

FY 2002 Amended Budget Submission

Defense Contract Audit Agency

(DCAA)



June 2001

**DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2002 Amended Budget Submission**

Summary:

(Dollars in Thousands)

FY 2000	<i>Price</i>	<i>Program</i>	FY 2001	<i>Price</i>	<i>Program</i>	FY 2002
<u>Actual</u>	<u>Change</u>	<u>Change</u>	<u>Estimate</u>	<u>Change</u>	<u>Change</u>	<u>Estimate</u>
319,173	+11,385	+9,158	339,716	+11,018	+7,447	358,181

The Defense Contract Audit Agency (DCAA) is a worldwide, single mission Agency responsible for assisting Department of Defense (DoD) acquisition authorities in achieving sound contract pricing. This is done by evaluating contractor forward pricing proposals; providing contracting officers with accounting and financial advisory services useful to "could cost" and "should cost" assessments and negotiations; verifying the propriety and acceptability of costs charged by contractors to flexibly priced Government contracts; and deterring contractors' inefficient practices which, if not detected and corrected, could lead to excessive costs and contract prices.

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

Projected staffing requirements are commensurate with planned changes in DoD procurement levels, departmental acquisition streamlining initiatives, and required effort to complete

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audits of prior year contract expenditures. These staffing levels also reflect incorporation of previous Quadrennial Defense Review recommendations and related DoD initiatives.

Narrative Explanation of Change

Budget Activity 3

(Dollars in Thousands)

<u>FY 2000</u> <u>Actual</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2001</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2002</u> <u>Estimate</u>
0	0	+3,725	3,725	+107	+1	3,833

Defense Contract Audit Institute (DCAI) The increase in funding for DCAI is primarily due to Price Change. The nominal program increase is associated with increases in supplies and materials (including items purchased with the IMPAC government credit card).

Budget Activity 4

(Dollars in Thousands)

<u>FY 2000</u> <u>Actual</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2001</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2002</u> <u>Estimate</u>
319,173	+11,385	+5,433	335,991	+10,911	+7,446	354,348

The net increase in BA-4 is primarily due to Price Change. The balance, Program Change, is associated with an additional paid day, increase of 12 direct Workyears, promotions, and increases in: disability compensation, overtime, travel, communications, supplies and materials (IMPAC), ADP services and computer purchases.

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Summary of Increases and Decreases

	<u>BA-3</u>	<u>BA-4</u>	<u>TOTAL</u>
1. FY 2001 President's Budget	0	348,658	348,658
2. Congressional Adjustments	0	-2,896	-2,896
3. FY 2001 Appropriated Amount	<u>0</u>	<u>345,762</u>	<u>345,762</u>
4. Congressional Recission	0	-760	-760
5. Price Change	0	0	0
6. Program Increases	3,725	0	3,725
7. Program Decreases	0	-9,011	-9,011
8. FY 2001 Current Estimate	<u>3,725</u>	<u>335,991</u>	<u>339,716</u>
9. Price Change	107	10,911	11,018
10. Program Increases	1	7,446	7,447
11. Program Decreases	0	0	0
12. FY 2002 Estimate	<u><u>3,833</u></u>	<u><u>354,348</u></u>	<u><u>358,181</u></u>

Force Structure Summary: N/A

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

	FY 2000 Actuals	Change From FY 2000 - FY 2001		FY 2001 Estimate	Change From FY 2001 - FY 2002		FY 2002 Estimate
		Price Growth	Program Growth		Price Growth	Program Growth	
<u>CIVILIAN PERSONNEL COMPENSATION</u>							
Executive, General & Special Schedules	264,809	10,486	3,746	279,041	10,156	3,675	292,872
Wage Board	58	3	-	61	2	-	63
Foreign National Direct Hire (FNDH)	49	2	-	51	2	-	53
Separation Liability (FNDH)	-	-	-	-	-	-	-
Benefits to Former Employees	31	1	(19)	13	-	-	13
Voluntary Separation Incentive Payments	100	-	(50)	50	-	-	50
Disability Compensation	1,165	-	(10)	1,155	-	217	1,372
Total Civilian Personnel Compensation	266,212	10,492	3,667	280,371	10,160	3,892	294,423
<u>TRAVEL</u>							
Travel of Persons	11,827	189	313	12,329	209	532	13,070
Total Travel	11,827	189	313	12,329	209	532	13,070
<u>OTHER FUND PURCHASES</u>							
Defense Financing & Accounting Service	1,854	91	-	1,945	(92)	1	1,854
Total Purchases	1,854	91	-	1,945	(92)	1	1,854
<u>TRANSPORTATION</u>							
Commercial Transportation	550	7	(1)	556	7	1	564
Total Transportation	550	7	(1)	556	7	1	564
<u>OTHER PURCHASES</u>							
Rental Payments to GSA (SLUC)	7,904	158	(13)	8,049	161	15	8,225
Purchased Utilities (Non-Fund)	41	1	(1)	41	1	-	42
Purchased Communications (Non-Fund)	3,796	61	1,565	5,422	92	444	5,958
Rents (Non-GSA)	677	11	(1)	687	12	-	699
Postal Services (U.S.P.S.)	125	2	-	127	2	-	129
Supplies & Materials (Non-Fund)	7,696	123	473	8,292	140	1,125	9,557
Printing & Reproduction	5	-	1	6	-	-	6
Equipment Maintenance by Contract	86	1	43	130	3	(1)	132
Equipment Purchases (Non-Fund)	4,259	68	1,012	5,339	91	978	6,408
Other Contracts	11,324	180	2,101	13,605	231	460	14,296
Other Costs	2,817	1	(1)	2,817	1	-	2,818
Total Other Purchases	38,730	606	5,179	44,515	734	3,021	48,270
<u>TOTAL</u>	319,173	11,385	9,158	339,716	11,018	7,447	358,181

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Budget Activity-3 Training and Recruiting

I. Description of Operations Financed:

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

II. Force Structure Summary: N/A

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Budget Activity-3 Training and Recruiting

IV. Performance Criteria and Evaluation Summary:

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

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Budget Activity-3 Training and Recruiting

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

A. <u>Budget Activity Group</u>	FY 2000 <u>Actuals</u>	FY 2001			FY 2002 <u>Estimate</u>
		<u>Budget Request</u>	<u>Appropriation</u>	<u>Current Estimate</u>	
DCAA Operations	0	0	0	3,725	3,833
DCAA Communications	0	0	0	0	0
DCAA Management HQ	0	0	0	0	0
TOTAL	0	0	0	3,725	3,833

B. <u>Reconciliation Summary</u>	Change	
	<u>FY 2001 / FY 2001</u>	<u>FY 2001 / FY 2002</u>
1 Baseline Funding	0	3,725
a) Distributed Congressional Adjust.		
b) Undistributed Congressional Adjust.		
c) General Provision Congressional Adj.		
d) Congressional Earmarks		
e) Congressional Earmarks Billpayers		
2 Appropriated Amount (Subtotal)	0	
a) Adjustments to Meet Cong. Intent		
b) Across-the-board Reduc. (Rescission)		
c) Approved Reprogrammings/Transfers		
3 Price Change		107
4 Program Changes	3,725	1
5 Current Estimate	3,725	3,833

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Budget Activity-3 Training and Recruiting

1. Congressional Adjustment(s)		
a) Distributed Adjustment		
i) Civilian Personnel Underexecution	0	
b) Undistributed Adjustment(s)		
i) Congressional Action - Initial Allocation	0	
ii) P25 - Additional HQ Personnel Reduction	0	
c) Adjustments to meet Congressional Intent		
d) Earmark Billpayers	0	
FY 2001 Appropriated Amount (subtotal)		0
2. Program Increases and Decreases		
a) Transfers		
b) Program Increases		
i) One-Time Costs		
ii) Program Growth		
c) Program Decreases/Increases		
i) One-Time Costs		
Rescission -- P.L. 106-554, FY 2001 Consolidated Appn	0	
ii) Program Reductions/Increases		
P26 Enhanced Defense Financial Mgmt Training	0	
PBD 085 -- OSD directed breakout of BA3 Funds	3,725	
Baseline Funding (subtotal)		
3. Reprogramming/Supplemental		
a) Anticipated Supplemental		
b) Reprogrammings (Requiring 1415 Actions)		
i) Increases		
ii) Decreases		
Revised FY 2001 Estimate		3,725
4. Price Change	107	
5. Program Growth --		
Supplies and materials -- Includes IMPAC Government Credit Card	1	
FY 2002 Budget Request		3,833

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Budget Activity-3 Training and Recruiting

V. <u>Personnel Summary</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>Change</u> <u>FY 01/FY 02</u>
<u>Civilian End Strength (Total)</u>	0	33	33	0
U.S. Direct Hire	0	33	33	0
Foreign National Direct Hire	0	0	0	0
Total Direct Hire	0	33	33	0
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	0	0	0	0
 <u>Civilian FTEs (Total)</u>	 0	 33	 33	 0
U.S. Direct Hire	0	33	33	0
Foreign National Direct Hire	0	0	0	0
Total Direct Hire	0	33	33	0
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	0	0	0	0

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Budget Activity-3 Training and Recruiting

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

	FY 2000 <u>Actuals</u>	Foreign Currency <u>Rate Diff</u>	Change FY 2000 - FY 2001		
			<u>Price Growth</u>	<u>Program Growth</u>	<u>FY 2001 Estimate</u>
CIVILIAN PERSONNEL COMPENSATION					
Executive, General & Special Schedules	0		0	2,319	2,319
Total Civilian Personnel Compensation	<u>0</u>		<u>0</u>	2,319	2,319
TRAVEL					
Travel of Persons	0		0	210	210
Total Travel	<u>0</u>		<u>0</u>	210	210
OTHER FUND PURCHASES					
Defense Finance and Accounting Services	0		0	16	16
Total Purchases	<u>0</u>		<u>0</u>	16	16
OTHER PURCHASES					
Rental Payments to GSA (SLUC)	0		0	380	380
Supplies & Materials (Non-Fund)	0		0	650	650
Equipment Purchases (Non-Fund)	0		0	10	10
Other Contracts	0		0	140	140
Other Costs	0		0	1,180	1,180
Total Other Purchases	<u>0</u>		<u>0</u>	1,180	1,180
TOTAL	<u><u>0</u></u>		<u><u>0</u></u>	3,725	3,725

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Budget Activity-3 Training and Recruiting

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

	FY 2001 <u>Actuals</u>	Foreign Currency Rate Diff	Change		FY 2002 <u>Estimate</u>
			Price Growth	Program Growth	
CIVILIAN PERSONNEL COMPENSATION					
Executive, General & Special Schedules	2,319		84	1	2,404
Total Civilian Personnel Compensation	<u>2,319</u>		<u>84</u>	<u>1</u>	<u>2,404</u>
TRAVEL					
Travel of Persons	210		3	0	213
Total Travel	<u>210</u>		<u>3</u>	<u>0</u>	<u>213</u>
OTHER FUND PURCHASES					
Defense Finance and Accounting Services	16		(1)	0	15
Total Purchases	<u>16</u>		<u>(1)</u>	<u>0</u>	<u>15</u>
OTHER PURCHASES					
Rental Payments to GSA (SLUC)	380		8	(1)	387
Supplies & Materials (Non-Fund)	650		10	1	661
Equipment Purchases (Non-Fund)	10		0	0	10
Other Contracts	140		3	0	143
Other Costs					
Total Other Purchases	<u>1,180</u>		<u>21</u>	<u>0</u>	<u>1,201</u>
TOTAL	<u><u>3,725</u></u>		<u><u>107</u></u>	<u><u>1</u></u>	<u><u>3,833</u></u>

DEFENSE CONTRACT AUDIT AGENCY
Operations And Maintenance, Defense-Wide
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Budget Activity-4 Administration and Servicewide Activities

I. Description of Operations Financed:

1. Narrative Description: The Defense Contract Audit Agency (DCAA) is a worldwide, single mission Agency responsible for assisting Department of Defense (DoD) acquisition authorities in achieving sound contract pricing. This is done by evaluating contractor forward pricing proposals; providing contracting officers with accounting and financial advisory services useful to "could cost" and "should cost" assessments and negotiations; verifying the propriety and acceptability of costs charged by contractors to flexibly priced Government contracts; and deterring contractors' inefficient practices which, if not detected and corrected, could lead to excessive costs and contract prices.

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

Projected staffing requirements are commensurate with planned changes in DoD procurement levels, departmental acquisition streamlining initiatives, and required effort to complete audits of prior year contract expenditures. These staffing levels also reflect incorporation of previous Quadrennial Defense Review recommendations and related DoD initiatives.

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I. Description of Operations Financed (Continued):

2. Performance Measures and Results: DCAA has entered into a performance contract with the Defense Management Council that sets performance standards for its two major product lines - forward pricing and incurred cost audits. The contract includes deliverables of average cost per million dollars audited and dollars audited per work year. This budget submission contains the following values for the contracted metrics.

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Forward Pricing:			
Cost per million dollars audited	\$ 548	\$ 711	\$ 730
Million dollars audited per work year	\$136.1	\$111.3	\$115.3
Incurring Cost:			
Cost per million dollars audited	\$1,207	\$1,240	\$1,292
Million dollars audited per work year	\$ 61.8	\$ 63.8	\$ 65.1

In addition to the unit cost and productivity standards, the contract also has measures for customer responsiveness and a requirement to complete customer surveys. DCAA has a goal to achieve an agency-wide average of 30 days or less audit cycle time on forward pricing audits. It also has a goal to complete the audits of at least 92% of adequate incurred cost submissions within 12 months of receipt at major contractors and corporate offices and within 24 months of receipt for all other adequate incurred cost submissions. These goals were established to meet contracting office needs for awarding and closing out contracting actions.

It should be noted that savings to the Government, as a result of contract audit services, far exceed the cost of DCAA operations. For example, in FY 2000 the Agency audited \$90.9 billion of incurred cost and reviewed 9,874 forward pricing proposals amounting to \$93.9 billion. Approximately \$2.4 billion in net savings were reported during the year. When compared to the \$364 million expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately \$6.60 for each dollar invested.

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

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

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

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. DCAA auditors participate as members of the team of specialists. Such studies usually involve large major weapon system procurements. DCAA auditors also participate on IPTs that include representatives from all appropriate organizations and functional disciplines (normally DCAA, the buying activities, DCMA, and the contractor). Working together with the team leader, the objective is to avoid rework at the end of process by identifying problems and finding potential solutions at the earliest possible point in the procurement process.

c. Forward Pricing Rate Reviews. These reviews are performed to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted

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by a contractor prior to submission of price proposals. These rates are normally separately negotiated by a contracting officer and then used by the contractor in subsequent price

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II. Force Structure Summary (Continued):

proposals. Beginning in FY 2000, DCAA is providing "rapid rates" services to major buying commands for contractors that are expected to do business with the Government during the year. The DCAA initiative is to proactively seek out and audit rate information from prospective Government contractors so that the information can be available for buying offices to use within hours of a request. This initiative supports the Department's Civil-Military Integration/Commercial Buying activities and will both reduce the procurement cycle time and provide better data within the time frames available for decision making.

d. Specific Cost Element Reviews and Agreed Upon Procedures. Specific cost element reviews are audits of only specific cost elements within a proposal (e.g., only proposed material or labor costs). Applications of agreed-upon procedures include cost realism reviews and all reviews of information other than cost or pricing data submitted in support of a price proposal.

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

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

2. Incurred Cost Effort. The FAR requires DCAA to perform audits of claimed costs incurred and submitted by contractors for reimbursement under cost reimbursable, fixed

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price incentive, and other types of flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, FAR, and Cost Accounting Standards (CAS) rules

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II. Force Structure Summary (Continued):

and regulations, if applicable. Although the performance of these incurred cost audits and CAS compliance audits are normally self-initiated, they must be accomplished in order for the Government to make final payment to the contractor. They include reviews of direct labor and material, indirect expenses, and performance and financial controls. Although the primary purpose of incurred cost audits is to express an opinion on the acceptability of costs claimed under Government contracts, knowledge of contractors' accounting, estimating, and internal control systems gained during these audits is invaluable to the evaluation of contractors' price proposals.

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

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

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

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II. Force Structure Summary (Continued):

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

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

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

b. Financial Advisory Service Center. Financial advisory services positions have been established to provide on-site financial analysis and professional auditing advice to contracting officers at buying command locations. These positions were established to meet the changing needs of the procurement community as acquisition reform has changed the face of Government contracting and auditing. The shift to commercial

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pricing practices has caused a decrease in the use of audits performed at contractor locations in favor of analysis of financial data available at the procurement offices.

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II. Force Structure Summary (Continued):

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

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

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

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

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II. Force Structure Summary (Continued):

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

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

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

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

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

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

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

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II. Force Structure Summary (Continued):

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

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

A. <u>Budget Activity Group</u>	FY 2000 <u>Actuals</u>	FY 2001		Current <u>Estimate</u>	FY 2002 <u>Estimate</u>
		Budget <u>Request</u>	<u>Appropriation</u>		
DCAA Operations	304,377	331,633	328,878	319,107	336,891
DCAA Communications	3,796	5,386	5,422	5,422	5,958
DCAA Management HQ	11,000	11,639	11,462	11,462	11,499
TOTAL	319,173	348,658	345,762	335,991	354,348

B. <u>Reconciliation Summary</u>	Change	Change
	<u>FY 2001 / FY 2001</u>	<u>FY 2001 / FY 2002</u>
1 Baseline Funding	348,658	335,991
a) Distributed Congressional Adjust.	-2,000	
b) Undistributed Congressional Adjust.	-779	
c) General Provision Congressional Adj.		
d) Congressional Earmarks		
e) Congressional Earmarks Billpayers	-117	
2 Appropriated Amount (Subtotal)	345,762	
a) Adjustments to Meet Cong. Intent		
b) Across-the-board Reduc. (Rescission)	-760	
c) Approved Reprogrammings/Transfers		
3 Price Change		10,911
4 Program Changes	-9,011	7,446
5 Current Estimate	335,991	354,348

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1. Congressional Adjustment(s)		
a) Distributed Adjustment		
i) Civilian Personnel Underexecution	-2,000	
b) Undistributed Adjustment(s)		
i) Congressional Action - Initial Allocation	-682	
ii) P25 - Additional HQ Personnel Reduction	-97	
c) Adjustments to meet Congressional Intent		
d) Earmark Billpayers	-117	
FY 2001 Appropriated Amount (subtotal)		345,762
2. Program Increases and Decreases		
a) Transfers		
b) Program Increases		
i) One-Time Costs		
ii) Program Growth		
c) Program Decreases		
i) One-Time Costs		
Rescission -- P.L. 106-554, FY 2001 Consolidated Appn	-760	
ii) Program Reductions		
P26 Enhanced Defense Financial Mgmt Training	-286	
PBD 085		
Transfer to Budget Activity Group 3 (training).	-3,725	
Adjustment to cost base.	-5,000	
Baseline Funding (subtotal)		
3. Reprogramming/Supplemental		
a) Anticipated Supplemental		
b) Reprogrammings (Requiring 1415 Actions)		
i) Increases		
ii) Decreases		
Revised FY 2001 Estimate		335,991

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4. Price Change		10,911
5. Program Growth		7,446
a) One additional paid day in FY 2002	1,000	
b) Increase of 12 Direct Workyears	1,000	
c) Promotions of entry level auditors	674	
d) Increase in Disability Compensation	217	
e) Overtime	1,000	
f) Travel and Transportation -- Due to closing / consolidation of Field Audit Offices, the geographic coverage of the remaining FAOs is expected to increase slightly.	532	
g) Communications -- To support growing reliance on agency Intranet and other growing ADP requirements including the paperless contracting initiative.	444	
g) Supplies and materials -- Includes increased payment of contracts with the IMPAC Government Credit Card.	1,101	
h) ADP Services -- To support increased technological advances within DCAA.	460	
i) Computer purchases -- To support increased ADP requirements associated with new hires.	978	
j) Other Program Growth	40	
FY 2002 Budget Request		354,348

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IV. Performance Criteria and Evaluation Summary:

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>Notes</u>
Forward Pricing	690	677	706	1
Incurred Cost Effort:				
Regular Incurred Costs Audits	1,397	1,305	1,240	
CAS Compliance Audits	<u>74</u>	<u>89</u>	<u>79</u>	
Total Incurred Cost	1,471	1,394	1,319	2
Operations Audits	63	100	101	3
Special Audits	453	428	433	4
Defective Pricing	113	114	126	5
Cost Accounting Standards: Disclosure Statements, Cost Impact Audits, Etc.	117	118	120	6
Other Direct Audit Effort:				
Procurement Support	297	330	340	7
Audit Support & Planning	<u>357</u>	<u>351</u>	<u>358</u>	8
Total Other Direct	654	681	698	
Field Support:				
Regional Offices	309	304	304	
Field Support	<u>101</u>	<u>69</u>	<u>69</u>	
Total Field Support	378	372	372	9
Headquarters	<u>83</u>	<u>81</u>	<u>79</u>	10
Total Workyears	<u>4,054</u>	<u>3,966</u>	<u>3,955</u>	

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IV. Performance Criteria and Evaluation Summary (Continued):

Note 1 - The estimated forward pricing audit effort is based on an assessment of contracting officials' demand requirements for forward pricing assistance. This assessment includes an analysis of the actual workload accomplishments during the past several years, adjusted for anticipated productivity improvements, published changes in the DoD Procurement and RDT&E budget authority, and the estimated impact of applicable acquisition reform initiatives.

Beginning in FY 2000, DCAA is providing "rapid rates" services to major buying commands for contractors that are expected to do business with the Government during the year. The DCAA initiative is to proactively seek out and audit rate information from prospective Government contractors so that the information can be available for buying offices to use within hours of a request. This initiative supports the Department's Civil-Military Integration/ Commercial Buying activities and will both reduce the procurement cycle time and provide better data within the time frames available for decision making.

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

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
Amount Examined During Year (\$B)	\$ 93.9	\$ 75.4	\$ 81.4
Workyears	690	677	706
Examined Per Workyear (\$M)	\$136.1	\$111.3	\$115.3

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IV. Performance Criteria and Evaluation Summary (Continued):

Note 2 - The Federal Acquisition Regulations (FAR) require an audit of contractor costs incurred under flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, the FAR, and Cost Accounting Standards (CAS) rules and regulations, if applicable. While the performance of these incurred cost audits is normally self-initiated, they must be accomplished to facilitate the Government's final contract payment to contractors on flexibly priced contracts. However, since the incurred cost area is essentially the only major audit area over which DCAA has any control over the initiation of audit performance, budget constraints impact this area more severely than other areas.

The Agency's performance contract includes a goal of completing the audits of at least 92% of adequate incurred cost submissions with 12 months of receipt at major contractors and corporate offices and within 24 months of receipt for all other adequate incurred cost submissions. Any delay in performing these incurred cost audits will also impact DCAA's ability to provide timely support to the Department's expedited and paperless Contract Closeout Initiative and increase the probability of expiring funds.

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

	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>
On Hand Beginning Of Year (\$B)	\$ 65.0	\$ 61.0	\$ 56.6
Received During Year (Adv) (\$B)	<u>86.9</u>	<u>84.5</u>	<u>84.5</u>
Dollars Subject To Audit (\$B)	\$ 151.9	\$ 145.5	\$ 141.1
Examined During Year (\$B)	<u>90.9</u>	<u>88.9</u>	<u>85.9</u>
Ending Inventory (\$B)	<u>\$ 61.0</u>	<u>\$ 56.6</u>	<u>\$ 55.2</u>
Workyears	1,471	1,394	1,319

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Examined Per Workyear (\$ M)	\$ 61.8	\$ 63.8	\$ 65.1
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IV. Performance Criteria and Evaluation Summary (Continued):

Note 3 - DCAA's operations audits are designed, in part, to evaluate the economy and efficiency of contractor functions or operations, the costs of which are reimbursed through the contractors' overhead expense rates. Because of the continuing interest in reducing the risk that excessive contractor overhead costs are priced into or reimbursed on DoD contracts, projected workyears provide staffing levels that will allow DCAA to perform required reviews.

Note 4 - Special audit activity is performed in response to requests from contracting officials. Special requests range from simple verification of costs to analyzing complex accounting issues. Contractor claims for contract price adjustments involve accounting issues requiring a high level of audit expertise and oftentimes, substantial audit effort. Oversight of DoD contract costs during contract performance by DoD management and Congressional inquiry, contract terminations, progress payment requests, financial capability audits, earned value management system reviews and other contract claims represent a substantial portion of this workload. Our estimates reflect consideration of historical experience as well as expectations for productivity improvements. We have projected several workyears of new business for FYs 2002 and 2003. As procurement practices have changes within the Government, we have been requested to become involved in new areas outside of our traditional forward pricing and incurred cost audit activity.

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

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selection criteria that consider contract types, dollar amounts, contractor estimating and accounting systems, historical experience,

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IV. Performance Criteria and Evaluation Summary (Continued):

and audit leads. Our estimates reflect consideration of current required audits as adjusted for anticipated productivity improvements.

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

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

In FY 1999 we began locating Financial Advisory Service Centers at our major customer sites and continue to fill additional positions based on requests from our customers. Financial advisory service positions have been established to provide on-site financial analysis and professional auditing advice to contracting officers. These positions were established to meet the changing needs of the procurement community as acquisition reform has changed the face of Government contracting and auditing. The shift to commercial pricing practices has caused a decrease in the use of audits performed at contractor locations in favor of analysis of financial data available at the procurement offices.

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IV. Performance Criteria and Evaluation Summary (Continued):

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

Note 9 - Estimated staffing levels for DCAA Field Support include those required for the Agency's regional offices, the Defense Contract Audit Institute (DCAI; FY 2000 only), the Information Technology and Technical Audit Services divisions, and other field support units.

Note 10 - Estimated staff levels for DCAA Headquarters reflect the 10% reduction in management headquarters personnel from FY 1999 through FY 2003 mandated by the Deputy Secretary of Defense.

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V. <u>Personnel Summary</u>	<u>FY 2000</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>Change</u> <u>FY 01/FY 02</u>
<u>Civilian End Strength (Total)</u>	4,256	3,971	3,939	-32
U.S. Direct Hire	4,250	3,965	3,933	-32
Foreign National Direct Hire	1	1	1	0
Total Direct Hire	4,251	3,966	3,934	-32
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5 496	5 469	5 446	0 -23
 <u>Civilian FTEs (Total)</u>	 4,005	 3,966	 3,955	 -11
U.S. Direct Hire	3,999	3,960	3,949	-11
Foreign National Direct Hire	1	1	1	0
Total Direct Hire	4,000	3,961	3,950	-11
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5 496	5 469	5 446	0 -23

DEFENSE CONTRACT AUDIT AGENCY
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VI. OP 32 Line Items as Applicable (Dollars in Thousand):

	Change FY 2000 - FY 2001					Change FY 2001 - FY 2002				
	FY 2000 Actuals	Foreign	Price	Program	FY 2001	FY 2001 Estimate	Foreign	Price	Program	FY 2002
		Currency Rate Diff	Growth	Growth	Estimate		Currency Rate Diff	Growth	Growth	Estimate
CIVILIAN PERSONNEL COMPENSATION										
Executive, General & Special Schedules	264,809		10,486	1,427	276,722	276,722		10,072	3,674	290,468
Wage Board	58		3	0	61	61		2	0	63
Foreign National Direct Hire (FNDH)	49		2	0	51	51		2	0	53
Separation Liability (FNDH)	0		0	0	0	0		0	0	0
Benefits to Former Employees	31		1	(19)	13	13		0	0	13
Voluntary Separation Incentive Payments	100		0	(50)	50	50		0	0	50
Disability Compensation	1,165		0	(10)	1,155	1,155		0	217	1,372
Total Civilian Personnel Compensation	266,212		10,492	1,348	278,052	278,052		10,076	3,891	292,019
TRAVEL										
Travel of Persons	11,827		189	103	12,119	12,119		206	532	12,857
Total Travel	11,827		189	103	12,119	12,119		206	532	12,857
OTHER FUND PURCHASES										
Defense Financing & Accounting Service	1,854		91	(16)	1,929	1,929		(91)	1	1,839
Total Purchases	1,854		91	(16)	1,929	1,929		(91)	1	1,839
TRANSPORTATION										
Commercial Transportation	550		7	(1)	556	556		7	1	564
Total Transportation	550		7	(1)	556	556		7	1	564
OTHER PURCHASES										
Rental Payments to GSA (SLUC)	7,904		158	(393)	7,669	7,669		153	16	7,838
Purchased Utilities (Non-Fund)	41		1	(1)	41	41		1	0	42
Purchased Communications (Non-Fund)	3,796		61	1,565	5,422	5,422		92	444	5,958
Rents (Non-GSA)	677		11	(1)	687	687		12	0	699
Postal Services (U.S.P.S.)	125		2	0	127	127		2	0	129
Supplies & Materials (Non-Fund)	7,696		123	(177)	7,642	7,642		130	1,124	8,896
Printing & Reproduction	5		0	1	6	6		0	0	6
Equipment Maintenance by Contract	86		1	43	130	130		3	(1)	132
Equipment Purchases (Non-Fund)	4,259		68	1,002	5,329	5,329		91	978	6,398
Other Contracts	11,324		180	1,961	13,465	13,465		228	460	14,153
Other Costs	2,817		1	(1)	2,817	2,817		1	0	2,818
Total Other Purchases	38,730		606	3,999	43,335	43,335		713	3,021	47,069
TOTAL	319,173		11,385	5,433	335,991	335,991		10,911	7,446	354,348