>10,048</b>	<b>6,009</b>	<b>346,692</b>	<b>7,688</b>	<b>4,631</b>	<b>359,011</b>	<b>10,105</b>	<b>(1,135)</b>	<b>367,981</b>