

Fiscal Year (FY) 2008/ FY 2009 Budget Estimates

Defense Contract Audit Agency (DCAA)



February 2007

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DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

Operation and Maintenance, Defense-Wide Summary (\$ in thousands)
Budget Activity (BA) #: 4 Administration and Services

	FY 2006	Price	Program	FY 2007	Price	Program	FY 2008	Price	Program	FY 2009
	<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>
DCAA	390,296	8,847	-11,083	388,060	7,074	1,444	396,578	9,774	-1,677	404,675

* The FY 2006 Actuals column includes \$218.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148) and \$16,000.0 thousand of FY 2006 Emergency Supplemental funds for the Global War (PL 109-234).

* The FY 2007 Estimate column excludes \$0 thousand of FY 2007 Title IX obligations (PL 109-289) and \$0 thousand of FY 2007 Hurricane Supplemental funds (PL 109-289).

I. Description of Operations Financed: 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. The DCAA responds 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. The DCAA is also providing contract audit support, as part of the Iraq Reconstruction effort, on reconstruction and humanitarian efforts to all DoD components, including the U.S. Army Corps of Engineers. The DCAA supports the Iraq effort of other Federal Agencies such as U.S. AID on a reimbursable basis.

The DCAA continues to return savings to the Government which far exceed the cost of its operations. In FY 2006, the Agency audited \$121.1 billion of costs incurred on contracts and reviewed 9,015 forward pricing proposals amounting to \$182.3 billion. Approximately \$2.3 billion in net savings were reported because of the audit findings. Thus, the **return on taxpayers' investment was approximately \$5.20 for each dollar invested** (\$448 million in FY 2006, including reimbursables).

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

Significant changes between FY 2007 and FY 2008 include two additional paid days and an increase of 13 direct workyears to maintain an adequate level of contract audit services to DoD customers. Change between FY 2008 and FY 2009 include one less paid day. The 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 investigative agencies and U.S. attorneys as they conduct investigations and prosecute the perpetrators of contract fraud.

Projected staffing requirements correspond to 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.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

The DCAA work structure 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. The DCAA furnishes pre-award services to contracting officers including:

a. Price Proposal Audits. The DCAA performs these audits to determine the reasonableness of contractors' price proposals submitted in anticipation of negotiating Government contracts. Contracting officers request these audits, which must be accomplished within a short period to avoid delaying the procurement process. The DCAA has no control over the number or timing of price proposal audits and must respond to each audit request as top priority.

b. Could Cost or Should Cost Studies and Participation on Integrated Product Teams (IPTs). Should cost studies are initiated by procuring activities who 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. The DCAA auditors participate as members of the team of specialists. Such studies usually involve large major weapon system procurements. The 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.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

c. Forward Pricing Rate Reviews. The DCAA performs these reviews to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. Normally a contracting officer negotiates these rates separately; the contractor then uses the rates in subsequent price proposals.

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. The DCAA provides these services to meet the specific needs of contracting officers.

e. System Surveys. The DCAA performs these reviews 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 combining experience and capabilities of the auditor and technical specialist, or 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 the DCAA to perform audits of claimed costs incurred and submitted by contractors for reimbursement under cost reimbursable, fixed

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

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 scheduling of incurred cost audits and CAS compliance audits is more flexible than customer requested audits, nonetheless, these audits must be accomplished for the Government to make final payment to the contractor. They include reviews of direct labor and material, indirect 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.** The DCAA also performs a variety of economy and efficiency audits of contractor operations. The 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.** The contracting officer normally requests these audits that 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 to avoid adverse effects such as additional claims for interest on amounts due or contractor financial failure. THE DCAA has little control over the number or timing of these reviews and must respond to all such requests as a priority.

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.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

The 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.

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

7. **Other Direct Audit Effort.** The other audit-related activities include providing on-site assistance to procurement and contract administration offices, contract audit coordinator programs, and negotiation support. This activity also includes testing performed during development of Agency policies and procedures and follow-up effort related to Congressional, Government Accountability Office (GAO), DoD Inspector General (DoD IG), and other external requests, surveys, and reports. The major functions are:

a. **Financial Liaison.** The Director, DCAA may establish and maintain liaison auditors, as appropriate, at major procuring and contract administration offices. The primary functions of financial 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 the 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 the DCAA management with information on the adequacy, responsiveness and timeliness of audit services rendered to procurement and contract administration offices.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

b. Contract Audit Coordinator (CAC) Program. The DCAA established a CAC program 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 maintains 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.

c. Negotiation Conferences. A fundamental requirement of the 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.

d. External Audit Interface. The DCAA develops information and comments 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.

e. 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. The DCAA also develops evidence for presentation to an U.S. attorney or a grand jury, and/or for use at a trial.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

f. Audit Support and Planning. The DCAA prepares annual audit program plan information and works on projects and studies requested by the regions or Headquarters. The projects normally relate to new and/or innovative ways of performing the 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, financial management, and administrative services to field office personnel.

b. The Defense Contract Audit Institute (DCAI). The DCAI is an element of the Defense Contract Audit Agency that 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). The 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. The Institute also produces videos which support training objectives by providing educational material in a cost effective manner to the field auditors. The videos are also used to highlight important current events that have an impact on contract audit policy and

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

procedures. 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.

c. Information Technology Division (OIT). OIT is responsible for the development, maintenance, and enhancement of the DCAA Management Information System (DMIS) 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.

d. 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; and supports the field offices in implementation of DoD electronic commerce initiatives.

e. 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 the DCAA.

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

9. **Headquarters**. The 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

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

I. Description of Operations Financed:

addition, Headquarters personnel interface with other DoD components as well as other Government agencies and Congressional committees on contract audit matters.

II. Force Structure Summary: Not applicable.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

III. Financial Summary (\$ in Thousands)

A. <u>Budget Activity (BA) 4</u>	FY 2007							
	FY 2006 Actuals	Budget Request	Congressional Action		Appropriated	Current Estimate	FY 2008 Estimate	FY 2009 Estimate
			Amount	Percent				
Defense Contract Audit Agency	390,296	391,949	-3,889	-1.0%	388,060	388,060	396,578	404,675
DCAA Operations	374,243	374,900	-3,720	-1.0%	371,180	370,866	379,336	387,553
DCAA Communications	3,290	3,999	-40	-1.0%	3,959	3,675	3,759	3,366
DCAA Major HQ	12,763	13,050	-129	-1.0%	12,921	13,519	13,483	13,756
Memo: Audit Institute	5,302	5,734	-	-	-	5,429	5,572	5,705
DCAA Operations	5,284	5,715	-	-	-	5,411	5,554	5,687
DCAA Communications	18	19	-	-	-	18	18	18
DCAA Major HQ	-	-	-	-	-	-	-	-
Memo: Audit Operations	384,994	386,215	-	-	-	382,631	391,006	398,970
DCAA Operations	368,959	369,185	-	-	-	365,455	373,782	381,866
DCAA Communications	3,272	3,980	-	-	-	3,657	3,741	3,348
DCAA Major HQ	12,763	13,050	-	-	-	13,519	13,483	13,756

* The FY 2006 Actuals column includes \$218.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148) and \$16,000.0 thousand of FY 2006 Emergency Supplemental funds for the Global War (PL 109-234).

DEFENSE CONTRACT AUDIT AGENCY
 Operation and Maintenance, Defense-Wide
 Fiscal Year (FY) 2008/FY 2009 Budget Estimates

III. Financial Summary (\$ in Thousands)

B. <u>Reconciliation Summary</u>	Change <u>FY 2007/FY 2007</u>	Change <u>FY 2007/FY 2008</u>	Change <u>FY 2008/FY 2009</u>
Baseline Funding	391,949	388,060	396,578
Congressional Adjustments (Distributed)	-	-	-
Congressional Adjustments (Undistributed)	-2,109	-	-
Adjustments to Meet Congressional Intent	-195	-	-
Congressional Adjustments (General Provisions)	-1,585	-	-
Subtotal Appropriated Amount	388,060	388,060	396,578
Fact-of-Life Changes (CY to CY Only)	-	-	-
Subtotal Baseline Funding	388,060	388,060	396,578
Hurricane Supplemental	-	-	-
Emergency Supplemental for the Global War	-	-	-
Reprogrammings	-	-	-
Price Changes	-	7,074	9,774
Functional Transfers	-	-	-
Program Changes	-	1,444	-1,677
Current Estimate	388,060	396,578	404,675

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

III. Financial Summary (\$ in Thousands) (Continued)

<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
FY 2007 President's Budget Request		391,949
1. Congressional Adjustments		-3,889
a. Distributed Adjustments		
b. Undistributed Adjustments - Unobligated Balances	-2,109	
c. Adjustments to meet Congressional Intent		
d. General Provisions	-1,585	
1) Section 8097 - Excessive growth in travel and transportation	-277	
2) Section 8106 - Economic Assumptions	-1,308	
e. Congressional Earmarks - Indian Lands Environmental Impact	-195	
FY 2007 Appropriated Amount		388,060
2. War-Related and Disaster Supplemental Appropriations		
3. Fact-of-Life Changes		
FY 2007 Baseline Funding		388,060
4. Reprogrammings (requiring 1415 Actions)		
Revised FY 2007 Estimate		388,060
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings, Iraq Freedom Fund Transfers		
FY 2007 Normalized Current Estimate		388,060
6. Price Change		7,074
7. Functional Transfers		
8. Program Increases		4,054
a. Annualization of New FY 2007 Program		
b. One-Time FY 2008 Increases		
c. Program Growth in FY 2008		

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

III. Financial Summary (\$ in Thousands) (Continued)

C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
1) Two additional paid days (\$2,412 thousand) plus increase for 13 direct workyears (\$1,238 thousand) to maintain an adequate level of contract audit services to DoD customers (FY 2007 Base: \$324,407 thousand)	3,650	
2) Increase in travel costs associated with workyear increase (FY 2007 Base: \$13,185 thousand)	52	
3) Information Technology equipment requirements (\$344 thousand) and increase related to the 13 additional workyears (\$7 thousand) (FY 2007 Base: \$3,915 thousand)	351	
4) Increase associated with non-GSA Rents (FY 2007 Base: \$1,005 thousand)	1	
9. Program Decreases		-2,610
a. Annualization of FY 2007 Program Decreases		
b. One-Time FY 2007 Costs		
c. Program Decreases in FY 2008		
1) Information technology software decreases (FY 2007 Base: \$18,722 thousand)	-1,856	
2) Net of increase of \$12K related to supplies for the 13 additional workyears and decrease of \$415K related to Information technology software (FY 2007 Base: \$5,854 thousand)	-403	
3) Anticipated decrease for DFAS support (FY 2007 Base: \$4,214 thousand)	-113	
4) Decrease in communications costs (FY 2007 Base: \$3,675 thousand)	-1	
5) Decrease in equipment maintenance contracts (FY 2007 Base: \$283 thousand)	-1	
6) Workers compensation decrease (FY 2007 Base: \$1,513 thousand)	-236	
FY 2008 Budget Request		396,578
10. Price Change		9,774
11. Functional Transfers		
12. Program Increases		359
a. Annualization of New FY 2008 Program		
b. One-Time FY 2009 Increases		

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

III. Financial Summary (\$ in Thousands) (Continued)

<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
c. Program Growth in FY 2009		
1) Increase in travel costs associated with workyear increase explained in 13.c.1 below (FY 2008 Base: \$13,540 thousand)	4	
2) Anticipated increase for DFAS support (FY 2008 Base: \$3,899 thousand)	234	
3) Information technology requirements (FY 2008 Base: \$17,296 thousand)	121	
13. Program Decreases		-2,036
a. Annualization of FY 2008 Program Decreases		
b. One-Time FY 2008 Decreases		
c. Program Decreases in FY 2009		
1) Net of one less paid day (-\$1,235 thousand), a decrease in benefits related to PCS (-\$118 thousand), plus increase of two direct workyears (\$194K) to maintain an adequate level of contract audit service to DoD customers (FY 2008 Base: \$334,016 thousand)	-1,159	
2) Anticipated savings in communications from completed transition to new NETWORX contract (FY 2008 Base: \$3,759 thousand)	-476	
3) Decrease in supplies and materials (FY 2008 Base: \$5,586 thousand)	-285	
4) Decrease in equipment purchases (FY 2008 Base: \$4,356 thousand)	-115	
5) Other program decreases	-1	
FY 2009 Budget Request		404,675

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. **Performance Criteria and Evaluation Summary** The DCAA's core metric is the cost per direct audit hour. Agency management monitors performance metrics continuously and the Agency Performance Plan/Balanced Scorecard includes metrics. The Under Secretary of Defense (Comptroller) and the DCAA agreed to a Performance Plan/Balanced Scorecard that links our performance standards to the President's Management Agenda, the DoD Balanced Scorecard Concept, and the Risk Management Framework of the Quadrennial Defense Review (QDR). The plan includes deliverables of the average cost per direct audit hour and timeliness in responding to customer requests for services. The Budget/Performance Integration Goal focuses on the DCAA's two major product lines - forward pricing and incurred cost audits. THE DCAA's goal is to achieve an agency-wide average of 30 days or less cycle time on forward pricing audits. It also has a goal to complete the audits of at least 99% 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 were established to meet contracting office needs for awarding and closing out contracting actions in a timely manner.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

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<u>Execution of Workyears</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
Forward Pricing	706	693	752	777
Incurring Cost Effort:				
Regular Incurred Cost	1,368	1,182	1,145	1,129
CAS Compliance Audits	110	113	117	117
Total Incurred Cost	1,478	1,295	1,262	1,246
Operations Audits	36	45	45	45
Special Audits	529	558	552	547
Defective Pricing	81	92	87	87
Cost Accounting Standards:	99	97	95	93
Other Direct Audit Effort:				
Procurement Support	235	235	235	235
Audit Support & Planning	345	345	345	345
Total Other Direct	580	580	580	580
Field Support:				
Regional Offices	264	264	264	264
Field Support	101	101	101	101
Total Field Support	365	365	365	365
Headquarters	81	83	83	83
Total Workyears	3,955	3,808	3,821	3,823

* Actuals including overtime.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

Performance Based Measures

Overview. As a single mission organization, the DCAA is chartered with the responsibility of providing a wide range of audit and financial advisory services supporting the negotiation, administration, and settlement of contracts for its customers. By virtue of this mission, the DCAA must retain a cadre of trained, highly competent and professional employees. In a typical year, labor and related fringe benefits account for approximately 84 percent of the DCAA's budget. Statutory and regulatory requirements, designed to ensure that the Government meets its fiduciary responsibilities to the public, drive the majority of the DCAA's workload. In this capacity, the DCAA supports the oversight and internal control responsibilities of the Office of the Secretary of Defense, the DoD Inspector General, the General Accountability Office, and the Congress.

The DCAA's primary customers are contracting officers in the Departments of the Army, the Navy, and the Air Force, and the Defense Contract Management Agency. Audit services provided by the DCAA are key to making contract decisions; they help contracting officers ensure that DoD components obtain the best value from the goods and services they purchase. The DCAA also performs - on a reimbursable basis - the majority of contract audit services for all other federal agencies.

Relationship of the DCAA's Performance Plan to the Strategic Plan. The DCAA implemented a formal Strategic Plan in 1992. Over the years, this Plan has become the mainstay for managing overall operations and migrating to the use of metrics for measuring performance. The Strategic Plan was founded on the Mission Statement, followed by a Vision Statement, Long-Term Strategic Goals, and a set of objectives designed to achieve those goals. Five goals, described below, provide the overall framework for managing the Agency's current needs and anticipated future challenges. The DCAA's Executive Steering

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

Committee closely monitors accomplishment of each strategic plan objective, using milestone plans and performance metrics. These detailed metrics are directly related to the quality and cost measures contained in the Performance Plan. As shown in the Chart below, the DCAA's Strategic Plan plays an inter-active role in supporting the Performance Plan, as well as other Department of Defense initiatives.

DCAA Strategic Plan Goals

Goal 1: Quality of Worklife Environment

Foster a quality of work-life environment that promotes trust, teamwork, mutual respect, superior job performance and high morale.

Goal 2: Customer Satisfaction

Assure customer satisfaction by providing timely and responsive audits and financial services that meet or exceed customer requirements and expectations.

Goal 3: Professional Competence

Attain the highest level of professional competence through continuous improvement in the management and performance of audits and services.

Goal 4: Best Value Audit Services

Provide best value audit and financial services through continuous evaluation and improvement of audit and administrative processes.

Goal 5: Integrated IT Structure

Provide an Integrated Information Technology (IT) structure that promotes effectiveness and efficiency in providing services for internal and external customers.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

Relationship of the Performance Plan to the President's Management Agenda (PMA) and the DoD Balanced Scorecard Concept (BSC)/Risk Management Framework. The Performance Plan supports the President's and DoD's initiatives and measures the most important actions for successful accomplishment of the DCAA mission. Each measure in the Performance Plan can be linked to the PMA and the DoD BSC/Risk Management Framework. The measures have been grouped based on the PMA's five general initiatives and can be aligned similarly with the Balanced Scorecard Concept.

Alignment between the Performance Plan and DCAA's Planning, Programming, Budgeting, and Execution System (PPBES) Process. DCAA's Performance Plan provides a framework that supports decisions on budget requests and is meaningful for assessing the Agency's performance. Key measures such as the Cost per Direct Audit Hour (CPDAH) rate and the dollars audited per hour for incurred cost and forward pricing efforts are used to identify the costs of performance and assess the impact of fiscal constraints. The DCAA executives receive information monthly regarding the results of measures in the Performance Plan and other key measures. Management executives use this information to meet the Agency's established goals. DCAA executives meet at least quarterly to discuss performance and consider possible influencing factors, such as cost-benefit analysis and process improvements, which could impact the outcome of the previously developed goals.

Summary of Performance Based Measures. The chart below summarizes our Performance Plan and Performance Measures for FY 2006 through FY 2009. Detailed descriptions are provided for each of the measures, along with a column which displays how each Performance Plan measure links to the Strategic Plan. This performance based structure assures the Department that the DCAA will use the resources requested in this budget and that the DCAA manages its audit services well.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

<u>Notes</u>	<u>Performance Plan and Performance Measures</u>	<u>Link to Strategic Plan</u>	<u>FY 2006</u>			<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>
			<u>Goal</u>	<u>Actuals</u>	<u>Results</u>	<u>Goal</u>	<u>Goal (Est.)</u>	<u>Goal (Est.)</u>
	<u>Budget/Performance Integration:</u>							
1	Cost per Direct Audit Hour	Goal 4	\$108.90	\$110.02	1% over Goal	TBD	TBD	TBD
2	Forward Pricing Dollars per Hour Variance	Goal 4	<10% var	-6% var	Met	<10% var	<10% var	<10% var
3	Contract Dollars Audited per Hour	Goal 4	\$67,500	\$67,500	Met	\$68,800	TBD	TBD
4	Direct Hours per Auditor	Goal 4	1,590	1,600	Exceeded	1,590	1,590	1,590
5	Forward Pricing Cycle Time	Goal 2	30	27	Exceeded	30	30	30
6	Forward Pricing Audits within 60 Days	Goal 2	99%	99%	Met	99%	99%	99%
7	Major/Corporate Incurred Cost Audits -Timely	Goal 2	99%	99%	Met	99%	99%	99%
8	Non-Major Incurred Cost Audits - Timely	Goal 2	99%	99%	Met	99%	99%	99%
	<u>Human Capital:</u>							
9	CPA Exam Candidates	Goal 3	300	323	Exceeded	300	TBD	TBD
10	Advance Degree Candidates	Goal 3	200	230	Exceeded	200	TBD	TBD
11	Average CPE Hours per Auditor	Goal 3	40	67	Exceeded	40	40	40
12	Workyears Executed	Goal 4	3,875	3,955	Exceeded	3,901	3,821	3,823
	<u>Competitive Sourcing:</u>							
13	Benchmarking Rates	Goal 4	\$116.24	\$117.34	1% over Goal	TBD	TBD	TBD
	<u>Financial Management:</u>							
14	Financial Statement Audit Results	Goal 4	Unqualified No Material Weakness	Unqualified No Material Weakness	Met	Unqualified No Material Weakness	Unqualified No Material Weakness	Unqualified No Material Weakness
15	Internal Control Review Results	Goal 4			Met			
	<u>E-Government:</u>							
16	Electronic Audit Reports	Goal 5	99%	99%	Met	99%	99%	99%
17	Electronic Contractor Submissions	Goal 5	85%	93%	Exceeded	90%	90%	TBD
18	Electronically Approved Vouchers	Goal 5	80%	92%	Exceeded	85%	90%	TBD
19	Information Assurance Management	Goal 5	100%	100%	Met	100%	100%	100%

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

Description of Performance Plan Measures:

BUDGET AND PERFORMANCE INTEGRATION

1. Cost Per Direct Audit Hour (CPDAH). The CPDAH metric measures the control of operating costs at the Agency, Regional and FAO levels. The DCAA also uses the CPDAH as the basis for benchmarking DCAA's hourly rate against the average rates of national accounting firms (adjusted for procurement expenditures and financial statement accruals for post-retirement benefits). The FY 2008 goal is not finalized but will be higher than the FY 2006 actual rate.

2. Forward Pricing Dollars per Hour Variance. One of DCAA's key strategic objectives is to increase productivity and efficiencies in the performance of forward pricing audits. The measure for key dollar strata (i.e., \$1 million to \$5 million, \$5 million to \$15 million, etc.) is dollars audited per hour. Each year, productivity goals are established for each key strata based on consideration of prior-year performance and initiatives to increase productivity and efficiency. For FY 2008, DCAA's goal is to have less than a 10 percent variance between the composite goal for the key strata and the actual dollars per hour. The DCAA Management Information System (DMIS) is programmed to compute the composite dollars per hour goal based on the actual dollar value of proposals received for audit. Correspondingly, DMIS computes the actual dollars per hour for each assignment as well as a composite for each of the key strata and overall for all key strata. An overall composite goal for dollars per hour cannot be established in advance because DCAA has no control over the dollar value of the proposals that are submitted to us for audit. However, DCAA can monitor its productivity in performing forward pricing proposal audits by having dollars per hour goals for key strata.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

3. Contract Dollars Audited Per Hour (Productivity). The "contract dollars audited per hour" performance measure was developed to assist us in evaluating DCAA's productivity associated with our audits of dollars incurred and claimed by contractors under flexibly priced contracts. The metric is based on the contract dollars audited each year and direct audit hours expended. Each year, in accordance with our Strategic Plan Objective and goal setting processes, we review the results of the prior years, identify potential process improvements and enabling actions, establish goals, and plan the audit workload for the following year. The FY 2008 goal is \$68,800 per hour which is two percent higher than the FY 2006 year ending actual rate.

4. Direct Hours Per Auditor. The direct hours per auditor metric measures, on average, how many direct hours an auditor works during the fiscal year. Most standard workyears equate to 2,088 hours, but for FY 2007, a workyear equals 2,080 hours. This workyear encompasses hours worked directly on audit assignments and indirect hours such as annual leave, holiday leave, sick leave, training, staff meetings and other activities. The direct hours per auditor statistic is a critical factor in accomplishing our audit workload and in managing costs. We therefore established this metric to measure the quantity of direct assignment hours an auditor works on an annual basis while allowing sufficient time for other activities such as training and employee development. The FY 2008 goal is 1,590 direct hours per auditor.

5. Cycle Time on Forward Pricing Proposal Audits. Timeliness in responding to forward pricing actions is a key focus. The DCAA measures the number of days from receipt of a forward pricing proposal audit request to the date the audit report is issued. The turnaround time goal for FY 2008 is 30 days.

6. Forward Pricing Audits Accomplished within 60 Days. DCAA strives to ensure that a high percentage of audits is accomplished within 60 days. The goal for FY 2008 is 99 percent.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

7. Major and Corporate Incurred Cost Audits Issued Timely. For major (contractors with over \$90 million of flexibly-priced contract dollars per year) and corporate incurred cost audits, DCAA's objective is to issue reports within 12 months of receipt of an adequate submission. The FY 2008 goal is to issue the audit reports for 99 percent of all submissions within 12 months of receipt.

8. Non-Major Incurred Cost Audits Issued Timely. For non-major (contractors with less than \$90 million of flexibly-priced contract dollars per year), DCAA's objective is to issue reports within 24 months of receipt of an adequate submission. The FY 2008 goal is to issue the audit reports for 99 percent of all submissions within 24 months of receipt.

HUMAN CAPITAL

9. Sponsor Auditor Candidates to Sit for CPA Exam. DCAA's Strategic Plan includes a goal to attain the highest level of professional competence through continuous improvement in the management and performance of audits and services. Encouraging our audit staff to obtain Certified Public Accountant (CPA) licenses is vital to improving the management and performance of our services and maintaining the professionalism of our workforce. The DCAA provides financial support to candidates who take CPA exam coaching courses and provides paid time off for employees to sit for the exam. For FY 2008, the goal is sponsoring 300 candidates to take the CPA exam.

10. Support Participants in Advanced Academic Degree Programs. The DCAA also provides financial support for tuition and books to participants in advanced academic degree programs. The DCAA is continuing its Director's Fellowship Program in Management, selecting highly qualified DCAA employees to participate in a challenging Masters of

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

Science program aimed at developing future top management candidates. The goal for FY 2008 is to support 200 auditors in advanced academic degree programs.

11. Average CPE Hours per Auditor. All DCAA audit staff members must complete 80 hours of continuing professional education (CPE) over a two year period in accordance with the Generally Accepted Government Auditing Standards (GAGAS) published by the Government Accountability Office (GAO). The CPE requirement is consistent with DCAA's Strategic Plan goals for professional competence. To comply with the auditing standards and to ensure that the DCAA staff is equipped with the latest technical and technological capabilities, the FY 2008 goal is an average of 40 CPEs per auditor.

12. Workyears Executed. This measure is computed based on dividing the total number of labor hours for all efforts by the total number of hours in the workyear (generally 2,088). The goal for FY 2008 workyears is 3,901.

COMPETITIVE SOURCING

13. Benchmarking Rates. The Cost per Direct Audit Hour (CPDAH) metric, adjusted for procurement expenditures and financial statement accruals for post-retirement benefits, is the basis for benchmarking DCAA's hourly rate against the rates charged to the Government by national Public Accounting firms. The national firms' average rate is computed by weighting the rates reflected in GSA contracts by the relative distribution of hours by labor category in DCAA's records for direct chargeable hours. The DCAA is finalizing its goal for FY 2008. The benchmark rate for national Public Accounting firms has not been established for FY 2008.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

FINANCIAL MANAGEMENT

14. Financial Statement Audit Results. DCAA's objective is to obtain an unqualified audit opinion on its annual financial statements. DCAA was one of the first Department of Defense agencies to obtain an unqualified opinion and maintained it since FY 2002.

15. Internal Control Review Results. The DCAA strives to ensure there are no material weaknesses in its systems of internal controls. The goal is attaining internal control review results that indicate the existence of no material internal control deficiencies. DCAA has never had a material internal control weakness reported by the internal reviews conducted under the Federal Manager's Financial Integrity Act (FMFIA) or the financial statement audits conducted by the CPA firm.

E-GOVERNMENT

16. Audit Reports Issued Electronically. Issuance of audit reports electronically via e-mail has significantly reduced the time for distributing DCAA findings to contracting officials. The DCAA's objective is to issue 99 percent of all audit reports electronically in FY 2008.

17. Contractor Submissions Received Electronically. Receiving contractor submissions electronically allows for increased productivity and higher efficiency in performing audits. The DCAA's Strategic Plan objective is to increase the percentage of electronic submissions. The goal for FY 2008 is 90 percent.

18. Public Vouchers Approved Electronically. The DCAA updated its Strategic Plan in 2005 to include an objective to increase the number of public vouchers processed

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

IV. Performance Criteria and Evaluation Summary (continued)

electronically. Use of the Wide-Area Work Flow (WAWF) initiative and other approved electronic billing processes will significantly reduce the audit and administrative time involved with manually processing public vouchers. The DCMA's MOCAS (Mechanization of Contract Administration System) database provides a summary of the vouchers processed electronically versus via paper. The goal for FY 2007 is that 85 percent of all vouchers will be processed electronically with a goal of 90 percent by the end of FY 2008.

19. Information Assurance Vulnerability Management (IAVM) Process Compliance. The IAVM program ensures a heightened level of information system security throughout DCAA by providing a positive control mechanism for potential information assurance vulnerabilities and corrective action. The methodology ensures that System Administrators (SAs) receive, disseminate, acknowledge, and comply with the system vulnerability alert notifications. The measure is defined as the percentage of IAVM alerts, including implementing corrective patches for systems/servers, that are processed timely as reported to the Defense Information Systems Agency. Timely is defined as acknowledging receipt of an IAV alert or IAV bulletin within 5 days of receipt and reporting compliance with the alert or bulletin within 30 days from the date on the message. The goal for FY 2008 is to continue to comply with system vulnerability alert notifications 100 percent of the time.

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

V. <u>Personnel Summary</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	Change	
					<u>FY 2007/ FY 2008</u>	<u>FY 2008/ FY 2009</u>
<u>Civilian End Strength (Total)</u>	3,998	3,835	3,930	3,887	95	-43
U.S. Direct Hire	3,993	3,830	3,925	3,882	95	-43
Foreign National Direct Hire	1	1	1	1	-	-
Total Direct Hire	3,994	3,831	3,926	3,883	95	-43
Foreign National Indirect Hire	4	4	4	4	-	-
Memo: Reimbursable Civilians Included Above	512	512	512	512	-	-
<u>Civilian FTEs (Total)</u>	3,867	3,808	3,821	3,823	13	2
U.S. Direct Hire	3,862	3,803	3,816	3,818	13	2
Foreign National Direct Hire	1	1	1	1	-	-
Total Direct Hire	3,863	3,804	3,817	3,819	13	2
Foreign National Indirect Hire	4	4	4	4	-	-
Memo: Reimbursable Civilians Included Above	512	512	512	512	-	-
Average Annual Civilian Salary (\$)	\$97,297	\$98,643	\$101,209	\$103,493		

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2008/FY 2009 Budget Estimates

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

<u>OP 32 Line</u>	Change			<u>FY 2007 Estimate</u>	Change		<u>FY 2008 Estimate</u>	Change		<u>FY 2009 Estimate</u>
	<u>FY 2006 Actuals</u>	<u>FY 2006/FY 2007 Price</u>	<u>Program</u>		<u>FY 2007/FY 2008 Price</u>	<u>Program</u>		<u>FY 2008/FY 2009 Price</u>	<u>Program</u>	
CIVILIAN PERSONNEL COMPENSATION										
101 Executive, General & Special Schedules	326,210	7,835	-9,638	324,407	5,959	3,650	334,016	8,722	-1,159	341,579
103 Wage Board	134	3	-	137	3	-	140	4	-	144
104 Foreign National Direct Hire (FNDH)	90	2	-	92	3	-	95	2	-	97
105 Separation Liability (FNDH)	-	-	-	-	-	-	-	-	-	-
106 Benefits to Former Employees	-	-	-	-	-	-	-	-	-	-
107 Voluntary Separation Incentive Payments	-	-	-	-	-	-	-	-	-	-
111 Disability Compensation	1,411	-	102	1,513	-	-236	1,277	-	-	1,277
199 Total Civilian Personnel Compensation	327,845	7,840	-9,536	326,149	5,965	3,414	335,528	8,728	-1,159	343,097
TRAVEL										
308 Travel of Persons	13,947	335	-1,097	13,185	303	52	13,540	298	4	13,842
399 Total Travel	13,947	335	-1,097	13,185	303	52	13,540	298	4	13,842
OTHER FUND PURCHASES										
673 Defense Financing & Accounting Service	3,137	-301	1,378	4,214	-202	-113	3,899	-206	234	3,927
699 Total Purchases	3,137	-301	1,378	4,214	-202	-113	3,899	-206	234	3,927
TRANSPORTATION										
771 Commercial Transportation	770	16	-10	776	17	-	793	17	-	810
799 Total Transportation	770	16	-10	776	17	-	793	17	-	810
OTHER PURCHASES										
912 Rental Payments to GSA (SLUC)	8,583	215	-1	8,797	220	-	9,017	225	-	9,242
913 Purchased Utilities (Non-Fund)	48	1	-	49	1	-	50	1	-	51
914 Purchased Communications (Non-Fund)	2,897	70	708	3,675	85	-1	3,759	83	-476	3,366
915 Rents (Non-GSA)	813	19	173	1,005	23	1	1,029	23	-1	1,051
917 Postal Services (U.S.P.S.)	65	-	37	102	-	-	102	-	1	103
920 Supplies & Materials (Non-Fund)	7,029	169	-1,344	5,854	135	-403	5,586	123	-285	5,424
921 Printing & Reproduction	-	-	-	-	-	-	-	-	-	-
922 Equipment Maintenance by Contract	155	4	124	283	7	-1	289	7	-1	295
925 Equipment Purchases (Non-Fund)	4,535	109	-729	3,915	90	351	4,356	96	-115	4,337
989 Other Contracts	19,417	345	-1,040	18,722	430	-1,856	17,296	379	121	17,796
998 Other Costs	1,055	25	254	1,334	-	-	1,334	-	-	1,334
999 Total Other Purchases	44,597	957	-1,818	43,376	991	-1,909	42,818	937	-756	42,999
9999 Total	390,296	8,847	-11,083	388,060	7,074	1,444	396,578	9,774	-1,677	404,675

* The FY 2006 Actuals column includes \$218.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148) and \$16,000.0 thousand of FY 2006 Emergency Supplemental funds for the Global War (PL 109-234).

* The FY 2007 Estimate column excludes \$0 thousand of FY 2007 Title IX obligations (PL 109-289) and \$0 thousand of FY 2007 Hurricane Supplemental funds (PL 109-289).

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