

**Fiscal Year 2017 President's Budget
Defense Contract Audit Agency (DCAA)**



February 2016

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**Defense Contract Audit Agency
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2017 President's Budget**

**Operation and Maintenance, Defense-Wide Summary (\$ in thousands)
Budget Activity (BA) 4: Administrative and Service-wide Activities**

	FY 2015 <u>Actual</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2016 <u>Enacted</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2017 <u>Estimate</u>
DCAA	572,935	7,514	-14,085	566,364	8,525	56,036	630,925

* The FY 2015 Actual column **includes** \$19,728 thousand of FY 2015 Overseas Contingency Operations (OCO) Appropriations funding (PL 113-235).

* The FY 2016 Estimate column **excludes** \$18,474 thousand of FY 2016 OCO Appropriations funding (PL 114-113).

* The FY 2017 Estimate column **excludes** \$13,436 thousand of FY 2017 OCO Budget request.

I. Description of Operations Financed:

(www.dcaa.mil) The Defense Contract Audit Agency (DCAA) provides audit and financial advisory services to the Department of Defense (DoD) and other federal entities responsible for acquisition and contract administration. DCAA's role in the financial oversight of government contracts is critical to ensure DoD gets the best value for every dollar spent on defense contracting. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. Its work benefits our men and women in uniform and the American taxpayer.

The Agency's primary function is to conduct contract audits and related financial advisory services. Contract audits are independent, professional reviews of financial representations made by defense contractors. Specifically, DCAA helps determine whether contract costs are allowable, allocable, and reasonable. DCAA conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), a set of standards that ensures that audit conclusions are well supported by evidence. The type and extent of DCAA's audit work varies based on the type of contract awarded, but its audit services are generally limited to acquisitions under Federal Acquisition Regulation Part 15 (Contracting by Negotiation). DCAA audits only contractors; it has no internal audit responsibilities in DoD.

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I. Description of Operations Financed (cont.)

DCAA auditors examine contractor accounts, records, and business systems to evaluate whether contractor business practices and procedures are in compliance with the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), Cost Accounting Standards (CAS), and other applicable government laws and regulations. DCAA has no direct role in determining which companies are awarded defense contracts; rather, it provides recommendations to government officials on contractor cost assertions regarding specific products and services. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. In a typical year, DCAA audits around 3,000 contractors, examines about \$200 billion in contract costs, and issues about 6,000 audit reports.

In FY 2017, the DCAA's primary focus will be to reduce the incurred cost backlog and to maintain an incurred cost inventory at an acceptable level. Additionally, DCAA will also continue to meet DoD's other mission critical audit needs. Reducing the incurred cost backlog is necessary to (1) assist in achieving auditable financial statements, a Secretary of Defense priority; (2) assist the Department in closing completed contracts; and (3) prevent undue delays in payments of fees to contractors (a portion of fees to contractors is delayed until the contract is closed). Once the backlog is reduced to an acceptable level, other mission critical audit needs include oversight of contractor billings; audits of direct labor and materials as they are incurred; audits of contractor business systems; audits of contractor disclosure statements and accounting practices for compliance with Cost Accounting Standards (CAS); and post-award audits of contracts for compliance with Truth in Negotiations (TiN).

DCAA's FY 2014 Financial Statements received an unmodified opinion from independent public auditors. DCAA has maintained an unmodified audit opinion since FY 2000.

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I. Description of Operations Financed (cont.)

The DCAA continues to return savings to the Government that far exceed the cost of its operations. In FY 2015, the Agency audited nearly \$175 billion of costs incurred on contracts and issued about 880 forward pricing proposal audit reports amounting to about \$62.5 billion. Approximately \$3.1 billion in net savings were reported because of the audit findings. The return on taxpayers' investment is approximately \$4.80 for each dollar invested in the Agency (\$651 million in FY 2015, including reimbursables).

DCAA's workload and associated staffing levels follow the DoD procurement funding levels. However, there is a time lag for the DoD audit workload to decrease because of contract execution and closeout. The DCAA contract audit workload is divided into the major functional categories described below:

1. **Forward Pricing Effort.** The Federal Acquisition Regulation (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 the forward pricing audit effort is to assist contracting officers in determining and negotiating fair and reasonable prices for negotiated Government contracts. DCAA furnishes pre-award services to contracting officers including:

a. Price Proposal Audits. The DCAA performs these examinations 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 a top priority.

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I. Description of Operations Financed (cont.)

b. Forward Pricing Rate Reviews. The DCAA performs these examinations 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. Agreed Upon Procedures. Applications of agreed-upon procedures include specific procedures performed in support of a contracting officer's cost realism analysis and reviews of information other than cost or pricing data submitted in support of a price proposal. DCAA provides these services to meet the specific needs of contracting officers.

d. Estimating System Surveys. The DCAA performs these examinations 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. DCAA also recommends corrective actions on conditions causing deficiencies disclosed in price proposal evaluations or other audit areas which require immediate reporting and resolution. This category also includes the effort required to determine the status of corrective actions taken by contractors on previously disclosed deficiencies.

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.

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I. Description of Operations Financed (cont.)

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 business 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 business systems gained during these audits is invaluable to the evaluation of contractors' price proposals.

In FY 2017, the DCAA continues efforts to reduce the incurred cost backlog. During FYs 2009 through 2011, DCAA shifted resources away from audits necessary to close contracts (incurred cost audits) in order to focus on performing GAGAS-compliant audits for large contract proposals where audits can help contracting officers negotiate lower prices. This resulted in an increase in the incurred cost backlog of approximately \$420 billion between FY 2008 and FY 2011. Beginning in FY 2012, DCAA established dedicated teams who are focusing on the incurred cost audits until the backlog is reduced to an acceptable level. In July 2012, DCAA received authority to examine incurred cost audits that pose lower risk on a sample basis. As a result, DCAA has made significant progress toward reducing the incurred cost backlog over the past four years. Continued progress is critical as Section 893(a) of the FY 2016 National Defense Authorization Act includes a specific provision stating that the DCAA may not provide audit support for non-Defense

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I. Description of Operations Financed (cont.)

Agencies unless the Secretary of Defense certifies that the backlog for incurred cost audits is less than 18 months of incurred cost inventory.

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

4. **Special Audits.** The contracting officer normally requests audits that include examinations of termination claims, progress payment requests, and equitable adjustment claims. They must be accomplished within a short period to avoid adverse effects such as additional claims for interest on amounts due. The special audits category also includes accounting system audits that DCAA performs for procurement contracting offices prior to contract award or during contract performance, and other efforts requested by the contracting officers. DCAA has little control over the number or the timing of these audits and must respond to all such requests as a priority.

5. **Postaward Audits.** Truth in Negotiations (TiN) (10 USC §2306a) requires contracting officers to obtain cost or pricing data from contractors before awarding a contract unless an exception applies. Under TiN, the Government has the right to examine records to ensure that cost or pricing data is accurate, current and complete. DCAA is responsible for performing these audits, 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

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I. Description of Operations Financed (cont.)

FAR assigns DCAA responsibility for examining contractors' implementation and compliance with the CAS rules and regulations.

7. Other Direct Audit Efforts. Other audit-related activities include providing on-site assistance to procurement and contract administration offices, contract audit coordinator programs, and negotiation support. This activity includes effort related to Congressional, Government Accountability Office (GAO), DoD Inspector General (DoDIG), and other external requests, surveys, and reports. The major functions are:

a. Financial Liaison. 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 procurement officers and auditors; (ii) provide DCAA management with information regarding specific awards, trends in type and volume of awards, and other data impacting 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. 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 problem areas to assure uniform resolution; and (iii) coordinate with other DCAA personnel, contractor representatives, and cognizant procurement officials on issues affecting multiple locations.

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I. Description of Operations Financed (cont.)

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 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 financial assistance the contracting officer may require during the negotiation process.

d. External Audit Interface. DCAA develops information and comments on reports from the GAO, DoD IG, and 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 the U.S. attorney, grand jury, and for use at trial.

f. Audit Support and Planning. DCAA field offices prepare annual audit program plans for the upcoming year and work on projects and studies requested by the regions or Headquarters. Projects normally relate to new and innovative ways of performing DCAA's audit mission, and add to the body of knowledge needed to enhance Agency mission accomplishment through the development and application of improved audit management technology and audit techniques.

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

a. Regional Offices. These offices provide technical audit management, 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). DCAI develops and delivers training for approximately 4,500 contract auditors and is an affiliated member of the Defense Acquisition University. DCAI directs and controls the development and delivery of classroom courses, seminars, computer-based self-study courses, and internet-based, instructor-led courses. DCAI has program management responsibility for training and career development in DCAA. It assures that programs of instruction, courses, and training materials meet DoD standards, GAGAS, and National Association of State Boards of Accountancy (NASBA) standards. DCAI provides training and education policy guidance, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. DCAI ensures training materials are up-to-date and develops new courses when required by the changing audit environment. Training programs provided by DCAI include audit, leadership, and supervisory management education.

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 satisfy AIS and personal computing requirements. It is also responsible for operating the Agency-wide communications infrastructure, monitoring network performance, managing DCAA's information assurance program, and establishing and implementing policy and standards for IT systems and services.

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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 field offices in the implementation of DoD electronic commerce initiatives.

e. Field Administrative Support. These personnel provide clerical, administrative, and resource management services.

9. **Headquarters**. The DCAA Headquarters performs the work normally associated with the central office of a professional public 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 directs and advises regional offices on resource management matters, including human capital, administration, and financial management. It also includes the General Counsel which provides legal advice regarding contracts, ethics, and personnel issues. Headquarters personnel interface with other DoD components, other Government agencies, and Congressional committees.

A review of support services functions identified 282 positions that are under review in the areas of facilities, human resources, finance, information technology, Equal Employment Opportunity (EEO), administration, and security. Three of these reviews have been completed; assessments are ongoing for the others. We are working to centralize the command and control of these functions under Headquarters, which will allow us to achieve the required Major Headquarters Activities Efficiency reductions. DCAA's budget request reflects management Headquarters reductions of 29 FTEs (FY 2015 = 6, FY 2016 = 6, FY 2017 = 6, FY 2018 = 6, FY 2019 = 5). A Resource Management Decision (RMD) has reduced DCAA's

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FTEs by 41 beginning in FY 2018 for additional management Headquarters reductions. DCAA will take a total of 70 management Headquarters reductions as a result of these two initiatives.

II. Force Structure Summary:

Not Applicable.

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III. Financial Summary (\$ in thousands)

	FY 2015 <u>Actual</u>	Budget <u>Request</u>	FY 2016 <u>Congressional Action</u>			Current <u>Enacted</u>	FY 2017 <u>Estimate</u>
			<u>Amount</u>	<u>Percent</u>	<u>Appropriated</u>		
A. BA Subactivities							
1. Audit Institute	7,358	9,443	0	0.0	9,443	9,443	9,601
DCAA Communications	7	9	0	0.0	9	9	9
DCAA Operations	7,351	9,434	0	0.0	9,434	9,434	9,592
2. Audit Operations	565,577	560,734	-3,813	-0.7	556,921	556,921	621,324
DCAA Communications	5,656	6,871	-203	-2.0	6,668	6,668	9,755
DCAA Major Headquarters	29,652	30,531	367	1.2	30,898	30,898	49,362
DCAA Operations	530,269	523,332	-3,977	-0.8	519,355	519,355	562,207
Total	572,935	570,177	-3,813	-0.7	566,364	566,364	630,925

* The FY 2015 Actual column includes \$19,728 thousand of FY 2015 Overseas Contingency Operations (OCO) Appropriations funding (PL 113-235).

* The FY 2016 Estimate column excludes \$18,474 thousand of FY 2016 OCO Appropriations funding (PL 114-113).

* The FY 2017 Estimate column excludes \$13,436 thousand of FY 2017 OCO Budget request.

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B. <u>Reconciliation Summary</u>	Change	Change
	<u>FY 2016/FY 2016</u>	<u>FY 2016/FY 2017</u>
Baseline Funding	570,177	566,364
Congressional Adjustments (Distributed)	-3,600	
Congressional Adjustments (Undistributed)		
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)	-213	
Subtotal Appropriated Amount	566,364	
Fact-of-Life Changes (2016 to 2016 Only)		
Subtotal Baseline Funding	566,364	
Supplemental	18,474	
Reprogrammings		
Price Changes		8,525
Functional Transfers		
Program Changes		56,036
Current Estimate	584,838	630,925
Less: Wartime Supplemental	-18,474	
Normalized Current Estimate	566,364	

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III. Financial Summary (\$ in thousands)

<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
FY 2016 President's Budget Request (Amended, if applicable)		570,177
1. Congressional Adjustments		-3,813
a. Distributed Adjustments		
1) Overestimation of civilian FTE targets and streamlining management headquarters	-3,600	
b. Undistributed Adjustments		
c. Adjustments to Meet Congressional Intent		
d. General Provisions		
1) Section 8037 - Indian Lands	-213	
FY 2016 Appropriated Amount		566,364
2. War-Related and Disaster Supplemental Appropriations		18,474
a. OCO Supplemental Funding		
1) FY 2016 Defense-Wide Overseas Contingency Operations	18,474	
3. Fact-of-Life Changes		
FY 2016 Baseline Funding		584,838
4. Reprogrammings (Requiring 1415 Actions)		
Revised FY 2016 Estimate		584,838
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings		-18,474
FY 2016 Normalized Current Estimate		566,364
6. Price Change		8,525
7. Functional Transfers		
8. Program Increases		64,294
a. Annualization of New FY 2016 Program		
b. One-Time FY 2017 Increases		
1) Purchased Communications	2,967	
Increased costs due to Networx long distance services contract transition cost. The increase will cover a one-time cost during the transition time, as DCAA will be running two systems (Networx and the FTS 2001		

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
contract with Sprint). (FY 2016 Baseline: \$6,677 thousand; +0 FTEs)		
2) DFAS Financial Operations	761	
Increase based on operations and support services for the enterprise resource planning (ERP) systems migration. During the transition to DAI, DBMS (Defense Business Management System) will still be in use. Since we are the last man standing, DCAA will take on all DBMS cost plus additional costs tagged on by the DAI Program office at DFAS for the transition (one-time cost). (FY 2016 Baseline: \$4,128 thousand; +0 FTEs)		
c. Program Growth in FY 2017		
1) Personnel Compensation	59,874	
Increased FTEs will correct pricing irregularities and support high risk mission requirements which in turn enable DCAA to be responsive to contracting officers in establishing fair and reasonable prices and mitigating the risk of any contractor overpayments. Critical audits that DCAA will support include those involving sufficient oversight of contractor billings; audits of direct labor and materials as they are incurred; audits of contractor business systems; audits of contractor disclosure statements and accounting practices for compliance with Cost Accounting Standards (CAS); and post-award audits of contracts for compliance with Truth in Negotiations (TiN). DCAA will also continue to make progress on reducing the incurred cost backlog, an important Department priority. The FY 2016 National		

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
<p>Defense Authorization Act stated that DCAA may not provide audit support for non-Defense Agencies until the incurred cost backlog is reduced to 18 months. As a result the direct FTEs will also increase in FY 2017 to reflect the redeployment of FTEs from reimbursable audit support to DoD audits. (FY 2016 Baseline: \$481,762 thousand; +552 FTEs)</p>		
2) Other Intra-government Purchases	631	
<p>The increase is based on the requirement to purchase appropriate circuits to support DCAA internet and email traffic bandwidth requirements in support of DOD's Defense Information Systems Network consolidation of network infrastructure initiative. (FY 2016 Baseline: \$10,584 thousand; +0 FTEs)</p>		
3) Commercial Transport	58	
<p>Increased PCS travel requirements associated with increased FTEs.</p> <p>(FY 2016 Baseline: \$2,614 thousand; +0 FTEs)</p>		
4) Purchased Utilities	3	
<p>Increase due to additional regional utilities requirements. (FY 2016 Baseline: \$76 thousand; +0 FTEs)</p>		
9. Program Decreases		-8,258
a. Annualization of FY 2016 Program Decreases		
b. One-Time FY 2016 Increases		
1) Personnel Compensation	-3,601	
<p>Decrease in civilian personnel funding due to two less work days in FY 2017</p>		

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
(FY 2016 Baseline: \$481,712 thousand; +0 FTEs)		
c. Program Decreases in FY 2017		
1) Equipment Purchases	-1,637	
Decrease associated with a decrease in furniture costs. (FY 2016 Baseline: \$4,230 thousand; +0 FTEs)		
2) Equipment Maintenance by Contract	-925	
Decrease primarily due to a lower level of effort associated with the DAI transition support. (FY 2016 Baseline: \$7,217 thousand; +0 FTEs)		
3) Facilities Sustainment, Restoration and Modification	-595	
Reduction associated with a decrease in facilities modernization projects requirements. (FY 2016 Baseline: \$1,546 thousand; +0 FTEs)		
4) IT Contract Support Services	-524	
Consolidation of network and help desk support contracts yields efficiency in IT contract costs. (FY 2016 Baseline: \$9,498 thousand; +0 FTEs)		
5) Travel	-448	
Decreased travel cost per FTE based on historical execution. (FY 2016 Baseline: \$13,631 thousand; +0 FTEs)		
6) Supplies and Materials	-312	
Decreased supplies and materials cost per FTE based on historical execution. (FY 2016 Baseline: \$805 thousand; +0 FTEs)		
7) Non GSA Rents	-76	
Decreased rental costs due to a decrease in space requirements. (FY 2016 Baseline: \$2,367 thousand; +0 FTEs)		
8) Rental Payments to GSA	-72	

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<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
Reduction due to the consolidation of two GSA leases into one military facility. (FY 2016 Baseline: \$14,250 thousand; +0 FTEs)		
9) Other Services	-68	
Decrease for Contractor courts associated with savings identified in the Service Requirements Review Board process. (FY 2016 Baseline: \$2,708 thousand; +0 FTEs)		
FY 2017 Budget Request		630,925

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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.

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 87 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.

DCAA's Strategic Plan. DCAA's current Strategic Plan was issued in November 2010. The Strategic Plan is founded on a Mission Statement, followed by a Vision Statement, Values and Goals. To address key challenges and fulfill its mission, DCAA uses a strategic

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IV. Performance Criteria and Evaluation Summary:

planning approach which aims to achieve DCAA's Vision through its pursuit of several goals to be accomplished within a 5-year timeframe. DCAA also has a Human Capital Plan which tiers from the Strategic Plan and addresses strategies related to recruitment, on boarding, employee development, retention and succession planning. DCAA is currently drafting a new Strategic Plan for fiscal years 2016 through 2020 which will be published later this year.

DCAA Mission

Defense Contract Audit Agency (DCAA), while serving the public interest as its primary customer, shall perform all necessary contract audits for the Department of Defense (DoD) and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration. These services shall be provided in connection with negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. DCAA shall provide contract audit services to other Federal agencies as appropriate.

DCAA Vision

Dedicated professionals working together to deliver top-quality audit services to support the Department and the warfighter, and to protect the taxpayer's interest.

DCAA Strategic Plan Goals

Goal 1: "One Agency" with a culture of teamwork, excellence, accountability, mutual respect, integrity, and trust.

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IV. Performance Criteria and Evaluation Summary:

Goal 2: High-quality audits and other financial advisory services.

Goal 3: Highly skilled and motivated professionals dedicated to excellence in accomplishing our mission.

Goal 4: Effective working relationships with DCAA external stakeholders.

Goal 5: The workforce has the right space, the right equipment, and the right technology at the right time to successfully deliver on the mission.

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IV. Performance Criteria and Evaluation Summary:

Summary of Performance Based Measures. The chart below summarizes our Audit Performance Measures. DCAA continues to reassess its performance measures to develop measurements that more closely align with the Strategic Plan. As a result, the audit performance measures discussed below may change for FY 2016 and 2017. Detailed descriptions are provided for each of the existing measures.

<u>Notes</u>	<u>Audit Performance Measures</u>	<u>FY 2015 Actual</u>	<u>FY 2016 Objective (Est.)</u>	<u>FY 2017 Objective (Est.)</u>
	<u>Quality Related Measures:</u>			
1	Opinion on Council of Inspectors General on Integrity and Efficiency (CIGIE) Review	Pass with Deficiency	See note	Unqualified Opinion
2	DCAA Internal QA Reviews	78%	Exceed FY 2015	Exceed FY 2016
3	CPE Requirements	100%	100%	100%
	<u>Timeliness Measures:</u>			
4	Forward Pricing Audits Issued by Original Due Date	65%	Exceed FY 2015	Exceed FY 2016
5	Incurred Cost Years Completed	7,545	TBD	TBD
	<u>Efficiency Measure:</u>			
6	Cost per Direct Audit Hour	\$139.11	TBD	TBD

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IV. Performance Criteria and Evaluation Summary:

Description of Performance Measures:

1. Opinion on the Council of Inspectors General on Integrity and Efficiency (CIGIE) reviews. The Government Auditing Standards, as promulgated by the Government Accountability Office, require 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 (peer 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 use guidelines established by the CIGIE. An unqualified opinion represents full compliance with auditing standards with no reportable deficiencies. The Inspector General for the U. S. Department of Defense issued DCAA Peer Review: System Review Report on August 21, 2014. The report concluded that DCAA's system of quality control in effect as of June 30, 2013, has been in compliance and suitably designed to provide DCAA with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. DCAA received a peer review rating of *pass with deficiency*. DCAA expects that the DoDIG will conduct another Peer Review beginning in fourth quarter FY 2016.

2. DCAA Internal Quality Assurance (QA) Results. The DCAA uses this measure to validate the quality of audits completed. DCAA's Quality Assurance organization performs these reviews and evaluates whether they are performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Our goal is to increase the percentage of audits passing the QA Review each year.

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IV. Performance Criteria and Evaluation Summary:

3. 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 GAGAS published by the GAO. At least 20 hours must be completed in each year of the two-year period. 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.

4. Percent of forward-pricing proposal audit reports issued by the original 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 DCAA. DCAA's ability to provide these audit services in a timely manner is critical to the timely awarding of contracts. We measure the percent of forward pricing proposal audit reports issued by the original due date agreed to between the auditor and requester. The percentage of reports meeting the due date is expected to improve each year.

5. Incurred cost years completed. Timely annual audits of costs incurred on contracts by DCAA are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. We have not established the FY 2017 goals.

6. 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 2017 goals have not yet been established.

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<u>V. Personnel Summary</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	Change <u>FY 2015/ FY 2016</u>	Change <u>FY 2016/ FY 2017</u>
<u>Civilian End Strength (Total)</u>	4,693	4,209	4,722	-484	513
U.S. Direct Hire	4,693	4,209	4,722	-484	513
Total Direct Hire	4,693	4,209	4,722	-484	513
Memo: Reimbursable Civilians Included	514	238	59	-276	-179
<u>Civilian FTEs (Total)</u>	4,744	4,318	4,691	-426	373
U.S. Direct Hire	4,744	4,318	4,691	-426	373
Total Direct Hire	4,744	4,318	4,691	-426	373
Memo: Reimbursable Civilians Included	514	238	59	-276	-179
Average Annual Civilian Salary (\$ in thousands)	116.9	119.1	118.6	2.2	-0.5
 <u>Contractor FTEs (Total)</u>	 51	 54	 56	 3	 2
 Defense Acquisition Workforce Development Fund (DAWDF) and Overseas Contingency Operations (OCO) Personnel Summary	 <u>FY 2015</u>	 <u>FY 2016</u>	 <u>FY 2017</u>	 Change <u>FY 2015/ FY 2016</u>	 Change <u>FY 2016/ FY 2017</u>
DAWDF End Strength (Total)	147	180	102	33	-78
DAWDF FTEs (Total)	143	207	146	64	-61
OCO FTEs (Total)	150	145	103	-5	-42

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

<u>OP 32 Line</u>	<u>FY 2015</u> <u>Actual</u>	<u>Change</u> <u>FY 2015/FY 2016</u>		<u>FY 2016</u> <u>Enacted</u>	<u>Change</u> <u>FY 2016/FY 2017</u>		<u>FY 2017</u> <u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
101 Exec, Gen'l & Spec Scheds	490,735	6,012	-15,035	481,712	7,317	56,271	545,300
103 Wage Board	37	0	13	50	1	0	51
104 FN Direct Hire (FNDH)	5	0	-5	0	0	0	0
106 Benefit to Fmr Employees	159	0	-159	0	0	0	0
111 Disability Compensation	2,017	0	-203	1,814	0	2	1,816
121 PCS Benefits	1,543	0	840	2,383	0	0	2,383
199 Total Civ Compensation	494,496	6,012	-14,549	485,959	7,318	56,273	549,550
308 Travel of Persons	14,716	250	-1,335	13,631	245	-448	13,428
399 Total Travel	14,716	250	-1,335	13,631	245	-448	13,428
696 DFAS Financial Operation (Other Defense Agencies)	4,302	240	-414	4,128	-166	761	4,723
699 Total DWCF Purchases	4,302	240	-414	4,128	-166	761	4,723
771 Commercial Transport	2,192	37	385	2,614	47	58	2,719
799 Total Transportation	2,192	37	385	2,614	47	58	2,719
912 Rental Payments to GSA (SLUC)	13,697	233	320	14,250	257	-72	14,435
913 Purchased Utilities (Non-Fund)	100	2	-26	76	1	3	80
914 Purchased Communications (Non-Fund)	5,663	96	918	6,677	120	2,967	9,764
915 Rents (Non-GSA)	2,153	37	177	2,367	43	-76	2,334
920 Supplies & Materials (Non-Fund)	1,824	31	-1,050	805	14	-312	507
921 Printing & Reproduction	31	1	38	70	1	0	71
922 Equipment Maintenance By Contract	6,805	116	296	7,217	130	-925	6,422
923 Facilities Sust, Rest, & Mod by Contract	930	16	600	1,546	28	-595	979
925 Equipment Purchases (Non-Fund)	5,635	96	-1,501	4,230	76	-1,637	2,669
960 Other Costs (Interest and Dividends)	3	0	1	4	0	0	4
987 Other Intra-Govt Purch	11,077	189	-682	10,584	191	631	11,406
989 Other Services	1,766	30	912	2,708	49	-68	2,689
990 IT Contract Support Services	7,545	128	1,825	9,498	171	-524	9,145

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<u>OP 32 Line</u>	FY 2015	Change		FY 2016	Change		FY 2017
	<u>Actual</u>	<u>FY 2015/FY 2016</u>		<u>Enacted</u>	<u>FY 2016/FY 2017</u>		<u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
999 Total Other Purchases	57,229	975	1,828	60,032	1,081	-608	60,505
Total	572,935	7,514	-14,085	566,364	8,525	56,036	630,925

* The FY 2015 Actual column includes \$19,728 thousand of FY 2015 Overseas Contingency Operations (OCO) Appropriations funding (PL 113-235).

* The FY 2016 Estimate column excludes \$18,474 thousand of FY 2016 OCO Appropriations funding (PL 114-113).

* The FY 2017 Estimate column excludes \$13,436 thousand of FY 2017 OCO Budget request.