

Fiscal Year (FY) 2003 Budget Estimates

Defense Contract Audit Agency

(DCAA)



February 2002

DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2003 Budget Estimates
Agency Summary

	<u>FY 2001</u> <u>Actual</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2002</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2003</u> <u>Estimate</u>
	(Dollars in Millions)						
I. <u>Appropriation Summary:</u>	331.6	12.6	(8.2)	336.0	29.9	16.5	382.4
A. Budget Activity 3:							
<u>Training and Recruiting</u>	4.3	0.1	0.3	4.7	0.1	-	4.9
B. Budget Activity 4:							
<u>Admin and Servicewide Act</u>	327.3	12.4	(8.5)	331.3	29.8	16.4	377.5

NOTE: Numbers may not add due to rounding.

II. Description of Operations Financed:

A. Budget Activity 3

The Defense Contract Audit Institute (DCAI), an element of the Defense Contract Audit Agency, develops and delivers training for approximately 3,400 auditors in the contract auditing field and is an affiliated member of the Defense Acquisition University. The Institute directs and controls the development and delivery of classroom courses, one and two-day seminars, and computer based self-study courses. The Institute has program management responsibility for training and career development in the Defense Contract Audit Agency. It assures that Programs of Instruction, courses, and training materials meet DoD standards and Generally Accepted Government Auditing Standards (GAGAS). DCAI provides policy guidance to the regional offices and field audit offices, where appropriate, regarding training and education, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. Development of new classroom courses, seminars, and self-study courses, as well as maintenance of established courses, is a key responsibility. In

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

B. Budget Activity 4

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

It should be noted that savings to the Government, as a result of contract audit services, far exceed the cost of DCAA operations. For example, in FY 2001 the Agency audited \$91.2 billion of incurred cost and reviewed 8,874 forward pricing proposals amounting to \$123.5 billion. Approximately \$3.2 billion in net savings were reported during the year. When compared to the \$0.4 billion expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately \$8.40 for each dollar invested.

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III. Force Structure Summary: See Budget Activity Detail

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

	<u>BA-3</u>	<u>BA-4</u>	<u>TOTAL</u>
1. FY 2002 President's Budget	3,833	354,348	358,181
2. Congressional Adjustments		-16,997	-16,997
3. FY 2002 Appropriated Amount	3,833	337,351	341,184
4. Functional Transfers-In			
5. Other Transfers-In			
6. Functional Transfers-Out			
7. Other Transfers-Out			
8. Price Change	18	1,950	1,968
9. Program Increases	900		707
10. Program Decreases	-18	-8,050	-7,875
11. Revised FY 2002 Estimate	4,733	331,251	335,984
12. Price Change	112	29,809	29,921
13. Program Increases	20	16,435	16,455
14. Program Decreases			
15. FY 2003 Estimate	4,865	377,495	382,360

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V. <u>Personnel Summary:</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Change</u> <u>FY 2001 /</u> <u>FY 2002</u>	<u>Change</u> <u>FY 2002 /</u> <u>FY 2003</u>
<u>Civilian End Strength (Total)</u>	4,075	4,051	4,096	(24)	45
U.S. Direct Hire	4,069	4,045	4,090	(24)	45
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	4,070	4,046	4,091	(24)	45
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5 (545)	5 (549)	5 (527)	- 4	- (22)
<u>Civilian FTEs (Total)</u>	4,037	3,988	3,977	(49)	(11)
U.S. Direct Hire	4,031	3,982	3,971	(49)	(11)
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	4,032	3,983	3,972	(49)	(11)
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	5 (545)	5 (549)	5 (527)	- 4	- (22)

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	FY 2001 Actuals	Change From FY 2001 - FY 2002		FY 2002 Estimate	Change From FY 2002 - FY 2003		FY 2003 Estimate
		Price Growth	Program Growth		Price Growth	Program Growth	
CIVILIAN PERSONNEL COMPENSATION (Dollars in Thousands)							
Executive, General & Special Schedules	270,739	11,763	-2,586	279,916	29,227	2,997	312,140
Wage Board	82	4	-	86	2	-	88
Foreign National Direct Hire (FNDH)	51	2	-	53	1	-	54
Separation Liability (FNDH)	-	-	-	-	-	-	-
Benefits to Former Employees	37	2	-39	-	-	129	129
Voluntary Separation Incentive Payments	299	13	-312	-	-	303	303
Disability Compensation	1,155	-	205	1,360	-	156	1,516
Total Civilian Personnel Compensation	272,363	11,784	-2,732	281,415	29,230	3,585	314,230
TRAVEL							
Travel of Persons	11,752	188	-178	11,762	176	1,338	13,276
Total Travel	11,752	188	-178	11,762	176	1,338	13,276
OTHER FUND PURCHASES							
Defense Financing & Accounting Service	2,484	-117	74	2,441	-109	-	2,332
Total Purchases	2,484	-117	74	2,441	-109	-	2,332
TRANSPORTATION							
Commercial Transportation	444	5	1	450	5	87	542
Total Transportation	444	5	1	450	5	87	542

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	FY 2001 Actuals	Change From FY 2001 - FY 2002		FY 2002 Estimate	Change From FY 2002 - FY 2003		FY 2003 Estimate
		Price Growth	Program Growth		Price Growth	Program Growth	
OTHER PURCHASES (Dollars in Thousands)							
Rental Payments to GSA (SLUC)	7,938	159	-	8,097	162	12	8,271
Purchased Utilities (Non-Fund)	50	1	-1	50	1	-	51
Purchased Communications (Non-Fund)	4,989	80	560	5,629	84	866	6,579
Rents (Non-GSA)	766	12	-	778	12	-	790
Postal Services (U.S.P.S.)	178	3	-1	180	3	1	184
Supplies & Materials (Non-Fund)	11,248	180	-2,949	8,479	127	785	9,391
Printing & Reproduction	6	-	-	6	-	-	6
Equipment Maintenance by Contract	94	2	-	96	1	-	97
Equipment Purchases (Non-Fund)	5,154	83	-4,310	927	14	6,680	7,621
Other Contracts	13,024	205	1,327	14,556	215	2,927	17,698
Other Costs	1,066	-	52	1,118	-	174	1,292
Total Other Purchases	44,513	725	-5,322	39,916	619	11,445	51,980
TOTAL	331,556	12,585	-8,157	335,984	29,921	16,455	382,360

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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. DCAI provides policy guidance to the regional offices and field audit offices, where appropriate, regarding training and education, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. Development of new classroom courses, seminars, and self-study courses, as well as maintenance of established courses, is a key responsibility. In addition, the Institute produces videos to support training and for the Agency to provide basic information or highlight current events. The Institute, located on the south campus of the University of Memphis, often serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Division in Memphis, Tennessee.

II. Force Structure Summary: N/A

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

A. <u>Budget Activity Group</u>	FY 2001	FY 2002			FY 2003
	<u>Actuals</u>	<u>Budget Request</u>	<u>Appropriation</u>	<u>Current Estimate</u>	<u>Estimate</u>
DCAA Operations	4,297	3,833	3,833	4,733	4,865
DCAA Communications	-	-	-	-	-
DCAA Major HQ	-	-	-	-	-
TOTAL	4,297	3,833	3,833	4,733	4,865

B. <u>Reconciliation Summary</u>	Change	
	<u>FY 2002 / FY 2002</u>	<u>FY 2002 / FY 2003</u>
Baseline Funding	3,833	4,733
Congressional Adjustments	-	
Appropriation	3,833	
Budget Review Adjustments		
Price Change	18	112
Program Change		20
Technical Adjustments	882	
Current Estimate	4,733	4,865

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

C. Reconciliation of Increases and Decreases:

FY 2002 President's Budget Request	3,833
1. Congressional Adjustment(s)	
a) Distributed Adjustment	
b) Undistributed Adjustment(s)	
c) General Provisions	
d) Earmark Billpayers	
FY 2002 Appropriated Amount (subtotal)	3,833
2. Functional Transfers-In	
a) Intra-Agency Transfers-In	
b) Other Functional Transfers-In	
Total Functional Transfers-In	
3. Other Transfers-In	
4. Functional Transfers-Out	
a) Intra-Agency Transfers-Out	
b) Other Functional Transfers-Out	
Total Functional Transfers-Out	
5. Other Transfers-Out (Non-Functional)	
6. Price Change for increase to pay raise/inflation indices	18

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

C. Reconciliation of Increases and Decreases: (Continued)

7. Program Increase	
i) One-Time Costs	
ii) Program Growth	
Technical Adjustments:	
Transfer from Budget Activity 4 to adjust for	900
FY 2001 actuals and equipment requirements.	
8. Program Decreases	
i) One-Time Costs	
ii) Program Reductions	
Technical Adjustments:	
Reduction for change in pay raise/inflation	-18
indices - supplies	
Revised FY 2002 Estimate	4,733
9. Price Change	112
10. Program Change - Equipment	20
FY 2003 Budget Request	4,865

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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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V. Personnel Summary:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Change FY 2001 / FY 2002</u>	<u>Change FY 2002 / FY 2003</u>
<u>Civilian End Strength (Total)</u>	35	36	36	1	-
U.S. Direct Hire	35	36	36	1	-
Foreign National Direct Hire	-	-	-	-	-
Total Direct Hire	35	36	36	1	-
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	-	-	-	-	-
<u>Civilian FTEs (Total)</u>	35	36	36	1	-
U.S. Direct Hire	35	36	36	1	-
Foreign National Direct Hire	-	-	-	-	-
Total Direct Hire	35	36	36	1	-
Foreign National Indirect Hire (Reimbursable Civilians Included in Above (Memo))	-	-	-	-	-

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

	FY 2001 <u>Actuals</u>	Change FY 2001 - FY 2002			Change FY 2002 - FY 2003		
		<u>Price Growth</u>	<u>Program Growth</u>	<u>FY 2002 Estimate</u>	<u>Price Growth</u>	<u>Program Growth</u>	<u>FY 2003 Estimate</u>
CIVILIAN PERSONNEL COMPENSATION							
Executive, General & Special Schedules	2,556	111	86	2,753	85	-	2,838
Total Civilian Personnel Compensation	2,556	111	86	2,753	85	-	2,838
TRAVEL							
Travel of Persons	207	3	6	216	3	-	219
Total Travel	207	3	6	216	3	-	219
OTHER FUND PURCHASES							
Defense Finance and Accounting Services	24	(1)	-	23	(1)	-	22
Total Purchases	24	(1)	-	23	(1)	-	22
TRANSPORTATION							
Commercial Transportation	5	-	-	5	-	-	5
Total Transportation	5	-	-	5	-	-	5
OTHER PURCHASES							
Rental Payments to GSA (SLUC)	392	8	-	400	8	-	408
Supplies & Materials (Non-Fund)	805	13	10	828	12	1	841
Equipment Purchases (Non-Fund)	123	2	194	319	2	20	341
Other Contracts	185	3	1	189	3	(1)	191
Other Costs							
Total Other Purchases	1,505	26	205	1,736	25	20	1,781
TOTAL	4,297	139	297	4,733	112	20	4,865

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

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

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

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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 submission results in the following values for the contracted metrics.

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Forward Pricing:			
Cost per million dollars audited	\$ 611	\$ 710	\$ 765
Million dollars audited per work year	\$126.0	\$114.7	\$118.4
Incurring Cost:			
Cost per million dollars audited	\$1,265	\$1,281	\$1,396
Million dollars audited per work year	\$ 60.9	\$ 63.6	\$ 64.9

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 99% of all other adequate incurred cost submissions within 24 months of receipt. These goals were established to meet contracting office needs for awarding and closing out contracting actions.

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 2001 the Agency audited \$91.2 billion of incurred cost and reviewed 8,874 forward pricing proposals amounting to \$123.5 billion. Approximately \$3.2 billion in net savings were reported during the year. When compared to the \$0.4 billion expended for the Agency's operations, the return on taxpayers' investment in DCAA was approximately \$8.40 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 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, Defense Contract Management Agency, and the contractor). Working together with the team leader, the objective is to avoid rework at the end of process by identifying problems and finding potential solutions at the earliest possible point in the procurement process.

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

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II. Force Structure Summary (Continued):

contractor prior to submission of price proposals. These rates are normally separately negotiated by a contracting officer and then used by the contractor in subsequent price proposals. Since FY 2000, DCAA has been providing "rapid rates" services to major buying commands for contractors that are expected to do business with the Government during the year. The DCAA initiative is 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. Audits of Parts of Proposals and Agreed Upon Procedures. Audits of parts of proposals are audits of only specific cost elements within a proposal (e.g., only proposed material or labor costs, or overhead rates). Applications of agreed-upon procedures include cost realism reviews and all reviews of information other than cost or pricing data submitted in support of a price proposal.

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

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

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II. Force Structure Summary (Continued):

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

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II. Force Structure Summary (Continued) :

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

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

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

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II. Force Structure Summary (Continued):

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

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

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

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

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II. Force Structure Summary (Continued):

general offices. This activity also includes effort related to discussions and conferences, and any interface involving any other government audit organization.

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

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

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

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

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.

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II. Force Structure Summary (Continued) :

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

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

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

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

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

	FY 2001	FY 2002			FY 2003
		Budget		Current	
A. <u>Budget Activity Group</u>	<u>Actuals</u>	<u>Request</u>	<u>Appropriation</u>	<u>Estimate</u>	<u>Estimate</u>
DCAA Operations	310,110	336,891	320,901	313,485	358,835
DCAA Communications	4,989	5,958	5,458	5,629	6,579
DCAA Major HQ	12,160	11,499	10,992	12,137	12,081
TOTAL	327,259	354,348	337,351	331,251	377,495

	<u>Change</u> <u>FY 2002 / FY 2002</u>	<u>Change</u> <u>FY 2002 / FY 2003</u>
B. <u>Reconciliation Summary</u>		
Baseline Funding	354,348	331,251
Distributed Congressional Adjust.	-12,400	
Undistributed Congressional Adjust.	-1,121	
General Provision Congressional Adj.	-3,367	
Congressional Earmark Billpayers	-109	
Appropriation	337,351	
Budget Review Adjustments	-5,200	
Price Change	1,950	29,809
Program Change		16,435
Technical Adjustments	-2,850	
Current Estimate	331,251	377,495

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

C. Reconciliation of Increases and Decreases:

FY 2002 President's Budget Request	354,348
1. Congressional Adjustment(s)	
a) Distributed Adjustment	
i) Program Growth	-7,400
ii) Execution	-5,000
b) Undistributed Adjustment(s)	
i) Management Headquarters	-507
ii) DISA Tier One Rate	-500
iii) DJAS	-114
c) General Provisions	
i) Section 8102 - Reduction in Travel Costs	-679
ii) Section 8123 - Cross-Cutting Congressional Adjustments	-2,523
iii) Section 8135 - F-o-L Changes to Utilities Costs	-3
iv) Section 8146 - Savings from Government Purchase Card	-162
d) Earmark Billpayers	-109
FY 2002 Appropriated Amount (subtotal)	337,351
2. Functional Transfers-In	
a) Intra-Agency Transfers-In	
b) Other Functional Transfers-In	
Total Functional Transfers-In	

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

C. Reconciliation of Increases and Decreases: (Continued)

3. Other Transfers-In	
4. Functional Transfers-Out	
a) Intra-Agency Transfers-Out	
b) Other Functional Transfers-Out	
Total Functional Transfers-Out	
5. Other Transfers-Out (Non-Functional)	
6. Price Change for increase to pay raise/inflation indices	1,950
7. Program Increase	
i) One-Time Costs	
ii) Program Growth	
8. Program Decreases	
i) One-Time Costs	
ii) Program Reductions	
Technical Adjustments:	
- Transfer to Budget Activity 3 to adjust for FY 2001 actuals and equipment requirements.	-900
- Program reduction to account for change in the reimbursable program and decrease in average annual rate.	-5,200
- Reduction for change in pay raise/inflation indices - equipment	-1,950

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

C. Reconciliation of Increases and Decreases: (Continued)

Revised FY 2002 Estimate	331,251
9. Price Change	29,809
a) Pay raise/inflation	9,305
b) Imputed costs for Health insurance and retirement	20,504
Beginning in FY 2003, these costs, which were previously paid by OPM, will be charged directly to the responsible entity. This increase is the estimated cost for DCAA.	
10. Program Change	16,435
a) Increase of 11 Direct workyears based on projected workload for FY 2003 due to changes in mix between direct and reimbursable requirements. Does not change total workyears for FY 2003.	1,000
b) Overtime restoration - due to severe reductions to our FY 2002 Budget, overtime was reduced to unrealistically low levels. This increase restores overtime to levels commensurate with program requirements.	900
c) PCS restoration - due to severe reductions to our FY 2002 budget, PCS moves were deferred wherever possible to remain within funding constraints. This increase restores PCS to levels commensurate with program requirements.	1,100

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

C. Reconciliation of Increases and Decreases: (Continued)

	400
d) Voluntary Early Retirement Authority (VERA) / Voluntary Separation Incentive Pay (VSIP) restoration - increased requirement as a result of FY 2002 funding reductions.	
e) Travel restoration - as a result of FY 2002 major reductions, travel was severely constrained and deferred where possible. This increase is necessary to restore travel to levels necessary to support normal agency operations and training and to fund those training travel costs that were deferred in FY 2002.	1,338
f) Communications - to support growing reliance on agency Intranet and other growing ADP requirements including the paperless contracting initiative.	866
g) Increase in Disability Compensation	156
h) Implementation of child care subsidy program	1,000
i) Increase in cross service support includes anticipated increases for Defense Security Services, Defense Logistics Agency Services, and Defense Finance and Accounting Service's Human Resources services.	800
j) Increase in audit services provided to the Department by non DoD agencies.	200
k) Automated Data Processing services - to support increased technological advances within DCAA and to fund items deferred in FY 2002.	1,000
l) Supplies and materials restoration - due to severe reductions in FY 2002 - restores to a normal level of operations.	784

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

C. Reconciliation of Increases and Decreases: (Continued)

m) Computer equipment restoration - due to severe reductions to the FY 2002 budget, all computer purchases had to be deferred to FY 2003. This increase is essential to maintain Information Technology (IT) capability to interface with contractor accounting systems, support DoD personnel and business system interfaces, as well as to run Agency software used in every audit. It includes funding for the deferred FY 2002 purchases and FY 2003 requirements in accordance with DCAA's IT strategic plan.	6,660
n) Other Program growth	231
FY 2003 Budget Request	377,495

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IV. Performance Criteria and Evaluation Summary:

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Notes</u>
Forward Pricing	622	639	637	1
Incurred Cost Effort:				
Regular Incurred Costs Audits	1,414	1,339	1,326	
CAS Compliance Audits	<u>84</u>	<u>81</u>	<u>80</u>	
Total Incurred Cost	1,498	1,420	1,406	2
Operations Audits	99	70	70	3
Special Audits	513	506	524	4
Defective Pricing	98	97	95	5
Cost Accounting Standards: Disclosure Statements, Cost Impact Audits, Etc.	107	105	103	6
Other Direct Audit Effort:				
Procurement Support	327	350	351	7
Audit Support & Planning	<u>324</u>	<u>320</u>	<u>315</u>	8
Total Other Direct	651	670	666	
Field Support:				
Regional Offices	285	291	291	
Field Support	<u>64</u>	<u>66</u>	<u>66</u>	
Total Field Support	349	357	357	9
Headquarters	<u>96</u>	<u>88</u>	<u>83</u>	10
Total Workyears	<u>4,033</u>	<u>3,952</u>	<u>3,941</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.

Since FY 2000, DCAA has been providing "rapid rates" services to major buying commands for contractors that are expected to do business with the Government during the year. The DCAA initiative is 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 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
Amount Examined During Year (Dollars in Millions)	\$ 78,400	\$ 73,300	\$ 75,400
Workyears	622	639	637
Examined Per Workyear (Dollars in Millions)	\$126.0	\$114.7	\$118.4

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IV. Performance Criteria and Evaluation Summary (Continued):

Note 2 - The FAR requires an audit of contractor costs incurred under flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, the FAR, and CAS rules and regulations, if applicable. While the performance of these incurred cost audits is normally self-initiated, they must be accomplished to facilitate the Government's final contract payment to contractors on flexibly priced contracts. However, since the incurred cost area is essentially the only major audit area 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 99% of all other adequate incurred cost submissions within 24 months of receipt. Any delay in performing these incurred cost audits will also impact DCAA's ability to provide timely support to the Department's expedited and paperless Contract Closeout Initiative and increase the probability of expiring funds.

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

	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>
On Hand Beginning Of Year (Dollars in Millions)	\$ 61,400	\$ 60,000	\$ 57,000
Received During Year (Adv) (Dollars in Millions)	<u>89,400</u>	<u>87,300</u>	<u>95,600</u>
Dollars Subject To Audit (Dollars in Millions)	\$ 151,200	\$ 147,300	\$ 152,600
Examined During Year (Dollars in Millions)	<u>91,200</u>	<u>90,300</u>	<u>91,200</u>
Ending Inventory (Dollars in Millions)	<u>\$ 60,000</u>	<u>\$ 57,000</u>	<u>\$ 61,400</u>
Workyears	1,498	1,420	1,406

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IV. Performance Criteria and Evaluation Summary (Continued) :

in determining whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete, or current cost or pricing information in negotiating the contract. Contracts/subcontracts are selected for defective pricing review based on established selection criteria that consider contract types, dollar amounts, contractor estimating and accounting systems, historical experience, and audit leads. The projected workyears will allow DCAA to perform defective pricing reviews at the required levels of effort. Our estimates reflect consideration of current required audits as adjusted for anticipated productivity improvements.

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

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

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IV. Performance Criteria and Evaluation Summary (Continued) :

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.

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

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

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

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V. <u>Personnel Summary :</u>	<u>FY 2001</u>	<u>FY 2002</u>	<u>FY 2003</u>	<u>Change</u> <u>FY 2001/FY 2002</u>	<u>Change</u> <u>FY 2002/FY 2003</u>
<u>Civilian End Strength (Total)</u>	4,040	4,015	4,060	(25)	45
U.S. Direct Hire	4,034	4,009	4,054	(25)	45
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	4,035	4,010	4,055	(25)	45
Foreign National Indirect Hire	5	5	5	-	-
(Reimbursable Civilians					
Included in Above (Memo))	(545)	(549)	(527)	4	(22)
 <u>Civilian FTEs (Total)</u>	 4,002	 3,952	 3,941	 (50)	 (11)
U.S. Direct Hire	3,996	3,946	3,935	(50)	(11)
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	3,997	3,947	3,936	(50)	(11)
Foreign National Indirect Hire	5	5	5	-	-
(Reimbursable Civilians					
Included in Above (Memo))	(545)	(549)	(527)	4	(22)

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

	FY 2001 <u>Actuals</u>	Change FY 2001-FY 2002		FY 2002 <u>Estimate</u>	Change FY 2002-FY 2003		FY 2003 <u>Estimate</u>
		<u>Price Growth</u>	<u>Program Growth</u>		<u>Price Growth</u>	<u>Program Growth</u>	
<u>CIVILIAN PERSONNEL COMPENSATION</u>							
Executive, General & Special Schedules	268,183	11,652	(2,672)	277,163	29,142	2,997	309,302
Wage Board	82	4	-	86	2	-	88
Foreign National Direct Hire (FNDH)	51	2	-	53	1	-	54
Separation Liability (FNDH)	-	-	-	-	-	-	-
Benefits to Former Employees	37	2	(39)	-	-	129	129
Voluntary Separation Incentive Payments	299	13	(312)	-	-	303	303
Disability Compensation	1,155	-	205	1,360	-	156	1,516
Total Civilian Personnel Compensation	<u>269,807</u>	<u>11,673</u>	<u>(2,818)</u>	<u>278,662</u>	<u>29,145</u>	<u>3,585</u>	<u>311,392</u>
<u>TRAVEL</u>							
Travel of Persons	11,545	185	(184)	11,546	173	1,338	13,057
Total Travel	<u>11,545</u>	<u>185</u>	<u>(184)</u>	<u>11,546</u>	<u>173</u>	<u>1,338</u>	<u>13,057</u>
<u>OTHER FUND PURCHASES</u>							
Defense Financing & Accounting Service	2,460	(116)	74	2,418	(108)	-	2,310
Total Purchases	<u>2,460</u>	<u>(116)</u>	<u>74</u>	<u>2,418</u>	<u>(108)</u>	<u>-</u>	<u>2,310</u>

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

	<u>FY 2001 Actuals</u>	<u>Change FY 2001-FY 2002</u>		<u>FY 2002 Estimate</u>	<u>Change FY 2002-FY 2003</u>		<u>FY 2003 Estimate</u>
		<u>Price Growth</u>	<u>Program Growth</u>		<u>Price Growth</u>	<u>Program Growth</u>	
<u>TRANSPORTATION</u>							
Commercial Transportation	439	5	1	445	5	87	537
Total Transportation	<u>439</u>	<u>5</u>	<u>1</u>	<u>445</u>	<u>5</u>	<u>87</u>	<u>537</u>
<u>OTHER PURCHASES</u>							
Rental Payments to GSA (SLUC)	7,546	151	-	7,697	154	12	7,863
Purchased Utilities (Non- Fund)	50	1	(1)	50	1	-	51
Purchased Communications (Non-Fund)	4,989	80	560	5,629	84	866	6,579
Rents (Non-GSA)	766	12	-	778	12	-	790
Postal Services (U.S.P.S.)	178	3	(1)	180	3	1	184
Supplies & Materials (Non- Fund)	10,443	167	(2,959)	7,651	115	784	8,550
Printing & Reproduction	6	-	-	6	-	-	6
Equipment Maintenance by Contract	94	2	-	96	1	-	97
Equipment Purchases (Non- Fund)	5,031	81	(4,504)	608	12	6,660	7,280
Other Contracts	12,839	202	1,326	14,367	212	2,928	17,507
Other Costs	1,066	-	52	1,118	-	174	1,292
Total Other Purchases	<u>43,008</u>	<u>699</u>	<u>(5,527)</u>	<u>38,180</u>	<u>594</u>	<u>11,425</u>	<u>50,199</u>
TOTAL	<u>327,259</u>	<u>12,446</u>	<u>(8,454)</u>	<u>331,251</u>	<u>29,809</u>	<u>16,435</u>	<u>377,495</u>

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