

Fiscal Year 2010 Budget Estimates

Defense Contract Audit Agency (DCAA)



May 2009

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DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2010 Budget Estimates

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

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

	<u>FY 2008</u> <u>Actuals</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2009</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2010</u> <u>Estimate</u>
DCAA	413,888	14,260	-11,187	416,961	9,852	31,503	458,316

* The FY 2008 Actual column includes \$13,845 thousand of FY 2008 Emergency Supplemental funds for the Global War (PL 110-252).

* The FY 2009 Estimate column excludes \$5,000 thousand of Bridge Funding Appropriations for FY 2009 (PL 110-252) and \$7,600 thousand of funding requested in the Defense-Wide FY 2009 Supplemental Request.

* The FY 2010 Estimate column excludes \$13,908 thousand of funding requested in the FY 2010 Defense-Wide Overseas Contingency Operations Budget Request.

I. Description of Operations Financed: The Defense Contract Audit Agency (DCAA) is responsible for providing audit services and financial advice to all Department of Defense (DoD) acquisition officials to assist them in achieving fair and reasonable contract prices and assuring compliance with contractual terms and conditions. The DCAA responds to specific acquisition official requests for services across the entire spectrum of contract financial and business matters as well as fulfilling recurring audit work required to monitor cost performance and approve contract payments. The DCAA provides contract audit support to all DoD components as part of the military operations and reconstruction effort in Iraq. The DCAA also supports the Iraq effort of other Federal Agencies such as U.S. AID on a reimbursable basis.

The DCAA continues to return savings to the Government that exceed the cost of its operations. In FY 2008, the Agency audited \$138 billion of costs incurred on contracts and reviewed 8,113 forward pricing proposals amounting to \$313 billion. Approximately \$3.3 billion in net savings were reported because of the audit findings. **The return on taxpayers' investment was approximately \$7.00 for each dollar invested** (\$470 million in FY 2008, including reimbursables).

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I. Description of Operations Financed: (Continued)

Significant changes between FY 2009 and FY 2010 include additional workyears to ensure execution of contract audits with the highest auditing standards.

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) requests for contract audit support from the Defense investigative agencies and U.S. attorneys as they conduct investigations and prosecute the perpetrators of contract fraud, and
- (vi) the Global War on Terrorism.

Projected staffing requirements correspond to planned changes in DoD procurement levels and required effort to complete audits of prior year contract expenditures. These staffing levels also reflect incorporation of previous Quadrennial Defense Review recommendations and related DoD initiatives. The DCAA workload is divided into the major functional categories described below:

1. Forward Pricing Effort. The Federal Acquisition Regulations (FAR) and Public Law 100-679, Cost Accounting Standards (CAS), require DoD procurement officials to comply with various administrative procedures before entering into contracts. These procedures

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I. Description of Operations Financed: (Continued)

include obtaining pertinent accounting and financial advice before making decisions related to prospective contract prices. The ultimate goal of forward pricing audit effort is to assist contracting officers in determining and negotiating fair and reasonable prices for negotiated Government contracts. The DCAA furnishes pre-award services to contracting officers including:

a. Price Proposal Audits. The DCAA performs these audits to determine the reasonableness of contractors' price proposals submitted in anticipation of negotiating Government contracts. Contracting officers request these audits, which must be accomplished within a short period to avoid delaying the procurement process. The DCAA has no control over the number or timing of price proposal audits and must respond to each audit request as top priority.

b. Should Cost Studies. 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 should cost, depending under the conditions predicted for contract performance. The DCAA auditors participate as members of the team of specialists. Such studies usually involve large major weapon system procurements.

c. Forward Pricing Rate Reviews. The DCAA performs these reviews to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. Normally a contracting officer negotiates these rates separately; the contractor then uses the rates in subsequent price proposals.

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

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I. Description of Operations Financed: (Continued)

pricing data submitted in support of a price proposal. The DCAA provides these services to meet the specific needs of contracting officers.

e. Estimating System Surveys. The DCAA performs these reviews to determine the reliability of contractors' estimating methods and procedures used to prepare price proposals, and whether they provide a basis for negotiating fair and reasonable prices. Systems surveys may be either a joint team review combining experience and capabilities of the auditor and technical specialist, or comprehensive reviews performed solely by auditors. These reviews also include recommended corrective actions on conditions causing deficiencies disclosed in price proposal evaluations or other audit areas which require immediate reporting and resolution. This also includes the effort required to determine the status of corrective actions taken by contractors on previously disclosed deficiencies.

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

2. **Incurred Cost Effort.** The FAR requires DCAA to perform audits of claimed costs incurred and submitted by contractors for reimbursement under cost reimbursable, fixed price incentive, and other types of flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, FAR, and CAS rules and regulations, if applicable. The scheduling of incurred cost audits and CAS compliance audits is more flexible than customer requested audits; nonetheless, these audits must be accomplished for the Government to make final payment to the contractor. The incurred cost effort includes reviews of direct labor and material costs and indirect expenses. It also includes reviews of contractor accounting and management systems and related internal controls. Although the primary purpose of incurred cost audits is to express an opinion

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I. Description of Operations Financed: (Continued)

on the acceptability of costs claimed under Government contracts, knowledge of contractors' accounting and other internal control systems gained during these audits is invaluable to the evaluation of contractors' price proposals.

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

4. **Special Audits.** The contracting officer normally requests these audits that include reviews of termination claims, progress payment requests, equitable adjustment claims, and contractor financial capability. They must be accomplished within a short period to avoid adverse effects such as additional claims for interest on amounts due or contractor financial failure. The DCAA has little control over the number or timing of these reviews and must respond to all such requests as a priority. The special audits category also includes audits of contractor earned value management systems which DCAA performs as part of a team lead by the Defense Contract Management Agency.

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

6. **Cost Accounting Standards (CAS).** Contracts and subcontracts that do not qualify for an exemption are subject to CAS coverage as a condition of Government contracting. The

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I. Description of Operations Financed: (Continued)

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

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

a. Financial Liaison. The DCAA maintains liaison advisors, as appropriate, at major procuring and contract administration offices. The primary functions of financial liaison advisors are to: (i) facilitate effective communication and coordination between 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. The DCAA established a CAC program at the largest DoD contractors whose accounting functions, operations, and contract performance occur at multiple locations under the audit cognizance of multiple DCAA field offices. The program maintains effective communications and audit coordination at these contractor locations. The CAC program includes effort to: (i) disseminate information; (ii) monitor problem areas to assure uniform resolution; and (iii) coordinate with other DCAA personnel, contractor representatives, and cognizant procurement officials on issues affecting multiple locations.

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

d. External Audit Interface. The DCAA develops information and comments on reports from the GAO, DoD IG, and other government inspector general offices. This activity also includes effort related to discussions and conferences, and any interface involving any other government audit organization.

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

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

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

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

b. Defense Contract Audit Institute (DCAI). The DCAI develops and delivers training for approximately 3,500 contract auditors and is an affiliated member of the Defense Acquisition University. The DCAI directs and controls the development and delivery of classroom courses, seminars, computer based self-study courses, and internet-based, instructor-led courses. The DCAI has program management responsibility for training and career development in the DCAA. It assures that programs of instruction, courses, and training materials meet DoD standards, Generally Accepted Government Auditing Standards (GAGAS), and National Association of State Boards of Accountancy (NASBA) standards. The DCAI provides policy guidance to the regional offices and field audit offices, where appropriate, regarding training and education, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. The DCAI ensures training materials are up-to-date and develops new courses when required by the changing audit environment. The DCAI, located on the south campus of the University of Memphis, also serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Center in Memphis, Tennessee.

c. Information Technology Division (OIT). OIT is responsible for the design, development, and maintenance of Agency-specific automated information systems (AIS), web applications and audit software. It employs a computer hardware acquisition strategy/plan to ensure that AIS and personal computing needs are satisfied. It is also

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responsible for operating the Agency-wide communications infrastructure, monitoring network performance, and managing DCAA's information assurance program.

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

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

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

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

II. Force Structure Summary: Not applicable.

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III. Financial Summary (\$ in Thousands)

	FY 2009						
	FY 2008 Actuals	Budget Request	<u>Congressional Action</u>		Appropriated	Current Estimate	FY 2010 Estimate
Amount			Percent				
A. <u>Budget Activity (BA) 4</u>							
Defense Contract Audit Agency	413,888	418,006	-1,045	-0.3%	416,961	416,961	458,316
DCAA Operations	397,252	401,330	-1,045	-0.3%	400,285	392,926	432,779
DCAA Communications	3,010	3,337	-	-	3,337	4,234	5,203
DCAA Major HQ	13,626	13,339	-	-	13,339	19,801	20,334
Memo: Audit Institute	5,759	5,703	-	-	-	6,666	6,783
DCAA Operations	5,748	5,684	-	-	-	6,656	6,773
DCAA Communications	11	19	-	-	-	10	10
DCAA Major HQ	-	-	-	-	-	-	-
Memo: Audit Operations	408,129	412,303	-	-	-	410,295	451,533
DCAA Operations	391,504	395,646	-	-	-	386,270	426,006
DCAA Communications	2,999	3,318	-	-	-	4,224	5,193
DCAA Major HQ	13,626	13,339	-	-	-	19,801	20,334

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* The FY 2010 Estimate column excludes \$13,908 thousand of funding requested in the FY 2010 Defense-Wide Overseas Contingency Operations Budget Request.

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III. Financial Summary (\$ in Thousands)

B. <u>Reconciliation Summary</u>	Change FY 2009/ <u>FY 2009</u>	Change FY 2009/ <u>FY 2010</u>
Baseline Funding	418,006	416,961
Congressional Adjustments (Distributed)	-	-
Congressional Adjustments (Undistributed)	-	-
Adjustments to Meet Congressional Intent	-	-
Congressional Adjustments (General Provisions)	-853	-
Congressional Earmarks	-192	
Subtotal Appropriated Amount	416,961	416,961
Fact-of-Life Changes (CY to CY Only)	-	-
Subtotal Baseline Funding	416,961	416,961
Anticipated Supplemental	5,000	-
Reprogrammings	-	-
Price Changes	-	9,852
Functional Transfers	-	-
Program Changes	-	31,503
Current Estimate	421,961	458,316
Less: Wartime Supplemental	-5,000	-
Normalized Current Estimate	416,961	458,316

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III. Financial Summary (\$ in Thousands) (Continued)

<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
FY 2009 President's Budget Request		418,006
1. Congressional Adjustment(s)		-1,045
a. Distributed Adjustment(s)		
b. Undistributed Adjustment(s)		
c. Adjustments to Meet Congressional Intent		
d. General Provisions (Section 8101-Economic Assumptions)	-853	
e. Congressional Earmarks (Section 8037-Mitigation of Environmental Impacts)	-192	
FY 2009 Appropriated Amount		416,961
2. War-Related GWOT Bridge Funding		5,000
3. Fact-of-Life Changes		
FY 2009 Baseline Funding		421,961
4. Reprogrammings (requiring 1415 Actions)		
Revised FY 2009 Estimate		421,961
5. Less: Item 2, War-Related GWOT Bridge Funding		-5,000
FY 2009 Normalized Current Estimate		416,961
6. Price Change		9,852
7. Functional Transfers		
8. Program Increases		31,503
a. Annualization of New FY 2010 Program		
b. One-Time FY 2010 Increases		
c. Program Increases in FY 2010		
1) Defense Contract Audit Agency (DCAA) Operations: DCAA will execute 4,050 workyears (compared to 3,927 workyears in FY 2009), which affects pay and benefits, mission travel, supplies and equipment. A recent Agency-wide organizational assessment identified a requirement for additional auditors and supervisors to ensure execution of contract audits with the highest auditing standards. Travel increased because DCAA auditors are required to perform on-site evaluations and mandatory training and these expenses are necessary in order for the auditors to accomplish their mission and are not discretionary.	25,997	

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III. Financial Summary (\$ in Thousands) (Continued)

C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
2) Information Technology Software - Renewing the three year license for Microsoft Assurance causes the increase in software maintenance costs.	3,528	
3) GSA Rent - A GSA rent increase is projected, associated in part with standing up new offices.	1,073	
4) Communications costs are increasing as a result of the estimated cost of DoD conversion to the NetWorx contract currently estimated to occur in FY 2010.	905	
FY 2010 Budget Request		458,316

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IV. Performance Criteria and Evaluation Summary:

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

<u>Execution of Workyears</u>	(*) <u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Forward Pricing	779	689	808
Incurring Cost Effort:			
Regular Incurred Cost	1,511	1,402	1,423
CAS Compliance Audits	120	120	117
Total Incurred Cost	1,631	1,522	1,540
Operations Audits	37	37	45
Special Audits	436	454	458
Defective Pricing	83	98	84
Cost Accounting Standards:	100	100	102
Disclosure Statements, Cost Impact Audits, Etc.			
Other Direct Audit Effort:			
Procurement Support	268	270	240
Audit Support & Planning	265	273	273
Total Other Direct	533	543	513
Field Support:			
Regional Offices	270	262	269
Field Support	103	103	112
Total Field Support	373	365	381
Headquarters	85	119	119
Total Workyears	4,057	3,927	4,050

* Actual workyears including overtime.

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

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

DCAA's Strategic Plan. The DCAA implemented a formal Strategic Plan in 1992. Over the years, this Plan has become the mainstay for managing overall operations and institutionalizing 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 DCAA's Executive Steering Committee closely monitors accomplishment of each strategic plan objective, using milestone plans and performance

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IV. Performance Criteria and Evaluation Summary: (continued)

measures. During FY 2009, DCAA plans to re-assess its Strategic Plan to ensure it continues to include clearly defined qualitative success measures that link to human capital and operational plans.

DCAA Strategic Plan Goals

Goal 1: Quality of Work Life Environment: Foster a quality work-life environment that promotes trust, teamwork, mutual respect, superior job performance and high morale.

Goal 2: Customer Satisfaction: Assure customer satisfaction by providing timely and responsive audits and financial services that meet or exceed customer requirements and expectations.

Goal 3: Professional Competence: Attain the highest level of professional competence through continuous improvement in the management and performance of audits and services.

Goal 4: Best Value Audit Services: Provide best value audit and financial services through continuous evaluation and improvement of audit and administrative processes.

Goal 5: Integrated IT Structure: Provide an integrated Information Technology (IT) structure that promotes effectiveness and efficiency in providing services for internal and external customers.

Relationship of the Performance Plan to the Program Assessment Rating Tool (PART). The Performance Plan supports the President's and DoD's initiatives and measures the most important actions for successful accomplishment of DCAA mission. Most of the audit performance measures are also included as measures in the PART beginning in FY 2009. The DCAA has been assessed using the Program Assessment Rating Tool (PART) and received

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IV. Performance Criteria and Evaluation Summary: (continued)

an "effective" rating in 2007. Remarks regarding program performance and plans for performance improvement can be located at the ExpectMore.gov website.

Alignment between the Performance Plan and DCAA's Planning, Programming, Budgeting, and Execution System (PPBES) Process. DCAA's Performance Plan provides a framework that supports decisions on budget requests and is meaningful for assessing the Agency's performance. The costs per direct audit hour and timeliness measures are used to identify the costs of performance and assess the impact of fiscal constraints. The DCAA executives receive information monthly regarding the results of the audit performance measures. The DCAA executives consider possible influencing factors, such as cost-benefit analysis and process improvements, which could impact the outcome of the previously developed goals.

Summary of Performance Based Measures. The chart below summarizes our Audit Performance Measures for FY 2008 through FY 2010. Detailed descriptions are provided for each of the measures, along with a column which displays how each Performance Plan measure links to the Strategic Plan. This performance based structure assures the Department that DCAA will use the resources requested in this budget and that DCAA manages its audit services well.

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IV. Performance Criteria and Evaluation Summary: (continued)

<u>Notes</u>	<u>Audit Performance Measures</u>	<u>PART Measure</u>	<u>Strategic Plan</u>	<u>FY 2008 Actuals *</u>	<u>FY 2009 Goal (Est.)</u>	<u>FY 2010 Goal (Est.)</u>
	<u>Quality Related Measures:</u>					
1	DoD IG Opinion on PCIE Review	X	Goal 3		Unqualified Opinion	Unqualified Opinion
2	DCAA Internal PCIE Reviews		Goal 3		100%	100%
3	Reports Issued without Critical Errors	X	Goal 3		100%	100%
4	Reports with Findings	X	Goal 3	41.9%	45%	TBD
5	Quantitative Methods Usage		Goal 3		15%	TBD
6	CPE Requirements		Goal 3		100%	100%
	<u>Timeliness Measures:</u>					
7	Forward Pricing Audits Issued by Due Date	X	Goal 2	86.4%	95%	TBD
8	Corporate Incurred Cost Completed in 12 Months	X	Goal 2		90%	TBD
9	Major Incurred Cost Completed in 15 Months	X	Goal 2	86.6%	90%	TBD
10	Nonmajor Incurred Cost Completed in 24 Months	X	Goal 2	96.5%	95%	TBD
	<u>Efficiency Measure:</u>					
11	Cost per Direct Audit Hour	X	Goal 4	\$111.95	\$113.45	TBD

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IV. Performance Criteria and Evaluation Summary: (continued)

Description of Performance Measures:

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

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

3. Percent of audit reports issued without critical errors in content. The quality of audit reports issued is a critical factor in ensuring the requestor can understand and properly apply the results of audit. The quality assurance organization is required to review a sample of audit reports issued each month. A key result of these reviews is a determination whether the audit report issued contained critical errors. The DCAA goal is for 100 percent of audit reports to be issued free of critical errors.

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IV. Performance Criteria and Evaluation Summary: (continued)

4. Percent of audit reports with findings. The percentage of audit reports issued with findings is an indication of the tangible value of the audit work performed by the DCAA. The findings can take the form of questioned costs, or an opinion that a contractor's internal control system is inadequate, or an opinion that a contractor's practices are in noncompliance with Cost Accounting Standards. Quality audits should identify significant findings if they exist. The DCAA measures the percent of the audits that are subject to findings, which actually identify findings. The DCAA FY 2009 goal is for 45 percent of those audits to identify findings.

5. Quantitative Methods Usage. The DCAA uses this measure to monitor the extent to which advanced level audit techniques such as statistical sampling, improvement curves, and regression analysis are used. The goal is set at a level to encourage use when applicable, but not so high as to promote the use of quantitative techniques when they are not appropriate. The DCAA FY 2009 goal is for 15 percent of specific audit types to employ the use of quantitative methods.

6. Continuing Professional Education Requirements. All DCAA audit staff members must complete 80 hours of continuing professional education (CPE) over a two year period in accordance with the Generally Accepted Government Auditing Standards (GAGAS) published by the Government Accountability Office (GAO). The CPE requirement is consistent with DCAA's Strategic Plan goals for professional competence. The DCAA FY 2009 goal is for 100 percent of auditors to complete the minimum Continuing Professional Education requirements.

7. Percent of forward-pricing proposal audit reports issued by the agreed-to due date. Contracting officers in the process of negotiating prices for new contracts request audit advice on the reasonableness of the contractor's proposed prices from Defense Contract Audit Agency (DCAA). DCAA's ability to provide these audit services in a timely manner is critical to the timely awarding of contracts. The DCAA measures the percent

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of forward pricing proposal audit reports issued by the due date agreed to between the auditor and requester. The DCAA FY 2009 goal is to issue 95 percent of audit reports within the agreed-to timeframe.

8. Percent of corporate contractor incurred cost audits issued within required timeframes. Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. The following goal was established: for corporate contractors, DCAA's goal is to issue 90 percent of reports within 12 months of receipt of an adequate incurred cost submission.

9. Percent of major contractor incurred cost audits issued within required timeframes. Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. The following goal was established: for major contractors (contractors with over \$100 million of auditable contract dollars per year), DCAA's goal is to issue 90 percent of reports within 15 months of receipt of an adequate incurred cost submission.

10. Percent of non-major contractor incurred cost audits issued within required timeframes. Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. The following goal was established: for non-major contractors (contractors with less than \$100 million of auditable contract dollars per year), DCAA's goal is to issue 95 percent of reports within 24 months of receipt of an adequate incurred cost submission.

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IV. Performance Criteria and Evaluation Summary: (continued)

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

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V. <u>Personnel Summary</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>Change</u> <u>FY 2008/</u> <u>FY 2009</u>	<u>Change</u> <u>FY 2009/</u> <u>FY 2010</u>
<u>Civilian End Strength (Total)</u>	4,179	4,223	4,206	+44	-17
U.S. Direct Hire	4,173	4,217	4,200	44	-17
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	4,174	4,218	4,201	+44	-17
Foreign National Indirect Hire	5	5	5	-	-
Memo: Reimbursable Civilians Included	488	496	494	+8	-2
 <u>Civilian FTEs (Total)</u>	 3,989	 3,927	 4,050	 -62	 +123
U.S. Direct Hire	3,983	3,921	4,044	-62	+123
Foreign National Direct Hire	1	1	1	-	-
Total Direct Hire	3,984	3,922	4,045	-62	+123
Foreign National Indirect Hire	5	5	5	-	-
Memo: Reimbursable Civilians Included	488	496	494	+8	-2
Average Annual Civilian Salary (\$ in thousands)	\$101	\$104	\$109	+3	+5

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<u>OP 32 Line</u>	<u>FY 2008</u> <u>Actuals</u>	<u>Change</u> <u>FY 2008 to</u> <u>FY 2009</u>		<u>FY 2009</u> <u>Estimate</u>	<u>Change</u> <u>FY 2009 to</u> <u>FY 2010</u>		<u>FY 2010</u> <u>Estimate</u>
		<u>Price</u> <u>Growth</u>	<u>Program</u> <u>Growth</u>		<u>Price</u> <u>Growth</u>	<u>Program</u> <u>Growth</u>	
101 Executive, General & Special Schedules	353,493	13,301	-11,757	355,037	9,053	22,563	386,653
103 Wage Board	63	4	-	67	3	-	70
104 Foreign National Direct Hire (FNDH)	68	-	-	68	2	-	70
106 Benefits to Former Employees	25	-	-25	-	-	-	-
111 Disability Compensation	1,277	-	-44	1,233	-	-	1,233
199 Total Civilian Personnel Compensation	354,926	13,305	-11,826	356,405	9,058	22,563	388,026
308 Travel of Persons	14,097	282	-868	13,511	168	2,038	15,717
399 Total Travel	14,097	282	-868	13,511	168	2,038	15,717
673 Defense Financing & Accounting Service	3,774	-196	424	4,002	-8	62	4,056
699 Total Purchases	3,774	-196	424	4,002	-8	62	4,056
771 Commercial Transportation	801	17	-7	811	10	29	850
799 Total Transportation	801	17	-7	811	10	29	850
912 Rental Payments to GSA (SLUC)	9,427	236	456	10,119	253	1,073	11,445
913 Purchased Utilities (Non-Fund)	36	1	-	37	-	-	38
914 Purchased Communications (Non-Fund)	3,009	60	1,165	4,234	51	918	5,203
915 Rents (Non-GSA)	724	14	-173	565	7	198	770
917 Postal Services (U.S.P.S.)	21	-	-	21	-	-	21
920 Supplies & Materials (Non-Fund)	4,895	98	-280	4,713	57	486	5,256
921 Printing & Reproduction	125	2	-1	126	2	4	132
922 Equipment Maintenance by Contract	227	5	-1	231	3	26	260
925 Equipment Purchases (Non-Fund)	3,202	64	-268	2,998	36	514	3,548
989 Other Contracts	17,401	348	130	17,879	215	3,592	21,686
998 Other Costs	1,223	24	62	1,309	-	-	1,309
999 Total Other Purchases	40,290	852	1,090	42,232	624	6,811	49,667
Total	413,888	14,260	-11,187	416,961	9,852	31,503	458,316

* The FY 2008 Actual column includes \$13,845 thousand of FY 2008 Emergency Supplemental funds for the Global War (PL 110-252).

* The FY 2009 Estimate column excludes \$5,000 thousand of Bridge Funding Appropriations for FY 2009 (PL 110-252) and \$7,600 thousand of funding requested in the Defense-Wide FY 2009 Supplemental Request.

* The FY 2010 Estimate column excludes \$13,908 thousand of funding requested in the FY 2010 Defense-Wide Overseas Contingency Operations Budget Request.