

Fiscal Year (FY) 2020 President's Budget

Operation and Maintenance, Defense-Wide Defense Contract Audit Agency



March 2019

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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: Administrative and Service-wide Activities**

	FY 2018 <u>Actuals</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2019 <u>Enacted</u>	Price <u>Change</u>	Program <u>Change</u>	FY 2020 <u>Estimate</u>
DCAA	598,292	4,209	21,526	624,027	2,031	4,771	630,829

* The FY 2018 Actual column includes \$6,353.0 thousand of FY 2018 Overseas Contingency Operations (OCO) Appropriations Funding (PL 115-141).

* The FY 2019 Enacted column excludes \$1,781.0 thousand of FY 2019 OCO Appropriations Funding (PL 115-245).

* The FY 2020 Estimate column excludes \$1,810.0 thousand of FY 2020 OCO Appropriations Funding.

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

The Agency's primary function is to conduct contract audits and related financial advisory services. Contract audits are independent, professional examinations of financial representations made by defense contractors. Specifically, DCAA helps determine whether contract costs are allowable, allocable, and reasonable. The DCAA conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), a set of standards that ensures audit conclusions are well supported by evidence. The type and extent of DCAA's audit work varies based on the type of contract awarded, but its audit services are generally limited to acquisitions under Federal Acquisition Regulation (FAR), Part 15 (Contracting by Negotiation). The DCAA audits only contractors; it has no internal audit responsibilities within DoD. The DCAA auditors examine contractor accounts, records, and business systems to evaluate whether contractor business practices and procedures are in compliance with the FAR, the Defense Federal Acquisition Regulation Supplement (DFARS), Cost Accounting Standards (CAS), and other applicable government laws and regulations. The DCAA has no direct role in determining which companies are awarded defense contracts; rather, it provides recommendations to government officials on contractor cost assertions regarding specific products and services. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. The DCAA

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I. Description of Operations Financed (cont.)

currently has oversight of approximately 9,100 active contractors. In a typical year, DCAA engages in audits with around 4,900 contractors, examining approximately \$325 billion in contract costs, and issuing about 4,000 audit reports.

In FY 2020, DCAA will execute its entire portfolio of audit work including incurred cost, forward pricing, terminations and claims, business systems, CAS, Voucher Payments and Truth in Negotiation (TiN) compliance audits. Focusing on the entire portfolio of audit work enables DCAA to fulfill its role in the financial oversight of government contracts and is critical to ensuring DoD gets the best value for every dollar spent on defense contracting. The DCAA will continue efforts to maintain a reasonable incurred cost inventory in order to (1) assist in achieving auditable financial statements, a Secretary of Defense priority; (2) assist the Department in closing completed contracts; and (3) prevent undue delays in payments of fees to contractors (a portion of fees to contractors is delayed until the contract is closed).

The DCAA's FY 2018 Financial Statements received an unmodified opinion from independent public auditors. The DCAA has maintained an unmodified audit opinion since FY 2000.

The DCAA continues to return savings to the Government that far exceed the cost of its operations. In FY 2018, the Agency audited more than \$350 billion of costs incurred on contracts and issued about 766 forward pricing proposal audit reports amounting to over \$58 billion. Approximately \$3.2 billion in net savings were reported because of the audit findings. The return on taxpayers' investment is approximately \$5.00 for every dollar invested in the Agency (\$645 million in FY 2018, including reimbursable funding).

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

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

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

b. Forward Pricing Rate Proposal Audits. These examinations determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. Normally a contracting officer negotiates these rates separately; the contractor then uses the rates in subsequent price proposals.

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

d. Estimating System Audits. These examinations determine the contractors' compliance with the system criteria for an acceptable estimating system as prescribed in DFARS 252.215-7002, Cost Estimating System Requirements. The DCAA also recommends corrective actions on conditions causing deficiencies disclosed in price proposal evaluations or other audit areas which require immediate reporting and resolution. This category also includes the effort required to determine the status of corrective actions taken by contractors on previously disclosed deficiencies.

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

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. This effort includes examinations of direct labor and

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material costs and indirect expenses, and provides insight on the function of contractor business systems and related internal controls. Although the primary purpose of incurred cost audits is to express an opinion on the acceptability of costs claimed under Government contracts, knowledge of contractors' accounting and other business systems gained during these audits is helpful in evaluating contractors' price proposals.

In FY 2020, DCAA will complete incurred costs audits within 12 months of receiving an adequate submission in order to (1) assist in achieving auditable financial statements, a Secretary of Defense priority; (2) assist the Department in closing completed contracts; and (3) prevent undue delays in payments of fees to contractors (a portion of fees to contractors is delayed until the contract is closed).

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

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

6. Business System Audits. These evaluate contractor systems to assess if the systems generate accurate and reliable data for contracting officers to use in determining fair and reasonable prices.

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

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

a. Financial Liaison. The DCAA maintains liaison advisors, as appropriate, at major procurement and contract administration offices. Their primary functions are to: facilitate effective communication and coordination between procurement officers and auditors; provide DCAA management with information regarding specific awards, trends in type and volume of awards, and other data impacting immediate or long range DCAA responsibilities; and provide DCAA management with information on the adequacy, responsiveness and timeliness of audit services rendered to procurement and contract administration offices.

b. Corporate Audit Directorate. The DCAA extended the success of its Contract Audit Coordinator (CAC) program into a Corporate Audit Directorate (CAD) structure and now has seven of the largest contractors organized into four CADs whose accounting functions, operations, and contract performance occur at multiple locations under the audit cognizance of multiple DCAA field offices, but are now under one DCAA management hierarchy. The CAD structure enables effective communications and audit coordination at these contractor locations allowing information to be effectively disseminated, problem areas to be monitored to ensure uniform resolution, and enables coordination with other DCAA personnel, contractor representatives, and cognizant procurement officials on issues affecting multiple locations.

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. Audit results often involve complex accounting issues and quantitative analyses that dispute contractors' cost estimates or representations. On these occasions, the best interests of the Government are served by having auditors present at negotiations to further explain the audit position, perform analyses of additional contractor data presented at the negotiation table, and provide any other accounting and financial assistance the contracting officer may require during the negotiation process.

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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 efforts related to discussions and conferences, and any interface involving any other government audit organizations.

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

f. Audit Support and Planning. 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. Projects normally relate to new and innovative ways of performing DCAA's audit mission, and add to the body of knowledge needed to enhance Agency mission accomplishment through the development and application of improved audit management technology and audit techniques.

9. **Field Support**. This includes support personnel assigned to four regional offices, four CADs, the Defense Contract Audit Institute, the Office of Information Technology, and Technical Audit Services Division.

a. Regional Offices and CADs. These offices provide technical audit management and supervision to field office personnel.

b. Defense Contract Audit Institute (DCAI). The DCAI develops and delivers training for approximately 4,500 contract auditors and is an affiliated member of the Defense Acquisition University; directs and controls the development and delivery of classroom courses, seminars, computer-based self-study courses, and internet-based, instructor-led courses; has program management responsibility for DCAA training and career development including ensuring the workforce obtains DoD Acquisition and Financial Management certification requirements; assures that programs of instruction, courses, and training materials meet DoD, GAGAS, and National Association of State Boards of Accountancy (NASBA) standards; provides training and education policy guidance, monitoring and evaluation of Agency training not conducted by the Institute; ensures training materials are up-to-date; and develops new courses when required by the changing audit environment. Programs provided by DCAI include audit, leadership, and supervisory training.

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c. Office of Information Technology (OIT). The OIT is responsible for the design, development, and maintenance of Agency-specific automated information systems (AIS), web applications, and audit software. It employs a computer hardware acquisition strategy/plan to satisfy AIS and personal computing requirements. It is also responsible for operating the Agency-wide communications infrastructure, monitoring network performance, managing DCAA's information assurance program, and establishing and implementing policy and standards for information technology (IT) systems and services.

d. Technical Audit Services Division (OTS). The 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. The OTS also provides technical assistance to auditors in planning reviews of contractor's electronic data processing systems and engineering operations and supports field offices in the implementation of DoD electronic commerce initiatives.

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

10. **Headquarters**. The DCAA Headquarters performs the work normally associated with the central office of a professional public organization, develops policy and promulgates instructions and operating directives needed to perform the Agency mission, performs oversight reviews of regional and field office operations and audit quality, provides Regions and CADs with resource management services including human capital, administration, and financial management, and includes the General Counsel which provides legal advice regarding contracts, ethics, and personnel issues. Headquarters personnel interface with other DoD components, other Government agencies, and Congressional committees.

II. Force Structure Summary:

Not Applicable.

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III. Financial Summary (\$ in thousands)

	FY 2019						
	FY 2018 <u>Actuals</u>	Budget <u>Request</u>	<u>Congressional Action</u>			Current <u>Enacted</u>	FY 2020 <u>Estimate</u>
			<u>Amount</u>	<u>Percent</u>	<u>Appropriated</u>		
A. <u>BA Subactivities</u>							
1. <u>Audit Institute</u>	7,571	9,787	0	0.0	9,787	9,787	7,713
DCAA Communications	9	0	0	n/a	0	0	0
DCAA Operations	7,562	9,787	0	0.0	9,787	9,787	7,713
2. <u>Audit Operations</u>	590,721	615,846	-1,606	-0.3	614,240	614,240	619,754
DCAA Communications	6,307	5,731	-148	-2.6	5,583	5,583	5,426
DCAA Major Headquarters	40,797	42,692	0	0.0	42,692	42,692	40,613
DCAA Operations	543,617	567,423	-1,458	-0.3	565,965	565,965	573,715
3. <u>Cyberspace Activities</u>	0	0	0	n/a	0	0	3,362
DCAA Cyberspace	0	0	0	n/a	0	0	3,362
Total	598,292	625,633	-1,606	-0.3	624,027	624,027	630,829

* The FY 2018 Actual column includes \$6,353.0 thousand of FY 2018 Overseas Contingency Operations (OCO) Appropriations Funding (PL 115-141).

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B. <u>Reconciliation Summary</u>	Change	Change
	<u>FY 2019/FY 2019</u>	<u>FY 2019/FY 2020</u>
Baseline Funding	625,633	624,027
Congressional Adjustments (Distributed)		
Congressional Adjustments (Undistributed)	-1,606	
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)		
Subtotal Appropriated Amount	624,027	
Fact-of-Life Changes (2019 to 2019 Only)		
Subtotal Baseline Funding	624,027	
Supplemental	1,781	
Reprogrammings		
Price Changes		2,031
Functional Transfers		
Program Changes		4,771
Current Estimate	625,808	630,829
Less: Wartime Supplemental	-1,781	
Normalized Current Estimate	624,027	

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<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
FY 2019 President's Budget Request (Amended, if applicable)		625,633
1. Congressional Adjustments		-1,606
a. Distributed Adjustments		
b. Undistributed Adjustments		
1) Across-The-Board Reduction: Historical Underexecution	-1,606	
c. Adjustments to Meet Congressional Intent		
d. General Provisions		
FY 2019 Appropriated Amount		624,027
2. War-Related and Disaster Supplemental Appropriations		1,781
a. OCO Supplemental Funding		
1) FY19 Defense-Wide Overseas Contingency Operations	1,781	
3. Fact-of-Life Changes		
FY 2019 Baseline Funding		625,808
4. Reprogrammings (Requiring 1415 Actions)		
Revised FY 2019 Estimate		625,808
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings		-1,781
FY 2019 Normalized Current Estimate		624,027
6. Price Change		2,031
7. Functional Transfers		
8. Program Increases		12,404
a. Annualization of New FY 2019 Program		
b. One-Time FY 2020 Increases		
1) Compensation and Benefits - One additional compensable day	1,946	
One additional compensable day is added for FY 2020.		
The number of compensable days changes from 261 in FY 2019 to 262 in FY 2020. (FY 2019 Baseline: \$515,905 thousand; +0 FTEs)		

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III. Financial Summary (\$ in thousands)

C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
c. Program Growth in FY 2020		
1) Other Intra-Governmental Purchases	4,194	
+\$1,453 thousand is due to realignment of DCAA funding from Procurement to O&M funding to support commodity IT services transferred to DISA. The DCAA will now use O&M funds to pay DISA for this reimbursable effort.		
+\$2,700 thousand is to fully fund the DCAA portion of the bill to the Department of State for Iran Foreign Military Sales (FMS) litigation support costs. This was previously funded in the year of execution. The DCAA is now properly budgeting this requirement.		
+\$41 thousand increase is to properly fund the DCAA portion of the support cost for auditors located OCONUS. (FY 2019 Baseline: \$6,941 thousand; +0 FTEs)		
2) Equipment Purchases	2,456	
The increase is due to annual technology refresh of laptops deferred from FY 2019; DCAA has a laptop refresh rate of 25% per year. The laptops will support auditors in the field as they work with contractors on executing the portfolio of DCAA audits. (FY 2019 Baseline: \$697 thousand)		
3) Personnel Compensation Increases	1,258	
+\$1,258 thousand is for +10 civilian auditor FTEs that are targeting contractor defective pricing audits to ensure compliance with the Truth in Negotiations allowing the government to recover amounts due to the contractor's failure to provide accurate, current, and complete cost or pricing data		

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
for use as a basis for price negotiation. (FY 2019 Baseline: \$515,905 thousand; +10 FTEs)		
4) Equipment Maintenance by Contract Increase is required to support maintenance on additional procured IT equipment that is being refreshed in FY 2020 and an increase for Splunk Software Enterprise maintenance that supports information assurance requirements. (FY 2019 Baseline: \$9,121 thousand)	869	
5) Commercial Transport +\$309 thousand increase is due to planned facility projects (transport of equipment) that were deferred from FY 2019. +\$359 thousand increase is due to anticipated transportation demands based on the forecasted number of PCS moves for the budgeted FTEs. (FY 2019 Baseline: \$530 thousand; +0 FTEs)	668	
6) Facilities Sust, Rest & Mod by Contract Increase in FY 2020 is based on scheduled facility renovations; this is year eight of a ten-year cycle to update all DCAA facilities. (FY 2019 Baseline: \$551 thousand)	378	
7) Other Services Increase in cost for contractor support for development of marketing materials to attract new talent to the Agency. (FY 2019 Baseline: \$36,672 thousand)	207	
8) Travel Increase in travel costs to support the additional	166	

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
+10 civilian auditor FTEs that are targeting contractor defective pricing audits. (FY 2019 Baseline: \$11,730 thousand; +0 FTEs)		
9) DFAS Financial Operations Increase is due to the incremental increase in DCAA's FY 2020 DFAS system support cost for accounting services related to DCAA's migration to the Defence Agencies Initiative (DAI) financial management system. (FY 2019 Baseline: \$4,749 thousand; +0 FTEs)	142	
10) PCS Benefits The increase reflects forecasted PCS costs for auditor moves based on historical execution for the budgeted FTEs and planned personnel moves. (FY 2019 Baseline: \$710 thousand; +0 FTEs)	112	
11) Supplies & Materials Increased cost for the subscription to cyberFEDS; this fully funds the DCAA's FY 2020 bill for the cyberFEDS products. (FY 2019 Baseline: \$1,321 thousand; +0 FTEs)	8	
9. Program Decreases		-7,633
a. Annualization of FY 2019 Program Decreases		
b. One-Time FY 2019 Increases		
c. Program Decreases in FY 2020		
1) Personnel Compensation Reductions -\$2,062 thousand reflects a reduction of -17 FTEs for the Secretary of Defense's direction to reduce Major DoD Headquarters Activities (MHA) funding by 25% through FY 2020 in accordance with FY 2016 NDAA (PL 114-92) direction to streamlining DoD major	-4,730	

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<u>C. Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
headquarters. -\$1,819 thousand decrease reflects an additional reduction in end strength equal to -15 workyears. -\$849 thousand reflects a reduction of -7 FTEs for the civilian direct hire efficiencies. (FY 2019 Baseline: \$515,905 thousand; -39 FTEs)		
2) IT Contract Support Services Decrease due to reduction of required contract support services based on the Agency's focus on developing in-house capabilities that will support Auditors. Based on this change in support concept, DCAA realigned these O&M funds to RDT&E funds to appropriately fund this effort. (FY 2019 Baseline: \$11,168 thousand; +0 FTEs)	-1,628	
3) Rental Payments to GSA The decrease is due to the closure of the Santa Ana and Merrimack Branch Offices that will be relocated within existing locations without increasing the rent at the new locations. The reduction reflects actual anticipated lease costs that will no longer be required. (FY 2019 Baseline: \$14,150 thousand; +0 FTEs)	-763	
4) Purchased Communications The decrease is due to the reduction of requirements associated with long distance services and regional commercial communication based on prior year actual execution. (FY 2019 Baseline: \$5,583 thousand)	-269	
5) Disability Compensation The decrease is due to a reduction in the DCAA's FY	-122	

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C. <u>Reconciliation of Increases and Decreases</u>	<u>Amount</u>	<u>Totals</u>
2020 bill to the US Department of Labor for the Office of Workers' Compensation Program. This fully funds the FY 2020 DCAA bill. (FY 2019 Baseline: \$1,524 thousand; +0 FTEs)		
6) Rents (Non-GSA) The decrease is due to the reduction of costs for the New Orleans and Boston Branch Offices. The reduction reflects actual anticipated lease costs that will no longer be required. (FY 2019 Baseline: \$2,479 thousand; +0 FTEs)	-121	
FY 2020 Budget Request		630,829

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IV. Performance Criteria and Evaluation Summary:

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

Performance Based Measures Overview. As a key defense acquisition 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 83 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-IG, the GAO, and the Congress.

The DCAA performs audits primarily for contracting officers in the Departments of the Army, Navy, 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.

Strategic Plan. The DCAA's current Strategic Plan was issued in April 2016. To address key challenges and fulfill its mission, DCAA uses a strategic planning approach which aims to achieve DCAA's Vision through its pursuit of several goals to be accomplished within a 5-year timeframe. The DCAA also uses a Human Capital Plan which tiers from the Strategic Plan and addresses strategies related to recruitment, on boarding, employee development, retention and succession planning.

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IV. Performance Criteria and Evaluation Summary:

DCAA Mission. As a key member of the government acquisition team, we are dedicated stewards of taxpayer dollars who deliver high quality contract audits and services to ensure that warfighters get what they need at fair and reasonable prices. Our mission statement clarifies our commitment to getting the most value for every dollar spent on defense contracts.

DCAA Vision. Every audit or service we deliver is on time, on point, and highly valued. Our vision is to provide products and services that are indispensable to the acquisition process. We aspire to always deliver services and products when we promise them and in time to meet acquisition requirements. We strive to deliver the right service, at the right time, to provide the most value throughout the contracting cycle.

DCAA Strategic Plan Goals

Goal 1: Embody a culture of One Agency, One Team, One Direction.

Goal 2: Support the acquisition community by providing quality audits and advisory services.

Goal 3: Foster a diverse workforce of highly motivated and valued professionals.

Goal 4: Enhance working relationships with DCAA external stakeholders.

Goal 5: Provide the workforce with the right information, business processes, and capabilities to successfully accomplish the mission.

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IV. Performance Criteria and Evaluation Summary:

Summary of Audit Performance Based Measures. The DCAA continues to reassess performance measures to develop measurements that more closely align with the Strategic Plan. Detailed descriptions are provided for each of the existing measures.

<u>Audit Performance Measures</u>	<u>FY 2018 Objective</u>	<u>FY 2018 Actuals</u>	<u>FY 2019 Objective</u>	<u>FY 2020 Objective</u>
<u>Workforce Environment Measures:</u>				
1 Federal Employee Viewpoint Survey - Response Rate	75%	71%	75%	75%
<u>Quality Related Measures:</u>				
2 DCAA QA Review Results - Audits Performed in Accordance with GAGAS	Exceed FY 2017 Rate	64%	Exceed FY 2018 Rate	Exceed FY 2019 Rate
<u>Timeliness Measures:</u>				
3 Incurred Cost Aging (Months)	12 Months	8.4 months	Close within 12 months of an adequate submission	Close within 12 months of an adequate submission
4 Forward Pricing Audits Issued by Original Due Date	80%	86%	83%	85%
<u>Efficiency Measures:</u>				
5 Incurred Cost Years Closed	4,000	8,482	4,000	4,000
6 Increase in Business System/Postaward Audits Completed	188	(8)	250	250

Description of Performance Measures:

1. Federal Employee Viewpoint Survey - Response Rate. The DCAA uses this measure to assess the extent of employee engagement. The response rate is an indication of employee engagement, desire to play a part in

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IV. Performance Criteria and Evaluation Summary:

continuing improvement, and belief that leadership will listen and act. The response rate represents the percent of employees that complete the survey compared to the total universe of employees surveyed.

2. DCAA Quality Assurance (QA) Review Results - Audits performed in accordance with GAGAS. The DCAA uses this measure to validate the quality of audits completed. The DCAA's Quality Assurance organization performs these reviews and evaluates whether they are performed in accordance with GAGAS; the goal is to increase the percentage of audits passing the QA Review each cycle.

3. Incurred Cost Aging (Months). The DCAA uses this measure to gauge the currency of its inventory of contractor fiscal year incurred cost submissions on hand. The DCAA prioritized incurred cost work in recent years and continues to close older proposals in a timely manner. In FY 2018, DCAA continued to make a substantial reduction in its incurred cost backlog, closing over 6,000 incurred cost years related to contractor fiscal years 2015 and prior; this brought the average age of inventory to 8.4 months. In FY 2019 and FY 2020, DCAA will transition to an updated timeliness objective and begin to close incurred cost submissions within 12 months of the identification of an adequate submission in accordance with the NDAA for FY 2018.

4. Percent of forward-pricing proposal audit reports issued by the original agreed-to due date. Contracting officers in the process of negotiating prices for new contracts request audit advice on the reasonableness of the contractor's proposed prices from DCAA. The DCAA's ability to provide these audit services in a timely manner is critical to the timely awarding of contracts. We measure the percent of forward pricing proposal audit reports issued by the original due date agreed to between the auditor and requester. The percentage of reports meeting the due date is expected to improve each year.

5. Incurred cost years closed. Timely annual audits of costs incurred on contracts by DCAA are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. The measure represents the number of contractor fiscal years of incurred cost assignments closed through audits, memorandums, or cancellations. The DCAA has prioritized incurred cost work in recent years to decrease its incurred cost backlog and exceeded its goal for decreasing its incurred cost backlog in FY 2018 by closing 8,482 incurred cost years, including over 6,000 incurred cost years related to contractor fiscal years 2015 and prior. This work puts DCAA in position to provide more timely

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IV. Performance Criteria and Evaluation Summary:

incurred cost audits in FY 2019 and begin closing approximately 4,000 annual incurred cost submissions within 12 months of the identification of an adequate submission in accordance with the NDAA for FY 2018.

6. Increase in Business System/Postaward Audits Completed. The DCAA completed fewer Business System/Postaward Audits in FY 2018 as it prioritized incurred cost work to decrease its incurred cost backlog. However, DCAA will begin to transition its FY 2019 and FY 2020 workload to the Department's higher-risk, higher-return audits. Accordingly, DCAA will increase its efforts in the high-risk audit areas of business systems and postaward audits. Business system audits evaluate contractor systems to assess if the systems generate accurate and reliable data for contracting officers to use in determining fair and reasonable prices. Postaward audits evaluate contractor compliance with the Truth in Negotiations Act to ensure contractors provided contracting officers the most current, accurate and complete data at the time of negotiations.

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V. <u>Personnel Summary</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	Change <u>FY 2018/ FY 2019</u>	Change <u>FY 2019/ FY 2020</u>
<u>Civilian End Strength (Total)</u>	4,543	4,412	4,432	-131	20
U.S. Direct Hire	4,308	4,183	4,210	-125	27
Total Direct Hire	4,308	4,183	4,210	-125	27
Reimbursable Civilians	235	229	222	-6	-7
<u>Civilian FTEs (Total)</u>	4,438	4,424	4,373	-14	-51
U.S. Direct Hire	4,203	4,195	4,151	-8	-44
Total Direct Hire	4,203	4,195	4,151	-8	-44
Reimbursable Civilians	235	229	222	-6	-7
Average Annual Civilian Salary (\$ in thousands)	123.8	123.5	124.0	-0.3	.5
 <u>Contractor FTEs (Total)</u>	 71	 302	 296	 231	 -6

The direct hire change from FY 2019 to FY 2020 reflects the following:

- +10 civilian auditor FTEs to target contractor defective pricing audits
- -17 FTEs for the Secretary of Defense's direction to reduce Major DoD Headquarters Activities
- -15 FTEs for the 4th Estate IT Optimization reform effort
- -15 FTEs for an additional reduction in end strength
- -7 FTEs for the civilian direct hire efficiencies

Under the new Defense Information Systems Agency (DISA) Fourth Estate Information Technology (IT) Optimization initiative, DISA will take operational control of all

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commodity IT information systems and technology, personnel, functions and program elements associated with the support of those systems and technologies in the Fourth Estate agencies; DCAA will now purchase commodity IT services from the DISA Working Capital Fund (WCF). In accordance with this initiative, -15 FTEs were transferred to the DISA Working Capital Fund without the accompanying resources; civilian personnel funds did not transfer as those funds will now be used to pay for that reimbursable service from DISA.

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

<u>OP 32 Line</u>	<u>FY 2018</u> <u>Actuals</u>	<u>Change</u> <u>FY 2018/FY 2019</u>		<u>FY 2019</u> <u>Enacted</u>	<u>Change</u> <u>FY 2019/FY 2020</u>		<u>FY 2020</u> <u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
101 Exec, Gen'l & Spec Scheds	517,350	2,639	-4,084	515,905	0	-3,345	512,560
103 Wage Board	65	0	-1	64	0	0	64
111 Disability Compensation	1,878	0	-354	1,524	0	-122	1,402
121 PCS Benefits	975	0	-265	710	0	112	822
199 Total Civ Compensation	520,268	2,639	-4,704	518,203	0	-3,355	514,848
308 Travel of Persons	13,642	246	-2,158	11,730	235	166	12,131
399 Total Travel	13,642	246	-2,158	11,730	235	166	12,131
696 DFAS Financial Operation (Other Defense Agencies)	5,001	258	-510	4,749	10	142	4,901
699 Total DWCF Purchases	5,001	258	-510	4,749	10	142	4,901
771 Commercial Transport	741	13	-224	530	11	668	1,209
799 Total Transportation	741	13	-224	530	11	668	1,209
912 Rental Payments to GSA (SLUC)	12,914	232	1,004	14,150	283	-763	13,670
913 Purchased Utilities (Non-Fund)	118	2	-4	116	2	0	118
914 Purchased Communications (Non-Fund)	6,316	114	-847	5,583	112	-269	5,426
915 Rents (Non-GSA)	2,277	41	161	2,479	50	-121	2,408
920 Supplies & Materials (Non-Fund)	1,064	19	238	1,321	26	8	1,355
921 Printing & Reproduction	12	0	2	14	0	0	14
922 Equipment Maintenance By Contract	6,712	121	2,288	9,121	182	869	10,172
923 Facilities Sust, Rest, & Mod by Contract	175	3	373	551	11	378	940
925 Equipment Purchases (Non-Fund)	2,911	52	-2,266	697	14	2,456	3,167
932 Mgt Prof Support Svcs	7,743	139	-7,882	0	0	0	0
957 Other Costs (Land and Structures)	5	0	-5	0	0	0	0
960 Other Costs (Interest and Dividends)	0	0	2	2	0	0	2
987 Other Intra-Govt Purch	4,370	78	2,493	6,941	139	6,013	13,093
989 Other Services	5,001	90	31,581	36,672	733	207	37,612

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<u>OP 32 Line</u>	FY 2018	Change		FY 2019	Change		FY 2020
	<u>Actuals</u>	<u>FY 2018/FY 2019</u>		<u>Enacted</u>	<u>FY 2019/FY 2020</u>		<u>Estimate</u>
		<u>Price</u>	<u>Program</u>		<u>Price</u>	<u>Program</u>	
990 IT Contract Support Services	9,022	162	1,984	11,168	223	-1,628	9,763
999 Total Other Purchases	58,640	1,053	29,122	88,815	1,775	7,150	97,740
Total	598,292	4,209	21,526	624,027	2,031	4,771	630,829

* The FY 2018 Actual column includes \$6,353.0 thousand of FY 2018 Overseas Contingency Operations (OCO) Appropriations Funding (PL 115-141).

* The FY 2019 Enacted column excludes \$1,781.0 thousand of FY 2019 OCO Appropriations Funding (PL 115-245).

* The FY 2020 Estimate column excludes \$1,810.0 thousand of FY 2020 OCO Appropriations Funding.

* In accordance with the DISA Fourth Estate IT Network Optimization initiative, the funding from OP-32 line 101 Exec, Gen'l, Spec Schedules in the amount of -\$1,819 thousand was realigned into OP-32 line 987 Other Intra-Govt Purchases to reflect how DCAA will now pay DISA for these reimbursable services. The OP-32 data in this exhibit does not match the data in the OSD budget databases because this disconnect was discovered after the OSD budget databases had locked; this OP-32 reflects the correct program distribution by OP-32 line.