

# **Fiscal Year (FY) 2007 Budget Estimates**

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



February 2006

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**DEFENSE CONTRACT AUDIT AGENCY**  
**Operation and Maintenance, Defense-Wide**  
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**Operation and Maintenance, Defense-Wide Summary (\$ in thousands)**

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

	*FY 2005 <u>Actuals</u>	Price <u>Change</u>	Program <u>Change</u>	**FY 2006 <u>Estimate</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2007 <u>Estimate</u>
DCAA	381,227	11,544	-19,118	373,653	8,367	9,929	391,949

\* The FY 2005 Actual column includes \$15,529.0 thousand of FY 2004/FY 2005 Title IX obligations (PL 108-287).

\* \* The FY 2006 Estimate column excludes \$914.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148).

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. DCAA responds to specific acquisition official requests for services across the entire spectrum of contract financial and business matters as well as fulfilling recurring audit work required to monitor cost performance and approve contract payments. Additionally, as part of the Iraq Reconstruction effort, DCAA is providing contract audit support on reconstruction and humanitarian efforts to all DoD components, including the U.S. Army Corps of Engineers. DCAA also supports Iraq effort of other Federal Agencies such as U.S. AID on a reimbursable basis.

As in the past, DCAA continues to return savings to the Government which far exceed the cost of DCAA operations. In FY 2005, the Agency audited \$118.7 billion of costs incurred on contracts, and reviewed 9,673 forward pricing proposals amounting to \$150.7 billion. Approximately \$2.7 billion in net savings were reported as a result of the audit findings associated with these audits. Thus, the **return on taxpayers' investment in DCAA was approximately \$6 for each dollar invested** (\$435 million in FY 2005, including reimbursables).

Significant changes between FY 2006 and FY 2007 include an increase in direct workyears to maintain an adequate level of contract audit services to DoD customers. DCAA's workload

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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 as they conduct investigations and prosecute the 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.

DCAA's core metric is the cost per direct audit hour. Agency management monitors performance metrics continuously, and the Agency Performance Plan/Balanced Scorecard includes metrics. The Under Secretary of Defense (Comptroller) and DCAA agreed to a Performance Plan/Balanced Scorecard that links DCAA's performance standards to the President's Management Agenda, the DoD Balanced Scorecard Concept, and the Risk Management Framework of the Quadrennial Defense Review (QDR). The plan includes deliverables of the average cost per direct audit hour and timeliness in responding to customer requests for services. The Budget/Performance Integration Goal focuses on DCAA's two major product lines - forward pricing and incurred cost audits. DCAA's goal is to achieve an agency-wide average of 30 days or less cycle time on forward pricing

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audits. It also has a goal to complete the audits of at least 99% of adequate incurred cost submissions within 12 months of receipt at major contractors and corporate offices; and 99% of all other adequate incurred cost submissions within 24 months of receipt. The DCAA established these goals to meet contracting office needs for awarding and closing out contracting actions in a timely manner.

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

a. Price Proposal Audits. DCAA performs these audits to determine the reasonableness of contractors' price proposals submitted in anticipation of negotiating Government contracts. Contracting officers specifically request price proposal audits, which must be accomplished within a short period 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 as top priority.

b. Could Cost or Should Cost Studies and Participation on Integrated Product Teams (IPTs). Should cost studies are initiated by procuring activities who organize a team of specialists and review a contractor's price proposal to determine what a particular

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**I. Description of Operations Financed:** (Continued)

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. DCAA performs these reviews to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. Contracting officers normally negotiate these rates separately; the contractor then uses the rates 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 is readily available to buying offices upon their 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. DCAA provides these services to meet the specific needs of contracting officers.

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e. System Surveys. DCAA performs these reviews to determine the reliability, propriety, and accuracy of contractors' estimating, accounting, internal control, and other systems relating to, or providing the basis for, Government contract costs or pricing. Systems surveys may be a joint team review that combines the experience and capabilities of the auditor and technical specialist, 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. **Incurring 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 scheduling of incurred cost audits and CAS compliance audits is more flexible than customer requested audits, nonetheless, these audits 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.

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

5. **Defective Pricing Reviews.** The Truth in Negotiations Act (TINA), as codified in 10 USC §2306a, requires contracting officers to obtain cost or pricing data from contractors before awarding a contract unless an exception applies. Under TINA the Government has the right to examine these records to evaluate the accuracy, completeness, and currentness of the cost or pricing data 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.

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.



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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:

a. Financial Liaison. The Director, DCAA, establishes and maintains liaison auditors, as appropriate, at major procuring and contract administration offices. The primary functions of financial liaison auditors are to (i) facilitate effective communication and coordination between procurement officers and auditors, (ii) provide on-the-spot personal consultation and advice in connection with contractors' cost representations and related matters, (iii) provide 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. Contract Audit Coordinator (CAC) Program. DCAA established a CAC program at the largest DoD contractors whose accounting functions, operations, and contract performance occur at multiple locations under the audit cognizance of multiple DCAA field offices. The program 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.

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

d. External Audit Interface. 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.

e. Suspected Irregular Conduct (SIC). This activity represents effort expended related to SIC referrals, and responses to requests from investigative agencies or the Department of Justice regarding fraud or other irregular practices. 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.

f. 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.

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

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

b. The Defense Contract Audit Institute (DCAI). DCAI is an element of the Defense Contract Audit Agency that develops and delivers training for approximately 3,300 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. In addition, the Institute produces videos which support training objectives by providing educational material in a cost effective manner to the field auditors. The videos are also used to highlight important current events that have an impact on contract audit policy and procedures. The Institute, located on the south campus of the University of Memphis, often serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Center in Memphis, Tennessee.

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

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

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

f. 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.

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

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

	FY 2006						
	FY 2005 <u>Actuals</u>	Budget <u>Request</u>	<u>Congressional Action</u>		<u>Appropriated</u>	<u>Current Estimate</u>	FY 2007 <u>Estimate</u>
			<u>Amount</u>	<u>Percent</u>			
<b>A. <u>Budget Activity (BA) 4</u></b>							
<b>Defense Contract Audit Agency Total</b>	<b>381,227</b>	<b>379,947</b>	<b>-6,294</b>	<b>-1.7%</b>	<b>373,653</b>	<b>373,653</b>	<b>391,949</b>
DCAA Operations	366,169	362,952	-6,294	-1.7%	356,658	356,906	374,900
DCAA Communications	2,958	4,095	-	-%	4,095	3,972	3,999
DCAA Major HQ	12,100	12,900	-	-%	12,900	12,775	13,050
* The FY 2005 Actual column <u>includes</u> \$15,529.0 thousand of FY 2004/FY 2005 Title IX obligations (PL 108-287).							
* The FY 2006 Estimate column <u>excludes</u> \$914.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148).							
<b>Memo: Audit Institute</b>	<b>5,314</b>	<b>5,605</b>			<b>5,605</b>	<b>5,605</b>	<b>5,734</b>
DCAA Operations	5,296	5,587			5,587	5,587	5,715
DCAA Communications	18	18			18	18	19
DCAA Major HQ	-	-			-	-	-
<b>Memo: Audit Operations</b>	<b>375,913</b>	<b>374,342</b>			<b>368,048</b>	<b>368,048</b>	<b>386,215</b>
DCAA Operations	360,873	357,365			351,071	351,319	369,185
DCAA Communications	2,940	4,077			4,077	3,954	3,980
DCAA Major HQ	12,100	12,900			12,900	12,775	13,050

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

<b>B. <u>Reconciliation Summary</u></b>	<u>Change</u> <u>FY 2006/FY 2006</u>	<u>Change</u> <u>FY 2006/FY 2007</u>
<b>Baseline Funding</b>	<b>379,947</b>	<b>373,653</b>
Congressional Adjustments (Distributed)	-	-
Congressional Adjustments (Undistributed)	-716	-
Adjustments to Meet Congressional Intent	-3,777	-
Congressional Adjustments (General Provisions)	-1,596	-
Congressional Earmark	-205	-
<b>Subtotal Appropriated Amount</b>	<b>373,653</b>	<b>373,653</b>
Fact-of-Life Changes (CY to CY Only)	-	-
<b>Subtotal Baseline Funding</b>	<b>373,653</b>	<b>373,653</b>
Hurricane Supplemental	914	-
Title IX Supplemental	-	-
Price Changes	-	8,367
Functional Transfers	-	-
Program Changes	-	9,929
<b>Current Estimate</b>	<b>374,567</b>	<b>391,949</b>
Less: Hurricane Supplemental	-914	-
<b>Normalized Current Estimate</b>	<b>373,653</b>	<b>391,949</b>

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**III Financial Summary (\$ in thousands):** (Continued)

<b><u>C. Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
<b>FY 2006 President's Budget Request</b>		<b>379,947</b>
1. Congressional Adjustments		
a. Distributed Adjustments		
b. Undistributed Adjustments - Unobligated Balances		-716
c. Adjustments to meet Congressional Intent - 1 percent Rescission		-3,777
d. General Provisions		-1,596
1) Sec 8087 - Advisory and Assistance Services	-716	
2) Sec 8125 - Economic Assumptions	-598	
3) Sec 8109 - Excessive Growth in Travel and Transportation	-282	
e. Congressional Earmarks - Mitigation of Environmental Impact on Indian Lands		-205
<b>FY 2006 Appropriated Amount (subtotal)</b>		<b>373,653</b>
2. War-Related and Disaster Supplemental Appropriations		914
a. Hurricane Supplemental	1,075	
b. 1 percent Rescission	-161	
3. Fact of Life Changes		
<b>FY 2006 Baseline Funding</b>		<b>374,567</b>
4. Reprogrammings (requiring 1415 Actions)		
<b>Revised FY 2006 Estimate</b>		<b>374,567</b>
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings, Iraq Freedom Fund Transfers		
a. Hurricane Supplemental		-914
<b>FY 2006 Normalized Current Estimate</b>		<b>373,653</b>
6. Price Change		8,367

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<b><u>C. Reconciliation of Increases and Decreases</u></b>	<b><u>Amount</u></b>	<b><u>Totals</u></b>
7. Functional Transfers		
8. Program Increases		13,965
a. Annualization of New FY 2006 Program		
b. One-Time FY 2007 Costs		
c. Program Growth in FY 2007		
1) Increase of 95 direct workyears to maintain an adequate level of contract audit services to DoD customers (FY 2006 Base: \$311,737K)	8,945	
2) Cost associated with career ladder promotions (FY 2006 Base: \$311,737)	2,500	
3) Information technology software maintenance renewal requirements (FY 2006 Base: \$636K)	1,141	
4) Increase in anticipated work counts for DFAS Services (FY 2006 Base: \$3,842K)	1,009	
5) Other program growth	370	
9. Program Decreases		-4,036
a. Annualization of FY 2006 Program Decreases		
b. One-Time FY 2006 Costs		
1) ADP Software (FY 2006 Base: \$1,200K)	-1,200	
c. Program Decreases in FY 2007		
1) Decrease in overtime and relocation services to support anticipated increase for promotions (FY 2006 Base: \$6,053K)	-1,606	
2) Decrease in equipment to support anticipated increase for promotions (FY 2006 Base: \$3,625K)	-749	
3) Other program decreases	-481	
<b>FY 2007 Budget Request</b>		<b>391,949</b>



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**IV. Performance Criteria and Evaluation Summary:**

	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>Execution of Workyears</u>			
Forward Pricing	690	625	625
Incurring Cost Effort:			
Regular Incurred Cost	1,363	1,194	1,284
CAS Compliance Audits	94	70	75
Total Incurred Cost	1,457	1,264	1,359
Operations Audits	41	45	45
Special Audits	563	530	530
Defective Pricing	87	80	80
Cost Accounting Standards: Disclosure Statements, Cost Impact Audits, Etc.	99	95	95
Other Direct Audit Effort:			
Procurement Support	271	278	278
Audit Support & Planning	340	330	330
Total Other Direct	611	608	608
Field Support:			
Regional Offices	270	274	274
Field Support	99	102	102
Total Field Support	369	376	376
Headquarters	82	83	83
Total Workyears	3,999	3,706	3,801

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**IV. Performance Criteria and Evaluation Summary: (continued)**

**Performance Based Measures.**

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

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

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

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**IV. Performance Criteria and Evaluation Summary: (continued)**

Committee through the use of milestone plans and performance metrics. These detailed metrics are directly related to the quality and cost measures contained in the Performance Plan. As depicted in the Chart below, DCAA's Strategic Plan plays an inter-active role in supporting the Performance Plan, as well as other Department of Defense initiatives.

**DCAA Strategic Plan Goals**

**Goal 1: Quality of Worklife Environment**

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

**Goal 2: Customer Satisfaction**

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

**Goal 3: Professional Competence**

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

**Goal 4: Best Value Audit Services**

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

**Goal 5: Integrated IT Structure**

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

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**IV. Performance Criteria and Evaluation Summary: (continued)**

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

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

**Summary of Performance Based Measures.** The chart below summarizes DCAA's Performance Plan and Performance Measures for FY 2005 through FY 2007. Detailed descriptions are provided for each of the measures, along with a column which displays how each Performance Plan measure is linked to the Strategic Plan.

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**IV. Performance Criteria and Evaluation Summary: (continued)**

<u>Notes</u>	<u>Performance Plan and Performance Measures</u>	<u>Link to Strategic Plan</u>	<u>FY 2005</u>			<u>FY 2006</u>	<u>FY 2007</u>
			<u>Goal</u>	<u>Actual</u>	<u>Results</u>	<u>Goal</u>	<u>Goal (Est.)</u>
<b><u>Budget/Performance Integration:</u></b>							
1	Cost per Direct Audit Hour	Goal 4	\$107.85	\$105.32	Exceeded	\$108.90	TBD
2	Forward Pricing Dollars per Hour Variance	Goal 4	\$144.00	\$146.00	Exceeded	<10% var	<10% var
3	Contract Dollars Audited per Hour	Goal 4	\$63,000	\$66,600	Exceeded	TBD	TBD
4	Direct Hours per Auditor	Goal 4	1,589	1,602	Exceeded	1,590	1,590
5	Forward Pricing Cycle Time	Goal 2	30	27	Exceeded	30	30
6	Forward Pricing Audits within 60 Days	Goal 2	99%	99%	Met	99%	99%
7	Major/Corporate Incurred Cost Audits -Timely	Goal 2	99%	99%	Met	99%	99%
8	Non-Major Incurred Cost Audits - Timely	Goal 2	99%	100%	Exceeded	99%	99%
<b><u>Human Capital:</u></b>							
9	CPA Exam Candidates	Goal 3	300	285	95% of Goal	300	TBD
10	Advance Degree Candidates	Goal 3	160	213	Exceeded	200	TBD
11	Average CPE Hours per Auditor	Goal 3	40	62	Exceeded	40	40
12	Workyears Executed	Goal 4	3,993	4,002	Exceeded	3,875	3,801
<b><u>Competitive Sourcing:</u></b>							
13	Benchmarking Rates	Goal 4	\$114.90	\$112.55	Exceeded	\$116.24	TBD
<b><u>Financial Management:</u></b>							
14	Financial Statement Audit Results	Goal 4	Unqualified No Material Weakness	Unqualified No Material Weakness	Met	Unqualified No Material Weakness	Unqualified No Material Weakness
15	Internal Control Review Results	Goal 4			Met		
<b><u>E-Government:</u></b>							
16	Electronic Audit Reports	Goal 5	99%	99%	Met	99%	99%
17	Electronic Contractor Submissions	Goal 5	85%	87%	Exceeded	90%	90%
18	Electronically Approved Vouchers	Goal 5	75%	77%	Exceeded	80%	85%
19	Information Assurance Management	Goal 5	-	-100%	-	100%	100%

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**Description of Performance Plan Measures:**

**BUDGET AND PERFORMANCE INTEGRATION**

**1. Cost Per Direct Audit Hour (CPDAH).** The DCAA developed the CPDAH metric to assist Agency management in measuring how well DCAA controls operating costs at the Agency, Regional and FAO levels. It also serves as a baseline in measuring DCAA's cost competitiveness. In addition, DCAA uses the CPDAH as the basis for benchmarking DCAA's hourly rate against the average rates of national accounting firms (adjusted for procurement expenditures and financial statement accruals for post-retirement benefits). To assess overall success in managing costs from year to year, the rate is restated in constant dollars for comparison purposes in prior years. The goal for FY 2006 is in the process of being finalized and will be higher than the FY 2005 actual rate.

**2. Forward Pricing Dollars per Hour Variance.** One of DCAA's key strategic objectives is to increase productivity and efficiencies in the performance of forward pricing audits. The measure for key dollar strata (i.e., \$1 million to \$5 million, \$5 million to \$15 million, etc.) is dollars audited per hour. Each year, productivity goals are established for each key strata based on consideration of prior-year performance and initiatives to increase productivity and efficiency. For FY 2006, DCAA's goal is to have less than a 10 percent variance between the composite goal for the key strata and the ultimate actual dollars per hour. The DCAA Management Information System (DMIS) is programmed to compute the composite dollars per hour goal based on the actual dollar value of proposals received for audit. Correspondingly, DMIS computes the actual dollars per hour for each assignment as well as a composite for each of the key strata and overall for all key strata. An overall composite goal for dollars per hour cannot be established in advance because DCAA has no control over the dollar value of the proposals that are submitted to DCAA for audit. However, DCAA can monitor its productivity in

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performing forward pricing proposal audits by having dollars per hour goals for key strata.

**3. Contract Dollars Audited Per Hour (Productivity).** The "contract dollars audited per hour" performance measure was developed to assist DCAA in evaluating productivity associated with audits of dollars incurred and claimed by contractors under flexibly priced contracts. The metric is based on the contract dollars audited each year and direct audit hours expended. Each year, in accordance with DCAA's Strategic Plan Objective and goal setting processes, DCAA reviews the results of the prior years, identify potential process improvements and enabling actions, establish goals, and plan the audit workload for the following year. The FY 2006 goal is in the process of being finalized and will be higher than the FY 2005 actual rate.

**4. Direct Hours Per Auditor.** The direct hours per auditor metric measures, on average, how many direct hours an auditor works during the fiscal year. Most standard workyears equate to 2,088 hours, but for FY 2006, a workyear equals 2,080 hours. This workyear encompasses hours worked directly on audit assignments and indirect hours such as annual leave, holiday leave, sick leave, training, staff meetings and other activities. The direct hours per auditor statistic is a critical factor in accomplishing DCAA's audit workload and in managing costs. DCAA therefore established this metric to measure the quantity of direct assignment hours an auditor works on an annual basis while allowing sufficient time for other activities such as training and employee development. The FY 2006 goal is 1,590 direct hours per auditor.

**5. Cycle Time on Forward Pricing Proposal Audits.** Timeliness in responding to forward pricing actions has been a key focus of DCAA for many years. DCAA measures the number of days from receipt of a request for audit of a forward pricing proposal to the issuance of the audit report. The turnaround time goal for FY 2006 is 30 days.

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**6. Forward Pricing Audits Accomplished within 60 Days.** DCAA strives to ensure that the percentage of audits accomplished within 60 days remains at a very high percentage. However, DCAA also recognizes that, on occasion, exceptions will arise causing cycle times on individual forward pricing audits to exceed the goal of 30 days (see 5. above). Keeping this in mind, the goal for FY 2006 was set at 99 percent.

**7. Major and Corporate Incurred Cost Audits Issued Timely.** For major (defined as those contractors with over \$90 million of flexibly-priced contract dollars per year) and corporate incurred cost audits, DCAA's objective is to issue reports within 12 months of receipt of an adequate submission. The FY 2006 goal is issuance of the audit reports for 99 percent of all submissions within 12 months of receipt.

**8. Non-Major Incurred Cost Audits Issued Timely.** For non-major (defined as those contractors with less than \$90 million of flexibly-priced contract dollars per year), DCAA's objective is to issue reports within 24 months of receipt of an adequate submission. The FY 2006 goal is to issue the audit reports for 99 percent of all submissions within 24 months of receipt.

**HUMAN CAPITAL**

**9. Sponsor Auditor Candidates to Sit for CPA Exam.** DCAA's Strategic Plan includes a goal to attain the highest level of professional competence through continuous improvement in the management and performance of audits and services. Encouraging DCAA's audit staff to obtain Certified Public Accountant (CPA) licenses is vital to improving the management and performance of services and to maintaining the professionalism of the workforce. DCAA has a strategic plan objective that by FY 2006, the percentage of CPAs and advanced degrees held by auditors will increase by 10 percent over FY 2003 levels. To meet this objective, DCAA provides financial support to candidates who take CPA exam



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coaching courses and provides paid time off for employees to sit for the exam. For FY 2006, DCAA will measure its success for this objective based on a goal of 300 candidates taking the CPA exam.

**10. Support Participants in Advanced Academic Degree Programs.** As mentioned previously, DCAA has a strategic plan objective that by FY 2006, the percentage of CPAs and advanced degrees held by auditors will increase by 10 percent over FY 2003 levels. To meet this objective, DCAA provides financial support for tuition and books to participants in advanced academic degree programs. DCAA is also continuing its Director's Fellowship Program in Management in which highly qualified candidates from throughout the Agency are selected to participate in a challenging Masters of Science program aimed at developing future top management candidates. For FY 2006, DCAA's goal is to support 200 auditors as they participate in advanced academic degree programs.

**11. Average CPE Hours per Auditor.** All DCAA audit staff members must complete 80 hours of continuing professional education (CPE) over a two-year period in accordance with the Generally Accepted Government Auditing Standards (GAGAS) published by the Government Accountability Office (GAO). As a result, meeting the CPE requirement is critical to the accomplishment of DCAA's mission. The CPE requirement also supports DCAA's Strategic Plan goal to attain the highest level of professional competence through continuous improvement in the management and performance of audits and services. To comply with the auditing standards and to ensure that the DCAA staff is equipped with the latest technical and technological capabilities, DCAA has established a goal of achieving an average of 40 CPE hours per auditor in FY 2006.

**12. Workyears Executed.** This measure reflects execution of full-time equivalent workyears. It equals the total number of labor hours for all efforts divided by the total number of hours in the workyear (generally 2,088). Approximately 84 percent of

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DCAA's expenditures are for payroll and benefits costs. DCAA has funded pay raises by aggressively seeking program/operating efficiencies and reductions to its infrastructure and support operations. The goal for FY 2006 workyears is 3,875.

**COMPETITIVE SOURCING**

**13. Benchmarking Rates.** DCAA's developed the Cost per Direct Audit Hour (CPDAH) metric (see additional detail in the Budget and Performance Integration measures) to assist Agency management in measuring how well DCAA controls operating costs. Management uses the CPDAH, adjusted for procurement expenditures and financial statement accruals for post-retirement benefits, as the basis for benchmarking DCAA's hourly rate against the rates national Public Accounting firms charge to the Government. The national firms compute the average rate by weighting the rates reflected in GSA contracts by the relative distribution of hours by labor category in DCAA's records for direct chargeable hours. To assess overall success in managing costs from year to year, the rate is restated in constant dollars for comparison purposes in prior years. The DCAA goal for FY 2006 is \$116.24 per hour. The benchmark rate for national Public Accounting firms is \$162.81.

**FINANCIAL MANAGEMENT**

**14. Financial Statement Audit Results.** DCAA's objective is to obtain an unqualified audit opinion based on an audit of its FY 2006 financial statements. DCAA was one of the first Department of Defense agencies to meet the DoD Comptroller's objective to obtain an unqualified opinion and has consistently done so since FY 2002.

**15. Internal Control Review Results.** As an audit organization with the utmost reputation for professional competence and integrity, DCAA strives to ensure there are no

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

**E-GOVERNMENT**

**16. Audit Reports Issued Electronically.** Issuance of audit reports electronically via e-mail has resulted in significant reductions in the time for distributing DCAA findings to contracting officials. DCAA's objective is to issue 99 percent of all audit reports electronically in FY 2006.

**17. Contractor Submissions Received Electronically.** Receiving contractor submissions electronically allows for increased productivity and higher efficiency in performing audits. As a result, DCAA has a Strategic Plan objective to increase the percentage of electronic submissions. The goal for FY 2006 is 90 percent.

**18. Public Vouchers Approved Electronically.** DCAA updated its Strategic Plan in 2005 to include an objective to increase the number of public vouchers processed electronically. Use of the Wide-Area Work Flow (WAWF) initiative and other approved electronic billing processes will significantly reduce the audit and administrative time involved with manually processing public vouchers. DCMA's MOCAS (Mechanization of Contract Administration System) database provides a summary of the vouchers processed electronically versus via paper. The goal for FY 2006 is processing 80 percent of all vouchers electronically, with an eventual goal of 90 percent by the end of FY 2008.

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**19. Information Assurance Vulnerability Management (IAVM) Process Compliance.** The IAVM program ensures a heightened level of information system security throughout DCAA by providing a positive control mechanism for potential information assurance vulnerabilities and corrective action. The methodology ensures that System Administrators (SAs) receive, disseminate, acknowledge, and comply with the system vulnerability alert notifications. The measure is defined as the percentage of IAVM alerts - including implementing corrective patches for systems/servers - that are processed timely as reported to the Defense Information Security Agency. Timely is defined as acknowledging receipt of an IAV alert or IAV bulletin within 5 days of receipt and reporting compliance with the alert or bulletin within 30 days from the date on the message. The goal for FY 2006 is to continue to timely comply with system vulnerability alert notifications 100 percent of the time.

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V. <u>Personnel Summary</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Change</u> <u>FY 2005/FY 2006</u>	<u>Change</u> <u>FY 2006/FY 2007</u>
<u>Civilian End Strength (Total)</u>	4,106	3,490	4,075	-616	585
U.S. Direct Hire	4,101	3,485	4,070	-616	585
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	4,102	3,486	4,071	-616	585
Foreign National Indirect Hire	4	4	4	-	-
Memo: Reimbursable Civilians Included Above	-507	-516	-516	-9	-
 <u>Civilian FTEs (Total)</u>	 3,942	 3,706	 3,801	 -236	 95
U.S. Direct Hire	3,937	3,701	3,796	-236	95
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	3,938	3,702	3,797	-236	95
Foreign National Indirect Hire	4	4	4	-	-
Memo: Reimbursable Civilians Included Above	-507	-516	-516	-9	-
 Average Annual Civilian Salary(\$ in thousands)	 \$93,865	 \$97,920	 \$100,289		

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

OP 32 Line	Change from FY 2005 to FY 2006			FY 2006 Estimate	Change from FY 2006 to FY 2007		
	FY 2005 Actuals	Price Growth	Program Growth		Price Growth	Program Growth	FY 2007 Estimate
CIVILIAN PERSONNEL COMPENSATION							
101 Executive, General & Special Schedules	322,255	10,312	-20,830	311,737	7,482	9,839	329,058
103 Wage Board	103	39	-	142	4	-	146
104 Foreign National Direct Hire (FNDH)	51	39	-	90	2	-	92
105 Separation Liability (FNDH)	-	-	-	-	-	-	-
106 Benefits to Former Employees	-	-	-	-	-	-	-
107 Voluntary Separation Incentive Payments	26	-	-26	-	-	-	-
111 Disability Compensation	1,762	-	-351	1,411	-	102	1,513
199 Total Civilian Personnel Compensation	324,197	10,390	-21,207	313,380	7,488	9,941	330,809
TRAVEL							
308 Travel of Persons	13,488	324	-3,090	10,722	241	267	11,230
399 Total Travel	13,488	324	-3,090	10,722	241	267	11,230
OTHER FUND PURCHASES							
673 Defense Financing & Accounting Service	3,264	-88	666	3,842	-369	1,009	4,482
699 Total Purchases	3,264	-88	666	3,842	-369	1,009	4,482
TRANSPORTATION							
771 Commercial Transportation	694	14	4	712	15	-50	677
799 Total Transportation	694	14	4	712	15	-50	677
OTHER PURCHASES							
912 Rental Payments to GSA (SLUC)	8,810	220	226	9,256	231	-37	9,450
913 Purchased Utilities (Non-Fund)	40	1	-	41	1	-	42
914 Purchased Communications (Non-Fund)	2,958	71	943	3,972	87	-60	3,999
915 Rents (Non-GSA)	1,051	26	-	1,077	24	-	1,101
917 Postal Services (U.S.P.S.)	91	2	-	93	2	-	95
920 Supplies & Materials (Non-Fund)	5,571	134	700	6,405	144	-1,534	5,015
921 Printing & Reproduction	-	-	-	-	-	-	-
922 Equipment Maintenance by Contract	240	6	84	330	7	-	337
925 Equipment Purchases (Non-Fund)	2,754	66	805	3,625	80	-749	2,956
989 Other Contracts	17,174	378	1,337	18,889	416	1,141	20,446
998 Other Costs	895	-	414	1,309	-	1	1,310
999 Total Other Purchases	39,584	904	4,509	44,997	992	-1,238	44,751
9999 Total	381,227	11,544	-19,118	373,653	8,367	9,929	391,949

\* The FY 2005 Actual column includes \$15,529.0 thousand of FY 2004/FY 2005 Title IX obligations (PL 108-287).

\* The FY 2006 Estimate column excludes \$914.0 thousand of FY 2006 Hurricane Supplemental funds (PL 109-148).