

# **Fiscal Year (FY) 2011 Budget Estimates**

## **Defense Contract Audit Agency (DCAA)**



February 2010

DEFENSE CONTRACT AUDIT AGENCY  
Operation and Maintenance, Defense-Wide  
Fiscal Year (FY) 2011 Budget Estimates

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Operation and Maintenance, Defense-Wide Summary (\$ in thousands)

**Budget Activity (BA) 4: Administrative and Service-wide Activities**

	FY 2009 <u>Actuals</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2010 <u>Estimate</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2011 <u>Estimate</u>
DCAA	443,163	10,240	4,148	457,551	6,518	22,074	486,143

\* The FY 2009 Actual column includes \$5,000 thousand (and 32 FTEs) of Overseas Contingency Operations Bridge Funding Appropriations for FY 2009 (PL 110-252) and \$9,800 thousand (and 80 FTEs) of FY 2009 Overseas Contingency Operations Supplemental Appropriations Act funding (PL 111-32).

\* The FY 2010 Estimate column excludes \$13,908 thousand (and 86 FTEs) of funding in the FY 2010 Defense-Wide Overseas Contingency Operations Budget PL 111-118, and \$8,800 thousand (and 58 FTEs) of funding in the FY 2010 Defense-Wide Overseas Contingency Operations Supplemental Request.

\* The FY 2011 Estimate column excludes \$27,000 thousand (and 193 FTEs) of funding requested in the FY 2011 Defense-Wide Overseas Contingency Operations Budget Request.

**I. Description of Operations Financed:** [www.dcaa.mil](http://www.dcaa.mil) 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 provides contract audit support to all DoD components as part of the military operations and reconstruction effort in Iraq and Afghanistan. The DCAA also supports the Iraq and Afghanistan effort of other Federal Agencies such as U.S. AID on a reimbursable basis.

Significant changes between FY 2010 and FY 2011 include additional workyears to ensure execution of contract audits with the highest auditing standards. Recent GAO reports have voiced concerns regarding DCAA's lack of adherence to Generally Accepted Government Auditing Standards (GAGAS). DCAA takes the GAO findings very seriously. DCAA and the Department have taken decisive actions to address the GAO findings and continue to improve compliance with professional standards. Significant actions included:

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- Reducing the size of field audit offices and increasing supervisory staff to ensure audits are properly supervised,
- Revamping procedures for performing annual quality reviews,
- Eliminating performance measures which the GAO felt were driving the wrong behavior,
- Implementing new performance measures focused on the quality of audits, and
- Establishing an Ombudsman program and anonymous website to ensure employees have an avenue to report inappropriate management actions.

To assist DCAA, the Under Secretary of Defense (Comptroller) has established an Oversight Committee comprised of the Auditor Generals from the three Service audit agencies, AT&L, and the General Counsel's office, to review DCAA's corrective action plans and offer future improvements.

The DCAA continues to return savings to the Government that exceeded the cost of its operations. The DCAA in FY 2009 audited \$72 billion of costs incurred on contracts and reviewed 7,004 forward pricing proposals amounting to \$218 billion. Approximately \$2.6 billion in net savings were reported because of the audit findings. **The return on taxpayers' investment was approximately \$5.10 for each dollar invested** (\$500 million in FY 2009, including reimbursables).

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,

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- (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) 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, and
- (vi) military operations and reconstruction in Iraq and Afghanistan.

Projected staffing requirements correspond to planned changes in DoD procurement levels and required effort to complete audits of prior year contract expenditures. The DCAA workload 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

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has no control over the number or timing of price proposal audits and must respond to each audit request as top priority.

b. 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.

c. 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.

d. Estimating System Surveys. The DCAA performs these reviews to determine the reliability of contractors' estimating methods and procedures used to prepare price proposals, and whether they provide a basis for negotiating fair and reasonable prices. 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. These reviews also include recommended 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.

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e. Responses to Requests for Specific Cost Information. This effort includes providing specific cost information to procurement officials on labor rates, overhead rates, and similar factors for smaller procurements when information is readily available within DCAA's files.

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. 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. The incurred cost effort includes reviews of direct labor and material costs and indirect expenses. It also includes reviews of contractor accounting and management systems and related internal 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 and other 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, 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

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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. The special audits category also includes audits of contractor earned value management systems which DCAA performs as part of a team lead by the Defense Contract Management Agency.

5. **Postaward Audits.** The Truth in Negotiations Act (TINA) (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 ensure that cost or pricing data is accurate, current and complete. 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 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 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 DCAA maintains liaison advisors, as appropriate, at major procuring and contract administration offices. The primary functions of financial liaison advisors are to: (i) facilitate effective communication and coordination between

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procurement officers and auditors; (ii) 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 (iii) provide DCAA management with information on the adequacy, responsiveness and timeliness of audit services rendered to procurement and contract administration offices.

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 efforts to: (i) disseminate information; (ii) monitor problem areas to assure uniform resolution; and (iii) coordinate with other DCAA personnel, contractor representatives, and procurement officials on issues affecting multiple locations.

c. 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.

d. External Audit Interface. The DCAA develops information and comments on reports from the GAO, DoD IG, and other government inspector general offices. This

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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.

f. Audit Support and Planning. The DCAA field offices prepare annual audit program plans for the upcoming year and work 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 six 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. Defense Contract Audit Institute (DCAI). The DCAI develops and delivers training for approximately 4,000 contract auditors and is an affiliated member of the Defense Acquisition University. The DCAI directs and controls the development and delivery of classroom courses, seminars, computer based self-study courses, and internet-

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based, instructor-led courses. The DCAI has program management responsibility for training and career development in the DCAA. It assures that programs of instruction, courses, and training materials meet DoD standards, Generally Accepted Government Auditing Standards (GAGAS), and National Association of State Boards of Accountancy (NASBA) standards. 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 DCAI ensures training materials are up-to-date and develops new courses when required by the changing audit environment. The DCAI, located on the south campus of the University of Memphis, also 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 design, development, and maintenance of Agency-specific automated information systems (AIS), web applications and audit software. It employs a computer hardware acquisition strategy/plan to ensure that AIS and personal computing needs are satisfied. It is also responsible for operating the Agency-wide communications infrastructure, monitoring network performance, and managing DCAA's information assurance program.

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.

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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 DCAA.

f. Defense Legal Service. This category includes personnel from the Defense Legal Service assigned to DCAA.

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 audit quality, and advises regional offices on resource management matters, including recruitment and financial management. Headquarters personnel also interface with other DoD components and other Government agencies and Congressional committees on contract audit matters.

**II. Force Structure Summary: Not Applicable.**

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**III. Financial Summary (\$ in thousands)**

	FY 2010						
	FY 2009 <u>Actuals</u>	Budget <u>Request</u>	<u>Congressional Action</u>			Current <u>Estimate</u>	FY 2011 <u>Estimate</u>
			<u>Amount</u>	<u>Percent</u>	<u>Appropriated</u>		
<b>A. <u>BA Subactivities (BA) 4</u></b>							
<b>1. Defense Contract Audit Agency</b>	<b>443,163</b>	<b>458,316</b>	<b>-765</b>	<b>-0.2%</b>	<b>457,551</b>	<b>457,551</b>	<b>486,143</b>
DCAA Operations	418,937	432,779	-765	-0.2%	432,014	432,014	460,879
DCAA Communications	3,519	5,203	-	-	5,203	5,203	4,930
DCAA Major Headquarters	20,707	20,334	-	-	20,334	20,334	20,334
<b>Memo: Audit Institute</b>	<b>6,874</b>	<b>6,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,967</b>	<b>7,065</b>
DCAA Operations	6,862	6,773	-	-	-	6,955	7,053
DCAA Communications	12	10	-	-	-	12	12
DCAA Major Headquarters	-	-	-	-	-	-	-
<b>Memo: Audit Operations</b>	<b>436,289</b>	<b>451,533</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>450,584</b>	<b>479,078</b>
DCAA Operations	412,075	426,006	-	-	-	425,059	453,826
DCAA Communications	3,507	5,193	-	-	-	5,191	4,918
DCAA Major Headquarters	20,707	20,334	-	-	-	20,334	20,334

\* The FY 2009 Actual column includes \$5,000 thousand (and 32 FTEs) of Overseas Contingency Operations Bridge Funding Appropriations for FY 2009 (PL 110-252) and \$9,800 thousand (and 80 FTEs) of FY 2009 Overseas Contingency Operations Supplemental Appropriations Act funding (PL 111-32).

\* The FY 2010 Estimate column excludes \$13,908 thousand (and 86 FTEs) of funding in the FY 2010 Defense-Wide Overseas Contingency Operations Budget PL 111-118, and \$8,800 thousand (and 58 FTEs) of funding in the FY 2010 Defense-Wide Overseas Contingency Operations Supplemental Request.

\* The FY 2011 Estimate column excludes \$27,000 thousand (and 193 FTEs) of funding requested in the FY 2011 Defense-Wide Overseas Contingency Operations Budget Request.

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III. Financial Summary (\$ in thousands)

<u>B. Reconciliation Summary</u>	<u>Change</u> <u>FY 2010/FY 2010</u>	<u>Change</u> <u>FY 2010/FY 2011</u>
<b>Baseline Funding</b>	458,316	457,551
Congressional Adjustments (Distributed)	-	-
Congressional Adjustments (Undistributed)	-	-
Adjustments to Meet Congressional Intent	-	-
Congressional Adjustments (General Provisions)	-765	-
<b>Subtotal Appropriated Amount</b>	<b>457,551</b>	<b>-</b>
Fact-of-Life Changes (CY to CY Only)	-	-
<b>Subtotal Baseline Funding</b>	<b>457,551</b>	<b>-</b>
Anticipated Supplemental	13,908	-
Reprogrammings	-	-
Price Changes	-	6,518
Functional Transfers	-	-
Program Changes	-	22,074
<b>Current Estimate</b>	<b>471,459</b>	<b>486,143</b>
Less: Wartime Supplemental	-13,908	-
<b>Normalized Current Estimate</b>	<b>457,551</b>	<b>-</b>

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	<b>Amount</b>	<b>Totals</b>
<b>C. Reconciliation of Increases and Decreases</b>		
<b>FY 2010 President's Budget Request (Amended, if applicable)</b>		458,316
1. Congressional Adjustments		-765
a. Distributed Adjustments		
b. Undistributed Adjustments		
c. Adjustments to meet Congressional Intent		
d. General Provision (Section 8097 Economic Assumptions)	-571	
e. Congressional Earmarks (Section 8037 Environmental Impacts)	-194	
<b>FY 2010 Appropriated Amount</b>		<b>457,551</b>
2. War-Related and Disaster Supplemental Appropriations	13,908	
3. Fact of Life Changes		
<b>FY 2010 Baseline Funding</b>		471,459
4. Reprogrammings (requiring 1415 Actions)		
<b>Revised FY 2010 Estimate</b>		471,459
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings, Iraq Freedom Fund Transfers		-13,908
<b>FY 2010 Normalized Current Estimate</b>		<b>457,551</b>
6. Price Change		6,518
7. Functional Transfers		
8. Program Increases		22,506
a. Annualization of New FY 2010 Program		
b. One-Time FY 2011 Increases		
c. Program Growth in FY 2011		

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**III. Financial Summary (\$ in thousands)**

<b>C. Reconciliation of Increases and Decreases</b>	<b>Amount</b>	<b>Totals</b>
1) Increase of 140 direct workyears to ensure that the Department's audits are conducted to the highest auditing standards. These additional workyears are comprised of approximately 33 workyears associated with employees transitioning out of Defense Acquisition Workforce Development Fund (DAWDF) beginning in FY 2011 and additional supervisory and management support positions as a result of the increase in the number of Defense Acquisition Workforce Development Funded employees on-board at DCAA since managers and supervisors needed to support the auditor interns cannot be hired using the DAWDF as a source of funds. Using the DAWDF, DCAA plans to hire 700 auditors by end of FY 2011. (FY 2010 Base: \$386,023K).	15,026	
2) Travel, supplies and equipment for 140 direct workyears (FY 2010 Base: \$24,383K).	731	
3) Anticipated increase in overtime requirements to maintain an adequate level of contract audit services to DoD customers (FY 2010 Base: \$4,105K).	500	
4) Increase in PCS relocation requirements to align existing staffing with workload requirements (FY 2010 Base: \$4,117K).	1,613	
5) Increase in relocation bonuses for hard to fill areas and to align existing staffing with workload (FY 2010 Base: \$266K).	500	
6) Anticipated increase for GSA Rent, associated in part with standing up of new offices. (FY 2010 Base: \$11,445K).	1,175	
7) Increase in training tuition requirements (FY 2010 Base: \$2,234K).	167	
8) Increase in mission travel to meet workload demands (FY 2010 Base: \$15,570K).	1,051	
9) Increase in supplies, equipment, furniture - new offices (FY 2010 Base: \$8,813K).	873	
10) Increase in payments to State Department for litigation support - Iran Claims (FY 2010 Base: \$2,100K).	570	

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**III. Financial Summary (\$ in thousands)**

<b>C. Reconciliation of Increases and Decreases</b>	<b>Amount</b>	<b>Totals</b>
11) Increase in Information Technology requirements (FY 2010 Base: \$7,890K).	300	
9. Program Decreases		-432
a. Annualization of FY 2010 Program Decreases		
b. One-Time FY 2010 Increases		
c. Program Decreases in FY 2011		
1) Communications cost decrease related to conversion to DoD NetWorx contract (FY 2010 Base: \$5,203K).	-346	
2) Other program decreases associated with equipment maintenance contract savings (FY 2010 Base \$261 thousand) of \$46 thousand, and DFAS Support (FY 2010 base: \$4,056K) decrease of \$40 thousand.	-86	
<b>FY 2011 Budget Request</b>		<b>486,143</b>

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**IV. Performance Criteria and Evaluation Summary**

DCAA's goal is to provide quality audit services performed in accordance with Generally Accepted Government Auditing Standards. The DCAA has developed audit performance measures which assess the quality of the audits, the timeliness of the audit services, and the efficient and effective use of budgetary resources.

<u>Execution of Workyears</u>	<u>(1)</u> <u>FY 2009</u>	<u>(2)</u> <u>FY 2010</u>	<u>(3)</u> <u>FY 2011</u>
Forward Pricing	993	1,073	1,073
Incurring Cost Effort:			
Regular Incurred Cost	1,330	1,318	1,514
CAS Compliance Audits	86	147	120
Total Incurred Cost	1,416	1,465	1,634
Operations Audits	35	24	35
Special Audits	484	530	558
Postaward Audits	51	113	117
Cost Accounting Standards:	120	150	150
Disclosure Statements, Cost Impact Audits, Etc.			
Other Direct Audit Effort:			
Procurement Support	236	251	251
Audit Support & Planning	314	344	362
Total Other Direct	550	595	613
Field Support:			
Regional Offices	249	295	300
Field Support	115	130	133
Total Field Support	364	425	433
Headquarters	113	141	144
Total Workyears	4,126	4,516	4,757

(1) Actual WYs including overtime plus DAWDF (90).

(2) Includes O&M WYs of 4,043 plus DAWDF (473).

(3) Includes O&M WYs of 4,183 plus DAWDF (574).

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**IV. Performance Criteria and Evaluation Summary**

**Performance Based Measures**

**Overview.** As a single mission organization, 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 Government contracting officers. By virtue of this mission, DCAA must retain a cadre of trained, highly competent and professional employees. In a typical year, labor and related fringe benefits account for approximately 85 percent of DCAA's budget. Statutory and regulatory requirements, designed to ensure that the Government meets its fiduciary responsibilities to the public, drive the majority of DCAA's workload. In this capacity, DCAA supports the oversight and internal control responsibilities of the Office of the Secretary of Defense, the DoD Inspector General, the Government Accountability Office, and the Congress.

The DCAA performs audits primarily for contracting officers in the Departments of the Army, the Navy, and the Air Force, and the Defense Contract Management Agency. Audit services provided by 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.

**DCAA's Strategic Plan.** DCAA is currently re-assessing its Strategic Plan to ensure it continues to include clearly defined qualitative success measures that link to human capital and operational plans. The current Strategic Plan was implemented in 1992. 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

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**IV. Performance Criteria and Evaluation Summary**

needs and anticipated future challenges. The DCAA's Executive Steering Committee closely monitors accomplishment of each strategic plan objective, using milestone plans and performance measures.

**DCAA Strategic Plan Goals**

**Goal 1: Quality of Work Life Environment:** Foster a quality 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.

**The Goals 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. The costs per direct audit hour and timeliness measures are used

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**IV. Performance Criteria and Evaluation Summary**

to identify the costs of performance and assess the impact of fiscal constraints. The DCAA executives receive information monthly regarding the results of the audit performance measures. The DCAA executives 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 Audit Performance Measures for FY 2009 through FY 2011. As stated above, DCAA is currently re-assessing its Strategic Plan to ensure it continues to include clearly defined qualitative success measures that link to human capital and operational plans. As a result, goals have not yet been established for FYs 2010 and 2011. Detailed descriptions are provided for each of the existing 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 DCAA will use the resources requested in this budget and that DCAA manages its audit services well.

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**IV. Performance Criteria and Evaluation Summary**

<u>Notes</u>	<u>Audit Performance Measures</u>	<u>Strategic Plan</u>	<u>FY 2009 Actuals</u>	<u>FY 2010 Goal (Est.)</u>	<u>FY 2011 Goal (Est.)</u>
	<b><u>Quality Related Measures:</u></b>				
1	DoD IG Opinion on CIGIE Review	Goal 3	No Current Opinion	Unqualified Opinion	Unqualified Opinion
2	DCAA Internal CIGIE Reviews	Goal 3	94%	100%	100%
3	Reports Issued without Critical Errors	Goal 3	95%	100%	100%
4	Quantitative Methods Usage	Goal 3	20%	TBD	TBD
5	CPE Requirements	Goal 3	99%	100%	100%
	<b><u>Timeliness Measures:</u></b>				
6	Forward Pricing Audits Issued by Due Date	Goal 2	82%	TBD	TBD
7	Corporate Incurred Cost Completed in 12 Months	Goal 2	49%	TBD	TBD
8	Major Incurred Cost Completed in 15 Months	Goal 2	58%	TBD	TBD
9	Nonmajor Incurred Cost Completed in 24 Months	Goal 2	83%	TBD	TBD
	<b><u>Efficiency Measure:</u></b>				
10	Cost per Direct Audit Hour	Goal 4	\$124.35	TBD	TBD

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**Description of Performance Measures:**

**1. Opinion received from the Department of Defense Inspector General (DoDIG) on the Council of Inspectors General on Integrity and Efficiency (CIGIE) reviews.** The Government Auditing Standards, as promulgated by the Government Accountability Office, requires each audit organization that conducts audits in accordance with these standards have an internal quality control system in place and undergo an external quality control review. The internal quality control system established by each audit organization should provide reasonable assurance that it has (1) adopted, and is following, applicable auditing standards and (2) established, and is following, adequate audit policies and procedures. Organizations conducting audits in accordance with these standards should have an external quality control review at least once every three years by an organization not affiliated with the organization being reviewed. These external quality control reviews are conducted based on guidelines established by the CIGIE. The DCAA's external reviewer is the DoDIG. An unqualified opinion represents full compliance with auditing standards with no reportable deficiencies.

**2. DCAA Internal CIGIE Results.** The DCAA uses this measure to validate the quality of audits completed. DCAA's Quality Assurance organization performs these reviews. The goal is for 100 percent of the audits reviewed under CIGIE to be evaluated as properly reflecting professional judgment.

**3. Percent of audit reports issued without critical errors in content.** The quality of audit reports issued is a critical factor in ensuring the requestor can understand and properly apply the results of audit. The quality assurance organization is required to review a sample of audit reports issued each month. A key result of these reviews is a

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determination whether the audit report issued contained critical errors. The DCAA goal is for 100 percent of audit reports to be issued free of critical errors.

**4. Quantitative Methods Usage.** The DCAA uses this measure to monitor the extent to which advanced level audit techniques such as statistical sampling, improvement curves, and regression analysis are used. The goal is set at a level to encourage use when applicable, but not so high as to promote the use of quantitative techniques when they are not appropriate. The FY 2010 and 2011 goals for this measure have not yet been established.

**5. Continuing Professional Education Requirements.** 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. The DCAA goal is for 100 percent of auditors to complete the minimum Continuing Professional Education requirements.

**6. Percent of forward-pricing proposal audit reports issued by the agreed-to due date.** Contracting officers in the process of negotiating prices for new contracts request audit advice on the reasonableness of the contractor's proposed prices from Defense Contract Audit Agency (DCAA). DCAA's ability to provide these audit services in a timely manner is critical to the timely awarding of contracts. The DCAA measures the percent of forward pricing proposal audit reports issued by the due date agreed to between the auditor and requester. The FY 2010 and FY 2011 goals have not yet been established.

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**7. Percent of corporate contractor incurred cost audits issued within required timeframes.** Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. For corporate contractors, the FY 2010 and 2011 goals have not yet been established.

**8. Percent of major contractor incurred cost audits issued within required timeframes.** Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. For major contractors (contractors with over \$100 million of auditable contract dollars per year), the FY 2010 and 2011 goals have not yet been established.

**9. Percent of non-major contractor incurred cost audits issued within required timeframes.** Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. For non-major contractors (contractors with less than \$100 million of auditable contract dollars per year), the FY 2010 and 2011 goals have not yet been established.

**10. Cost Per Direct Audit Hour (CPDAH).** The CPDAH metric measures the control of operating costs. To assess overall success in managing operating costs from year to year, each year's goal is set at a rate that will not exceed the prior year's rate when restated in constant dollars. The FY 2010 and 2011 goals have not yet been established.

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<b>V. <u>Personnel Summary</u></b>	<b><u>FY 2009</u></b>	<b><u>FY 2010</u></b>	<b><u>FY 2011</u></b>	<b>Change FY 2009/ FY 2010</b>	<b>Change FY 2010/ FY 2011</b>
<u>Civilian End Strength (Total)</u>	3,951	4,232	4,375	281	143
U.S. Direct Hire	3,945	4,226	4,369	281	143
Foreign National Direct Hire	1	1	1		
Total Direct Hire	3,946	4,227	4,370	281	143
Foreign National Indirect Hire	5	5	5		
Memo: Reimbursable Civilians Included	428	494	494	66	-
Civilian FTEs (Total)	3,994	4,043	4,183	49	140
U.S. Direct Hire	3,988	4,037	4,177	49	140
Foreign National Direct Hire	1	1	1		
Total Direct Hire	3,989	4,038	4,178	49	140
Foreign National Indirect Hire	5	5	5		
Memo: Reimbursable Civilians Included	428	494	494	66	-
Average Annual Civilian Salary (\$ in thousands)	\$105	\$109	\$111	4	2

The above end strength does not include: DAWDF: FY09 377; FY10 502; and FY11 559.

The above FTEs do not include DAWDF: FY09 90, FY10 473 and FY11 574.

The above FTEs include: OCO FY09 112; exclude FY10 144; and exclude FY 2011 193.

Note: The President's Budget database closed before data entry was complete and 58 U.S. Direct FTEs were inadvertently omitted for FY 2010. The U.S. Direct FTE total, inclusive of OCO FTEs, should have been 3,687 vs. 3,629.

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**VI. OP 32 Line Items as Applicable (Dollars in thousands):**

<u>OP 32 Line</u>	<u>FY 2009</u> <u>Actuals</u>	<u>Change</u> <u>FY 2009 to FY 2010</u>		<u>FY 2010</u> <u>Estimate</u>	<u>Change</u> <u>FY 2010 to FY 2011</u>		<u>FY 2011</u> <u>Estimate</u>
		<u>Price</u> <u>Growth</u>	<u>Program</u> <u>Growth</u>		<u>Price</u> <u>Growth</u>	<u>Program</u> <u>Growth</u>	
101 Executive, General & Special Schedules	374,881	9,338	1,804	386,023	5,574	17,138	408,735
103 Wage Board	41	29	-	70	1	-	71
104 Foreign National Direct Hire (FNDH)	67	3	-	70	2	-	72
105 Separation Liability (FNDH)	-	-	-	-	-	-	-
106 Benefits to Former Employees	-	-	-	-	-	-	-
107 Voluntary Separation Incentive Payments	-	-	-	-	-	-	-
111 Disability Compensation	1,232	-	1	1,233	-	-	1,233
<b>199 Total Civilian Personnel Compensation</b>	<b>376,221</b>	<b>9,370</b>	<b>1,805</b>	<b>387,396</b>	<b>5,577</b>	<b>17,138</b>	<b>410,111</b>
308 Travel of Persons	16,773	201	-1,404	15,570	231	1,611	17,412
<b>399 Total Travel</b>	<b>16,773</b>	<b>201</b>	<b>-1,404</b>	<b>15,570</b>	<b>231</b>	<b>1,611</b>	<b>17,412</b>
673 Defense Financing & Accounting Service	4,206	-8	-142	4,056	16	-40	4,032
<b>699 Total Purchases</b>	<b>4,206</b>	<b>-8</b>	<b>-142</b>	<b>4,056</b>	<b>16</b>	<b>-40</b>	<b>4,032</b>
771 Commercial Transportation	991	12	-153	850	12	500	1,362
<b>799 Total Transportation</b>	<b>991</b>	<b>12</b>	<b>-153</b>	<b>850</b>	<b>12</b>	<b>500</b>	<b>1,362</b>
912 Rental Payments to GSA (SLUC)	10,439	261	745	11,445	160	1,175	12,780
913 Purchased Utilities (Non-Fund)	3	-	34	37	-	1	38
914 Purchased Communications (Non-Fund)	3,519	42	1642	5,203	75	-346	4,932
915 Rents (Non-GSA)	642	8	120	770	11	-1	780
917 Postal Services (U.S.P.S.)	29	-	-8	21	-	-	21
920 Supplies & Materials (Non-Fund)	6,000	72	-844	5,228	74	568	5,870
921 Printing & Reproduction	120	1	13	134	2	-	136
922 Equipment Maintenance by Contract	249	3	9	261	4	-45	220

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<u>OP 32 Line</u>	Change <u>FY 2009 to FY 2010</u>			<u>FY 2010</u> <u>Estimate</u>	Change <u>FY 2010 to FY 2011</u>		
	<u>FY 2009</u> <u>Actuals</u>	<u>Price</u> <u>Growth</u>	<u>Program</u> <u>Growth</u>		<u>Price</u> <u>Growth</u>	<u>Program</u> <u>Growth</u>	<u>FY 2011</u> <u>Estimate</u>
925 Equipment Purchases (Non-Fund)	3,574	43	-32	3,585	50	476	4,111
989 Other Contracts	19,531	235	1920	21,686	306	1,037	23,029
998 Other Costs	866	-	443	1,309	-	-	1,309
<b>999 Total Other Purchases</b>	<b>44,972</b>	<b>665</b>	<b>4042</b>	<b>49,679</b>	<b>682</b>	<b>2,865</b>	<b>53,226</b>
<b>Total</b>	<b>443,163</b>	<b>10,240</b>	<b>4,148</b>	<b>457,551</b>	<b>6,518</b>	<b>22,074</b>	<b>486,143</b>

\* The FY 2009 Actual column includes \$5,000 thousand (and 32 FTEs) of Overseas Contingency Operations Bridge Funding Appropriations for FY 2009 (PL 110-252) and \$9,800 thousand (and 80 FTEs) of FY 2009 Overseas Contingency Operations Supplemental Appropriations Act (PL 111-32).  
\* The FY 2010 Estimate column excludes \$13,908 thousand (and 86 FTEs) of funding in the FY 2010 Defense-Wide Overseas Contingency Operations Budget PL 111-118, and \$8,800 thousand (and 58 FTEs) of funding in FY 2010 Defense-Wide Overseas Contingency Operations Supplemental Request.  
\* The FY 2011 Estimate column excludes \$27,000 thousand (and 193 FTEs) of funding requested in the FY 2011 Defense-Wide Overseas Contingency Operations Budget Request.

