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Department of Defense  
OFFICE OF PREPUBLICATION AND SECURITY REVIEW

# **Report to Congress on FY 2017 Activities** **Defense Contract Audit Agency**

**U.S. Department of Defense**

**March 31, 2018**





## DEFENSE CONTRACT AUDIT AGENCY

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Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's Fiscal Year 2017 annual Report to Congress, as required by 10 U.S.C. §2313a. This report highlights DCAA's audit performance, recommendations to improve the audit process, industry outreach activities, and key accomplishments.

As a result of DCAA audits, contract officials saved \$3.5 billion in defense spending last year—significant savings that could be reinvested in our warfighters or go back to the treasury. We examined nearly \$281 billion in defense contractor costs, identified over \$7.1 billion of audit exceptions across 3,581 audit reports, and supported Contracting Officers with other valuable products and services to help them ensure fair and reasonable contract prices. Additionally, we continued to improve communication and coordination with our acquisition partners, resulting in responsive approaches that met their needs and timelines.

In FY 2016, DCAA finalized its organizational realignment to streamline operations and better serve the acquisition community. Effective in FY 2017, our new structure has four Corporate Audit Directorates focused on seven of the major defense contractors, three Regional Directorates focused on large, mid-sized, and small contractors, and a Field Detachment responsible for classified work. This structure is allowing us to develop contractor-based expertise and innovative audit processes that increase our efficiency across all audit programs.

Incurred cost audits continued to be a top priority last year, and our workforce did an outstanding job reducing the backlog to an average age of 14.3 months. By incorporating various process improvements, we are on track to eliminate the backlog by the close of FY 2018.

Our workforce continues to marshal their considerable expertise and hard work to make DCAA's vision a reality: *Every audit or service we deliver is on time, on point, and highly valued.* I look forward to working with Congress to capitalize on DCAA's valuable contributions and improve the acquisition process, especially as we get current on incurred cost and increase our focus on higher risk work. I am proud of our workforce and our ability to deliver outstanding audit products and services to the Department in FY 2017.

Respectfully,

A handwritten signature in black ink, appearing to read "Anita F. Bales", is positioned below the word "Respectfully,".

Anita F. Bales  
Director

## TABLE OF CONTENTS

<b>1. DEFENSE CONTRACT AUDIT AGENCY MISSION</b> .....	<b>1</b>
<b>2. ORGANIZATIONAL STRUCTURE AND STAFFING</b> .....	<b>2</b>
<b>3. FY 2017 AUDIT PERFORMANCE</b> .....	<b>4</b>
<b>4. SUMMARY OF RECOMMENDED ACTIONS OR RESOURCES TO IMPROVE THE AUDIT PROCESS</b> .....	<b>15</b>
<b>5. OUTREACH ACTIONS TOWARD INDUSTRY</b> .....	<b>16</b>
<b>6. SIGNIFICANT FY 2017 ACTIVITIES AND THEIR IMPACT</b> .....	<b>18</b>
<b>7. OUTLOOK</b> .....	<b>22</b>

## TABLES AND FIGURES

<b>TABLE 1</b> — DCAA WORKFORCE AND EDUCATION .....	<b>3</b>
<b>TABLE 2</b> — AGGREGATE COST OF PERFORMING AUDITS BY AUDIT TYPE.....	<b>5</b>
<b>TABLE 3</b> — SUSTENTION BY AUDIT EXCEPTIONS.....	<b>6</b>
<b>TABLE 4</b> — RATIO SUSTAINED QUESTIONED COSTS TO AGGREGATE COST.....	<b>6</b>
<b>TABLE 5</b> — DOLLARS EXAMINED AND AUDIT REPORTS COMPLETED.....	<b>7</b>
<b>TABLE 6</b> — INCURRED COST CLOSED BY METHOD/DOLLARS EXAMINED .....	<b>9</b>
<b>TABLE 7</b> — INCURRED COST PENDING LONGER THAN ONE YEAR .....	<b>10</b>
<b>FIGURE 1</b> — DCAA NET SAVINGS .....	<b>4</b>
<b>FIGURE 2</b> — DCAA RETURN ON INVESTMENT .....	<b>5</b>
<b>FIGURE 3</b> — INCURRED COST CLOSED AND DOLLARS EXAMINED. ....	<b>8</b>
<b>FIGURE 4</b> — INCURRED COST BACKLOG FY 2011-FY 2017 .....	<b>10</b>
<b>FIGURE 5</b> — AGREED-TO DATES MET.....	<b>11</b>
<b>FIGURE 6</b> — FORWARD PRICING AVERAGE ELAPSED DAYS .....	<b>13</b>
<b>FIGURE 7</b> — INCURRED COST AVERAGE ELAPSED DAYS.....	<b>13</b>
<b>FIGURE 8</b> — SPECIAL AUDITS AVERAGE ELAPSED DAYS .....	<b>14</b>
<b>FIGURE 9</b> — OTHER AUDITS AVERAGE ELAPSED DAYS .....	<b>14</b>
<b>FIGURE 10</b> — COMMAND FEEDBACK INITIATIVE RESULTS.....	<b>18</b>

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## **1. DEFENSE CONTRACT AUDIT AGENCY MISSION**

DCAA provides audit and financial advisory services to DoD and other federal entities responsible for acquisition and contract administration. DCAA audits only contractors; it has no internal audit responsibilities in DoD. 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. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. Its work benefits our 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 reviews of financial representations made by defense contractors, and DCAA helps determine whether contract costs are allowable, allocable, and reasonable. DCAA conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), a set of standards that ensures audit conclusions are unbiased and 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 Part 15 (Contracting by Negotiation). The extent of auditing performed is based on risk and materiality considerations.

DCAA provides recommendations to government officials on contractor cost assertions regarding specific products and services. DCAA auditors examine contractor accounts, records, and business systems to evaluate whether contractor business practices and procedures are in compliance with the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), Cost Accounting Standards (CAS), and other applicable government laws and regulations. Its work supports contracting officials as they make procurement decisions. DCAA has no direct role in determining which companies are awarded defense contracts.

Government officials draw on DCAA audit findings throughout the acquisition process. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. At the front end, DCAA's findings can directly impact the price that the government pays for contracted work. Even after a contract is underway, DCAA findings may address instances where the government overpaid contractors for work, uncover potential fraud or misuse of funds, and impact future contract prices by addressing inadequacies early on. Before officially closing out a flexibly price contract, DCAA assesses whether the contractor's claims for final annual incurred costs during contract performance are allowable and reasonable according to applicable acquisition regulations and contract provisions. This final task in the contract audit process ensures that no excess costs were charged to the government.

## 2. ORGANIZATIONAL STRUCTURE AND STAFFING

**A. Organizational Structure.** Effective October 2016, DCAA realigned its organization into four Corporate Audit Directorates organized by major contractors, three geographical regions primarily focused on large, mid-sized, and small contractors, and a Field Detachment focused on classified work. DCAA has about 300 offices located throughout the United States, Europe, and the Middle East.

**Headquarters** is at Fort Belvoir, Virginia. Principal elements are the Director, Deputy Director, General Counsel, Office of Inspector General, and the Assistant Directors for Operations, Policy and Plans, Integrity and Quality Assurance, and Human Capital and Resource Management.

**Regional Offices/Field Detachment** are located in Smyrna, Georgia; Irving, Texas; La Palma, California; and Reston, Virginia. Each region directs and administers the DCAA audit mission at locations near the contractor base. Each region is staffed with 800 to 1000 employees and serves 2000 to 3000 contractors. The Field Detachment has 400 employees to serve 750 contractors.

**Corporate Audit Directorates (CAD)** are located in Lowell, Massachusetts (Raytheon, General Dynamics, BAE); McLean, Virginia (Northrop Grumman); Hazelwood, Missouri (Boeing, Honeywell); and Fort Worth, Texas (Lockheed Martin). Each CAD directs and administers the DCAA mission at its major defense contractors.

**Branch Offices** are strategically situated within the regions and are responsible for the majority of contract audit services within their assigned geographical areas. Branch offices often have smaller suboffices to ensure adequate audit coverage.

**Resident offices** are established at specific contractor locations of both regions and CADs where the audit workload justifies the assignment of a permanent staff of auditors and support staff. These offices allow auditors to work on location with the largest major industrial manufacturers that the government buys from, such as Lockheed Martin, DynCorp, and General Dynamics.

**DCAA liaison activities** are conducted at DoD acquisition or contract administration offices to directly communicate and coordinate audit processes.

**B. Staffing.** DCAA has a professional workforce of about 4,600 employees. Roughly 93 percent of these employees have a bachelor’s degree, 42 percent have a higher level degree, and 35 percent have a professional certification such as a Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Internal Auditor (CIA), Certified Information System Auditor (CISA) or Certified Defense Financial Manager (CDFM). About 90 percent of DCAA employees are auditors, and 10 percent are professional support staff in various fields including administrative support, budget, human resources, information technology, and legal (Table 1).

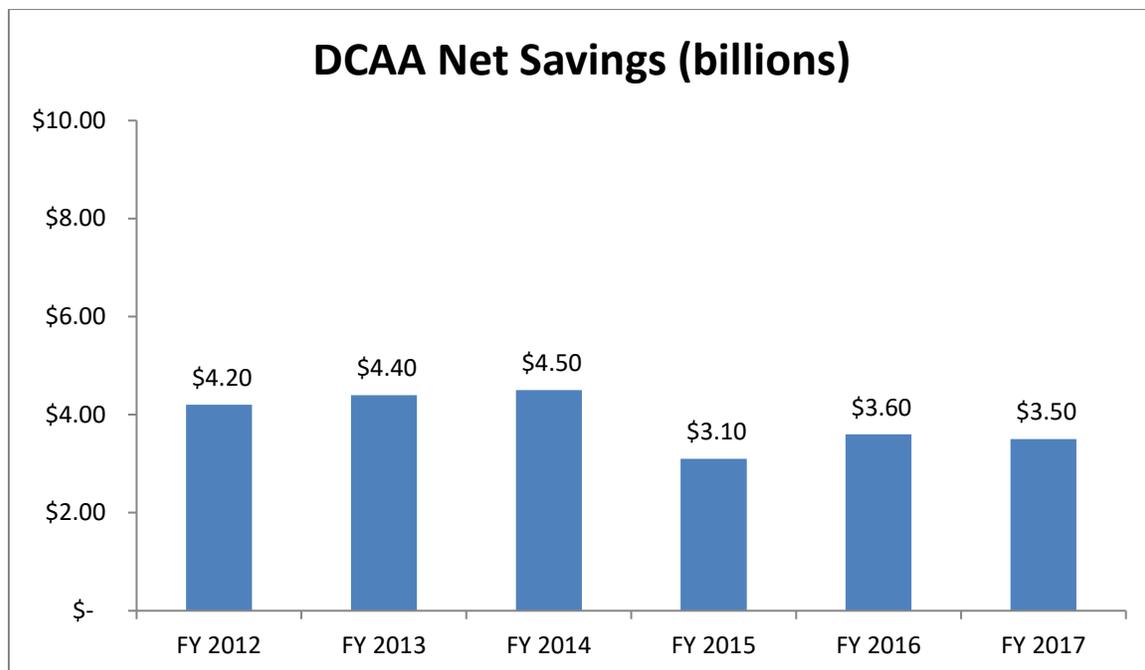
**Table 1 – DCAA Workforce and Education**

Auditors	4167	90%
Professional Support Staff	473	10%
<b>Total Employees</b>	<b>4,640</b>	<b>100%</b>
Bachelor’s Degrees	4293	93%
Advanced Degrees	1949	42%
Certified Public Accountants	1130	24%
Other Professional Certificates	508	11%

### 3. FY 2017 AUDIT PERFORMANCE

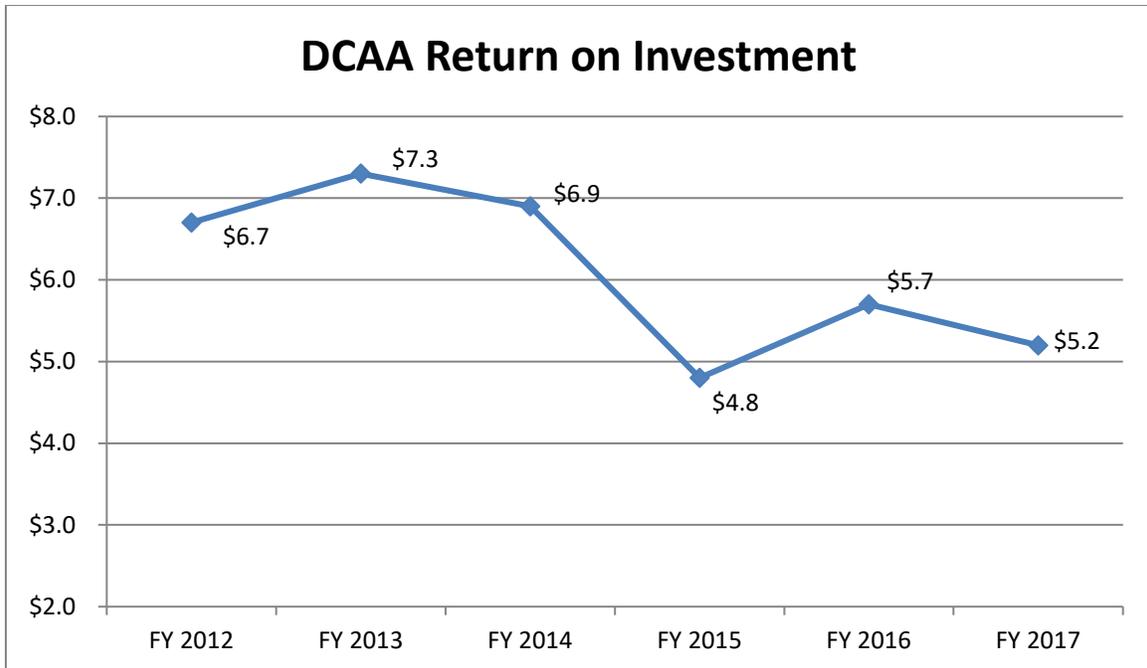
**A. Overview.** DCAA uses a risk-based approach to target its limited resources on the work that provides the most value. Using this approach, DCAA examined \$281 billion in contract costs, identified over \$7.1 billion in audit exceptions, reported \$3.5 billion in net savings, and produced a return on investment of about \$5.20 to \$1. In addition to making steady progress on the incurred cost backlog, the Agency also continued to conduct other audits to help contracting officers establish fair and reasonable prices and reduce the risk of contractor overpayments.

**(1) Net Savings.** In FY 2017, DCAA reported net savings of \$3.5 billion, marking the seventh consecutive year that the Agency returned over \$3 billion in savings to the government (Figure 1).



**Figure 1 – DCAA Net Savings (billions)**

**(2) Return on Investment.** DCAA is conservative when reporting savings and return on investment (ROI), foregoing projections of potential or future savings and only reporting actual savings based on contract actions taken by government contracting officers. In FY 2017, the return on taxpayers' investment in DCAA was about \$5.20 for each dollar invested, savings that DoD can reinvest in the warfighter or return to the Treasury (Figure 2).



**Figure 2 – DCAA Return on Investment**

**(3) Aggregate cost of performing audits by audit type.** DCAA’s cost of performing audits was calculated using total budget dollars and annual hours by audit type (Table 2).

**Table 2 – Aggregate Cost of Performing Audits by Audit Type (millions)**

Audit Type	Aggregate Annual Cost
Forward pricing	\$113,844
Incurred Cost	\$296,664
Special Audits	\$44,198
Other Audits	\$214,964
Total	\$669,670

**B. Questioned Cost Sustained.** In FY 2017, DCAA dispositioned contract actions based on contract negotiation data from contracting officials and sustained \$3.5 billion of \$7.1 billion in questioned costs. Table 3 shows audit exceptions and sustention data. These data are calculated based on contracting officer negotiation decisions, not estimates or savings projections. Table 4 shows the return on investment by audit type based on sustention and cost of audit.

**Table 3 – Sustention by Amount and Percentage of Audit Exceptions (millions)**

	<b>Audit Exceptions</b>	<b>Exceptions Sustained</b>	<b>Percent Sustained</b>
Forward Pricing	3,958,037	2,620,227	66.2%
Incurred Cost	2,686,011	767,740	28.6%
Special Audits	345,309	144,506	41.8%
Other Audits	181,708	78,866	43.4%
Total	7,171,065	3,611,339	50.4%

**Table 4 – Ratio of Sustained Questioned Costs (Net Savings) to the Aggregate Cost of Audits (Total Funding) (millions)**

	<b>Total Agency Funding*</b>	<b>Net Savings</b>	<b>Return on Investment</b>
Forward Pricing		\$2,397,249	\$3.60
Incurred Cost		\$759,585	\$1.10
Special Audits		\$122,983	\$0.20
Other Audits		\$223,627	\$0.30
Total	\$669,670	\$3,503,444	\$5.20

\* DCAA calculates ROI using net savings over annual funding because some audits that we complete in a fiscal year are not negotiated or dispositioned in that same year. The Net Savings data reflects actual savings based on contract actions taken by government contracting officers during the fiscal year.

**C. Audit reports completed in FY 2017.** DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit that DCAA completes, whether before or after contract award, supports government officials who negotiate prices and settle contracts for major weapons systems, services, and supplies. When conducting an audit, DCAA evaluates whether contractor business practices and procedures are in accordance with the FAR, DFARS, Cost Accounting Standards (CAS), and other applicable government laws and regulations. Contracting officers may also request certain specific information such as an independent financial opinion on specific elements of a contract or an assessment of compliance with specific acquisition regulations or contract terms. In FY 2017, DCAA issued 3,581 audit reports and with over \$7.1 billion in audit exceptions from \$281 billion total dollars examined. (Table 5)

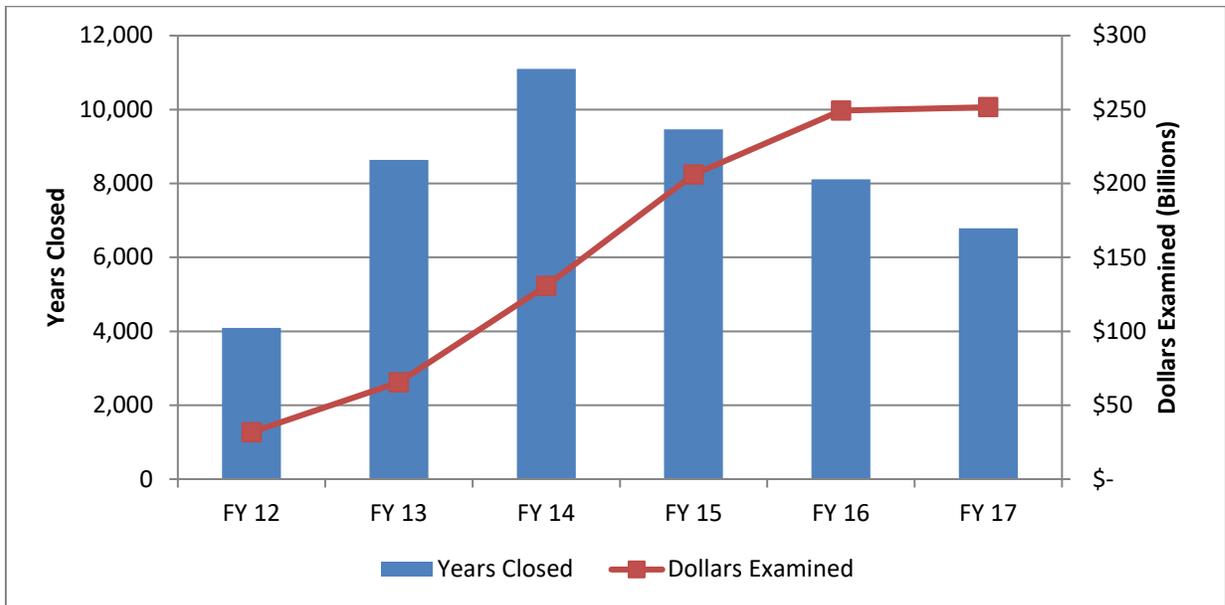
**Table 5 – FY 2017 Audit Reports Completed and Dollars (billions) Examined**

	<b>Reports</b>	<b>Dollars Examined</b>
Forward Pricing	761	\$51.4
Incurred Cost	1,527	\$226.1
Special Audits	936	\$3.4
Other Audits	357	\$0.9
Total	3,581	\$281

- (1) Forward Pricing.** Forward pricing audits are generally completed *before* contract award where DCAA evaluates a contractor’s estimate of how much it will cost the contractor to provide goods or services to the government. Accurate contract prices are the starting point for fair and reasonable prices throughout the acquisition process because subsequent costs are often based on the initial estimated contract costs. Forward pricing includes demand work—proposal audits, forward pricing rates, and high risk estimating system audits.
- (2) Incurred Cost.** Incurred cost audits determine the accuracy of a contractor’s annual allowable cost representations. When a contract price is not fixed, DCAA conducts an incurred cost audit *after* contract award to determine the accuracy of contractor cost representations. DCAA expresses an opinion as to whether such costs are allowable, reasonable, and allocable to the contract, based on government accounting and acquisition provisions. Audits allow the contracting officer to recover the questioned costs before the contract is officially closed out, which prevents excess payments by the government.
- (3) Special Audits.** Special audits can be conducted *before or after* contract award. Most of the reports in this category are issued in response to requests from contracting officers who need an independent financial opinion on specific elements of a contract or on a contractor’s accounting business system in order for the contract work to proceed. Special audits are conducted *after* contract award primarily to address circumstances where contracts are adjusted for changes or are partially or fully terminated before completion. These circumstances represent complex and high-risk audits where DCAA must carefully evaluate the cost of original contract work from the changed scope of work. Special audits include pre-award surveys, claims, and terminations.
- (4) Other Audits.** Other audits primarily consist of audits performed *after* contract award and can be requested by a contracting officer or initiated by DCAA. DCAA typically initiates this type of audit when there is potential for a high risk for misallocation or mischarging of costs. The audit effort in this category focuses on adequacy of the contractor’s Cost Accounting Standards Disclosure Statement, compliance with cost accounting standards, assessment of contractor Cost Impact

Statements for noncompliances, review of contractor business systems, and contractor compliance with the Truth in Negotiation Act (TINA).

**D. Incurred Cost.** DCAA remains focused on reducing the incurred cost backlog. This effort began by establishing dedicated incurred cost audit teams in FY 2012 and developing innovative techniques for more efficient incurred cost audits, including multi-year vs. single-year audits and sampling low risk audits based on materiality thresholds. Having previously completed the majority of lower risk work, our FY 2017 effort turned to more complex audits. Major contractors made up a significant proportion of the mix of the years examined, and we finished the year with 6,786 incurred cost years closed—a notable number given that a single incurred cost year for a major contractor contains hundreds of contracts, higher dollars examined, and increased complexities (Figure 3).



**Figure 3 – Incurred Cost Years Closed and Dollars Examined**

Because major contractors made up the majority of incurred cost work in FY 2017, we audited higher dollars but closed fewer incurred cost years. However, we finished the fiscal year with under 3,000 incurred cost years in the backlog, which we expect to complete in FY 2018. At that time, we will be current on incurred cost based on a two-year inventory of audits. With the changes in the FY 2018 NDAA, we will move to one year of inventory as required.

In our risk-based approach, we close incurred cost years in several ways. We conduct audits on both high risk contractors and lower risk contractors identified through sampling. For other low risk submissions, we provide valuable assistance to contracting officers by issuing low risk memos. Because DCAA has the authority to establish final indirect rates, contracting officers can avoid negotiations and go straight to closing out contracts using the rates established in these memos.

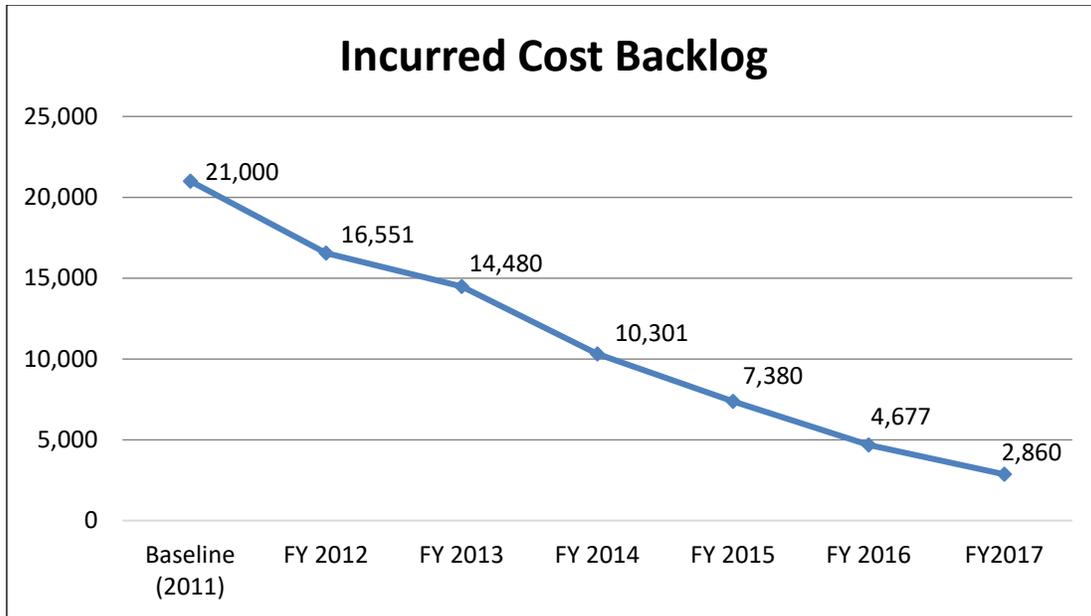
Incurring cost assignments can be closed for a variety of other reasons as well. In some cases, the contracting officer may not need to rely on DCAA audit work, eliminating the need for a formal audit report or memo. For example, contractors may have gone out of business or don't have any flexibly priced contracts. In FY 2017 specifically, the majority of incurred cost years closed for other reasons resulted from the 2016 NDAA, which prohibited DCAA from providing audit support to non-DOD agencies. DCAA had included non-DoD customers in its plan based on history, but those customers ultimately contracted out their audits to comply with the new provisions (Table 6).

**Table 6 – Incurred Cost Closed by Method and Dollars (billions) Examined**

<b>Incurred Cost Years Closed</b>	<b>Number</b>	<b>Dollar Value</b>
Reports	1,527	226.1
Memos	3,358	25.4
Closed for Other Reasons	1,901	0
Total	6,786	251.5

A contractor is required to submit a certified incurred cost submission of its costs incurred for each year of contract performance for which the contractor has a flexibly-priced contract. Incurred cost submissions received but not started are part of DCAA's incurred cost inventory and could be considered as pending.

After receiving an annual incurred cost submission, DCAA auditors review it to determine if the submission and supporting data are adequate and in accordance with the FAR. If the submission is not adequate, it is returned to the contractor for correction and resubmission. When a submission is adequate, it becomes part of DCAA's inventory of incurred cost audits. For inventory purposes, the date is determined by date of adequate submission, not date costs were incurred. We have historically considered the last two fiscal years of incurred cost as "regular inventory," while audits older than two fiscal years are considered "backlogged." At the end of FY 2017, DCAA had 2,860 submissions in backlog inventory (Figure 4).



**Figure 4 – Incurred Cost Backlog FY 2011 - FY 2017**

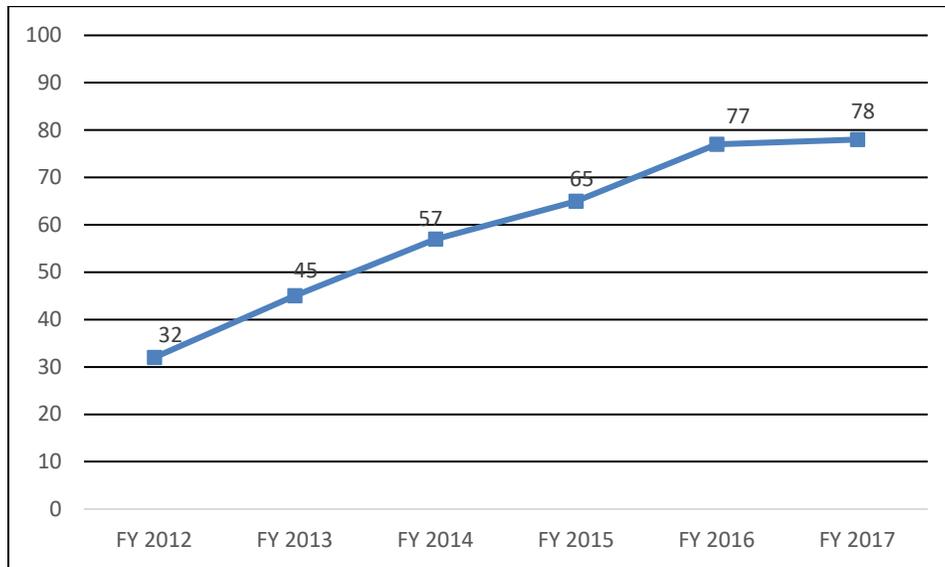
Based on overall audit priorities, resources, and workload, the start of audit work can be delayed. The chart below depicts incurred cost assignments pending longer than one year from the date of adequate submission (Table 7).

**Table 7 – Incurred Cost Pending Longer than One Year from Date of Adequate Submission**

<b>Year Proposal Received</b>	<b>Number of Assignments</b>	<b>Estimated Dollar Value</b>
2010*	3	87,069
2011*	2	45,000
2012	50	5,471,682
2013	163	27,594,143
2014	344	47,460,809
2015	1,005	92,091,358
2016	2,791	163,857,952
<b>Total</b>	<b>4,358</b>	<b>336,608,013</b>

\* These proposals represent non-DoD customers (agencies that reimburse DCAA for services) that were impacted by funding constraints.

**E. Improvement in Meeting Agreed-to Dates.** DCAA continues to steadily improve its record for meeting agreed-to dates, finishing the fiscal year with a 78 percent success rate in FY 2017 (Figure 5). Our goal is to meet our agreed-to dates in 80 percent of our audits. Striving for 100 percent is an unrealistic goal because of delays caused by circumstances outside of DCAA’s control after the mutually determined agreed-to date has been locked in. For example, the contacting officer may adjust the scope of an audit, or we may discover significant noncompliances that require us to make scope adjustments.



**Figure 5 – Agreed-to Dates Met**

We continue to make improvements that benefit the acquisition community because we know they rely on us to meet our agreed-to dates and help them keep the contract award process on track. DCAA’s ongoing communication with DCMA and the Services has played a significant role in eliminating duplication of effort, clarifying roles and responsibilities, and establishing realistic timelines. We meet regularly with these acquisition partners to explore root causes of issues and develop system-wide solutions that enable us to work effectively as a one-government team.

**F. Prioritization of Audits.** DCAA’s risk-based planning process helps ensure that audit resources are focused on the highest-payback areas to DoD, the warfighter, and the taxpayer. DCAA prioritizes the audits that pose greatest risk to the government, assessing the risk for different types of audit, as well as the risk factors within individual audits, regardless of type. Contracts considered “high-risk” typically involve significant costs, significant audit findings in the past, or circumstances that reduce the incentive to control costs, such as those inherent in cost-type contracts. In accordance with the FY 2017 Staff Allocation and Future Plan Guidance, DCAA priorities were as follows:

- (1) Forward Pricing – This includes demand work (proposal audits and forward pricing rates), and high risk estimating system audits.
- (2) Incurred Cost – This includes contractor incurred cost proposal audits.

- (3) Special Audits – This includes pre-award surveys, claims, and terminations.
- (4) Other Audits – This includes post-award audits of compliance with the Truth in Negotiations Act (TINA) and CAS Disclosure statement audits. This also includes high-risk, time-sensitive labor and material reviews; contractor billings; provisional billing rates; pre- and post-payment reviews; and high risk Accounting Systems and Material Management and Accounting Systems (MMAS) audits.

Forward pricing audits net the highest rate of return and are time sensitive—to be of value, they must be completed before contract negotiations. We have found that proactive and ongoing engagement with contracting officers, particularly before receiving the contractor’s proposal, enables us to understand audit requirements early, plan for appropriate staffing, and meet contracting needs in a timely manner. Throughout FY 2017, DCAA continued to build on successful initiatives to engage with contracting officials at all levels, confirm that we are focusing on the highest risk contract actions, and ensure that we are providing the right audit services to meet their needs.

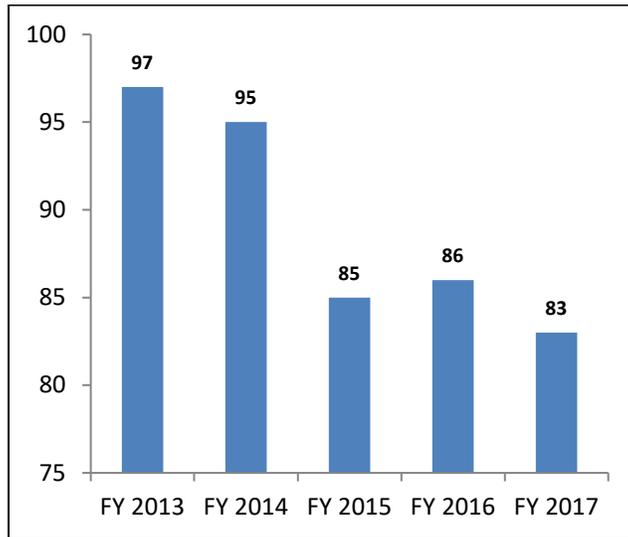
Incurred Cost audits continue to be a priority, both to facilitate the contract closeout process and to reduce the incurred cost backlog. Getting current on incurred cost means that we can conduct these audits closer to the year the costs were actually incurred, which will improve our ability to retrieve relevant records, ease contractor burden, encourage better compliance, and identify issues that may impact future audits.

Special audits represent time-sensitive requests for contract terminations or claims as well as pre-award accounting surveys for new contractors. DCAA prioritizes these audits in coordination with contracting officer needs.

Other audits are a high priority when DCAA or the contracting officer identifies a high risk area such as inadequate business systems. DCAA assigns priority to additional audits based on individual contract and audit risks to the government.

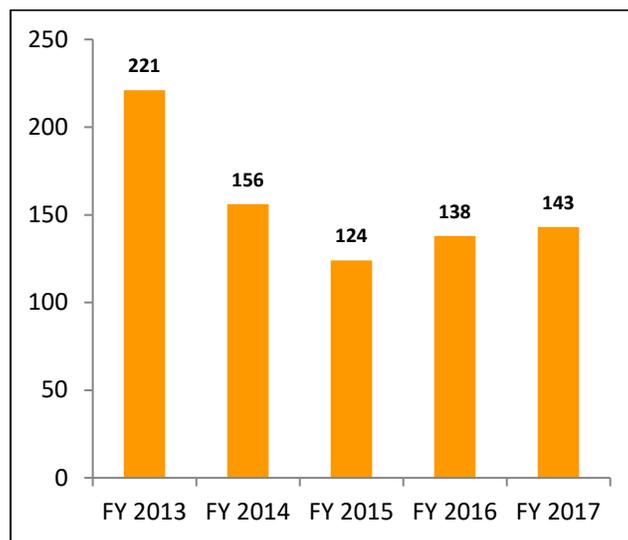
**G. Length of time to complete audits.** The timeline for an audit is based on audit type, dollars involved, level of risk, and needs of the requester. As a result, DCAA does not have specific or mandatory time requirements for audit completion; instead, we assess what is necessary to conduct an audit that will meet professional audit standards and provide timely, valuable advice to contracting officials. DCAA works closely with contracting officers to set reasonable due dates based on the requirements of the audit and the needs of the buying commands. Additionally, DCAA and contracting officers work as a team to set priorities, create milestone plans, and decide on agreed-to dates. Once these agreements are reached, DCAA assesses timeliness based on meeting those targets. Last year, 78 percent were completed on time and 89 percent were completed within one week of the agreed-to date.

**Forward Pricing.** The time to complete a forward pricing audit is measured from the date DCAA receives the audit request or adequate proposal. The clock stops on the date we issue the audit report. In FY 2017, we continued to reduce the elapsed days for forward pricing, continuing this positive trend (Figure 6).



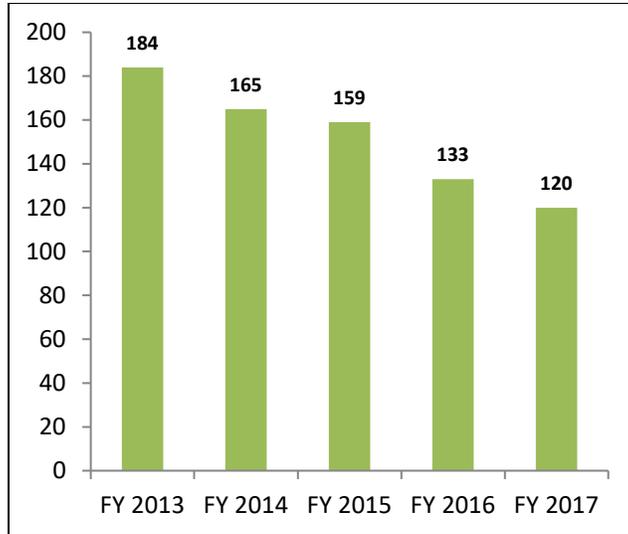
**Figure 6 – Forward Pricing average elapsed days**

**Incurred Cost.** Historically, elapsed days for incurred cost have been measured from the receipt date of an adequate incurred cost proposal to report issuance. Using that calculation, our average elapsed days for 2017 is 808. However, that number is reflective of the age of our inventory and includes all incurred cost years up through FY 2015. The more precise indicator of active engagement is elapsed days between the entrance conference and report issuance, which reflects the actual time to complete an incurred cost audit. The slight increases in FY 2016 and FY 2017 reflect a higher number of incurred cost audits for larger contractors with greater complexities and contracts (Figure 7).



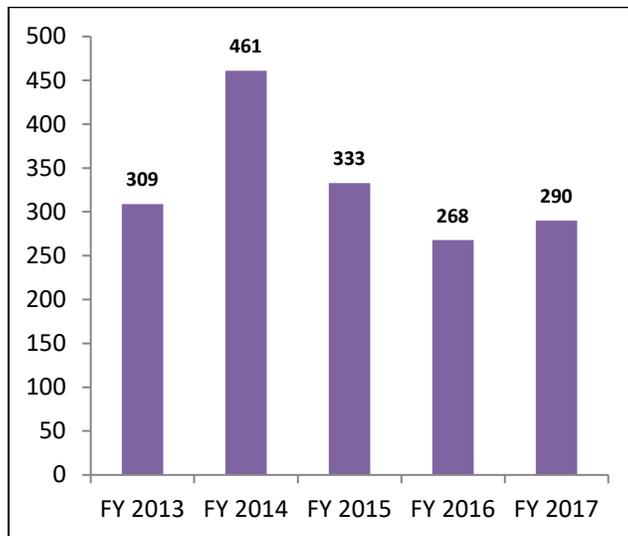
**Figure 7 – Incurred Cost average elapsed days**

**Special Audits.** The time to complete a special audit is measured from the date DCAA receives the audit request to the date we issue the audit report. We continued to reduce the number of days to complete these audits (Figure 8).



**Figure 8 – Special Audits average elapsed days**

**Other Audits.** The time to complete other audits is generally measured from the time audit work began to the date of the audit report issuance. In FY 2017, there was a slight increase in the number of days to complete this type of audit. The hours went up because the mix included a higher ratio of more complex accounting systems audits (Figure 9).



**Figure 9 – Other Audits average elapsed days**

#### **4. SUMMARY OF RECOMMENDED ACTIONS OR RESOURCES TO IMPROVE THE AUDIT PROCESS**

Contract auditing is a critical step in the acquisition process, and DCAA's independent audit opinions directly affect the value that the government, taxpayer, and warfighter receive for contracted work. To ensure DCAA is providing the highest value to its acquisition stakeholders, we have identified ways to improve the audit process.

**A. DCAA Engagement on Congressional Proposals.** DCAA appreciates our strong working relationship with Congress and looks forward to continued dialog. Our engagement during the 2018 legislative cycle demonstrated the benefits of early engagement as we were able to assist Congress in meeting its goals related to acquisition reform. This early engagement is critical to ensure Congress has the information it needs and to share the status of DCAA's operational plans that may address desired outcomes. We are also assisting the congressionally mandated Section 809 Panel, which is tasked with finding ways to streamline and improve defense acquisition. We communicate regularly with two of the Panels teams, Team 4 (Barriers to Entry) and 9 (Cost Accounting Standards), as they conduct their research and analysis. By constantly communicating with Congress and the Panel to understand the overall objectives from the outset, we can more effectively help them accomplish their objectives and capitalize on progress already made. We are working to implement the provisions set out in the 2018 NDAA, and we look forward to continued dialog as we complete our implementation.

**B. Hiring Authorities Reform.** DCAA was granted several special hiring authorities that assisted us in hiring close to 400 new auditors when the hiring freeze was lifted in April, 2017. These authorities include Expedited Hiring Authority (EHA), Direct Hire for Post-Secondary Students and Recent Graduates, and Financial Management (FM) Career Field. The EHA allows the agency to rapidly move from application to job offer. This past year, two hiring events were conducted in the National Capital Region and qualified participants were given job offers on the spot. DCAA uses the Direct Hire for Post-Secondary Students and Recent Graduates to collect resumes and transcripts at college job fairs for subsequent job offers. The Financial Management Career Field hiring authority allows hiring of individuals in specific FM fields, including auditors. Last year DCAA brought approximately 100 new auditors on board using this authority. We also make full use of the Pathways Intern Program and traditional hiring processes.

We appreciate these hiring authorities, which have had a positive impact on our ability to hire quality candidates. We ask that Congress continue these authorities to fill critical positions and meet our hiring goals.

## 5. OUTREACH ACTIONS TOWARD INDUSTRY

DCAA continued to proactively engage with industry to clarify audit requirements, understand and address contractor concerns, and improve acquisition and audit processes. Following is a summary of those outreach actions.

- A. Joint Audit with Industry.** DCAA had significant success on a coordinated audit approach with Textron/AAI and its internal audit team. To accomplish this, we achieved unprecedented cooperation and access to contractor records. With a collaborative approach and significant participation from the contracting officer, DCAA teamed up with internal auditors to audit Textron's estimating systems, Material Management and Accounting Systems (MMAS), and accounting systems. The joint audits took about half the time of previous audits, and DCAA is actively pursuing other opportunities to use this model with other interested contractors.
- B. Business Outreach.** DCAA executives regularly meet with industry leaders and professional organizations to gain an understanding of industry issues and work toward solutions. Through this outreach to industry, DCAA provides guidance and training, clarifies audit expectations, and engages in discussions on ways to improve the audit process. Some of the recurring meetings are:
- Council of Defense and Space Industry Associations (CODSIA)
  - Defense Procurement and Acquisition Policy's (DPAP) Industry Meeting with the Coalition for Government Procurement
  - DPAP Industry Meeting with CODSIA
  - National Small Business Association (NSBA) and Small Business Technology Council (SBTC)
  - Conferences and Training events with organizations such as National Defense Industrial Association (NDIA), Aerospace Industries Association (AIA), National Contract Management Association (NCMA), and others.

While these sessions are productive, we want to continue improving our ability to proactively address industry issues and improve audit and acquisition processes. In FY 2017, we formed a Strategic Action Team to explore additional venues and strategies for getting industry input. Our goal this year is to increase dialog with industry at all levels, encourage Agency consideration of industry issues, and improve the Agency's ability to solve or prevent industry-related problems. We are also encouraging our auditors to be more flexible, responsive, and proactive in addressing industry concern.

- C. Data Analytics.** DCAA is increasingly using data analytics to analyze contractors' data for trends and insights relevant to audits. Data analytics can replace or decrease reliance on traditional, labor intensive methods, as well as increase efficiency without sacrificing coverage. Data Analytic methods allow us to review large datasets and more quickly identify outliers or common risk indicators. As a result, we can focus our testing on high risk areas. We are hiring experts who can to work with contractors and audit teams on specific data design and testing requirements.

DCAA is already seeing promising results with these methods. For example, testing for reasonableness of labor rates—a significant cost element in proposals and incurred costs—can be a challenging, manual task. Drawing on data analytics, DCAA developed a process for comparing contractor labor data with external Department of Labor data, significantly cutting cycle time while providing 100 percent coverage of the dataset.

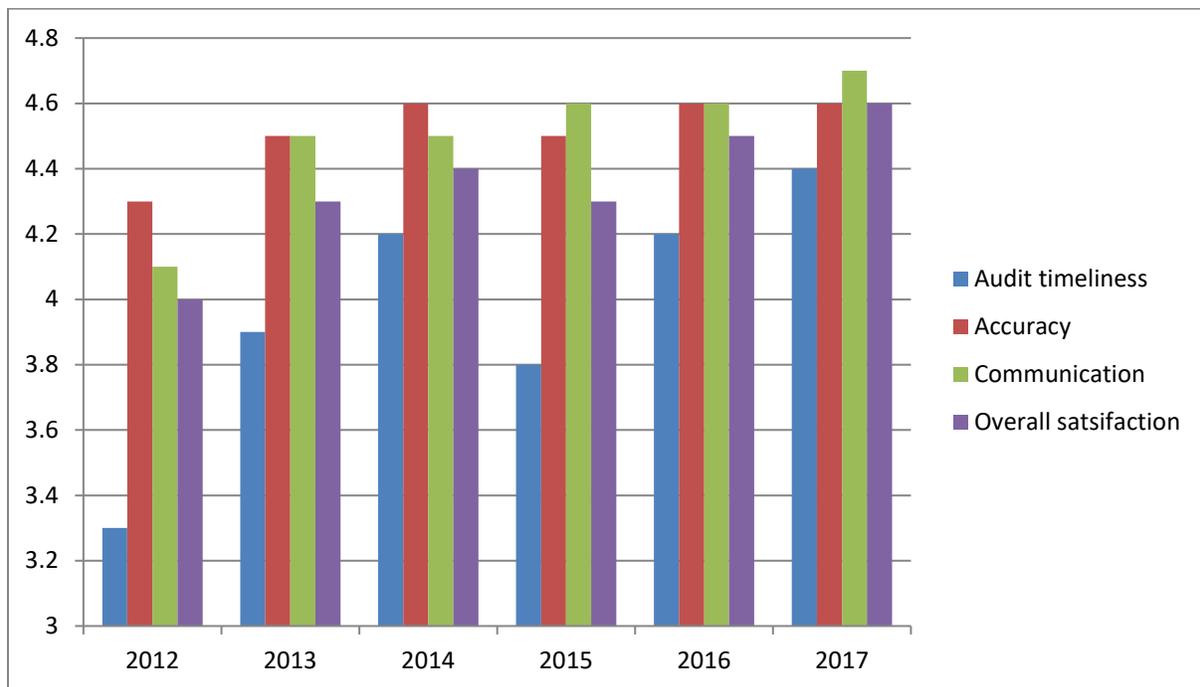
Using data analytics will increase audit effectiveness and lower support burdens for contractors, but our success is contingent on contractor cooperation and access to data. We look forward to building on early successes and working with Congress and the contractor community to support these efforts.

## 6. SIGNIFICANT FY 2017 ACTIVITIES AND THEIR IMPACT

In addition to core audit actions, DCAA had numerous significant organizational accomplishments in FY 2017. Some of these accomplishments are summarized below.

**A. Command Feedback Initiative.** DCAA developed the Command Feedback Initiative (CFI) to measure our customers' satisfaction with our services. The survey is conducted through in-person interviews using a five-point scale to rate timeliness, accuracy, communication, and overall satisfaction. Since we started this initiative in 2012, we have seen a steady increase in ratings. Quarterly, we share the results with the responsible field offices and executive leadership to recognize excellent work, focus our efforts to improve the audit process, and better meet customers' needs.

From 2012 to 2017, the CFI results indicate improvements in all areas (Figure 10). On average, we perform approximately 200 surveys per year for both DoD and Non-DoD customers. We also continue to receive unsolicited positive feedback on our quality work, customer service, and the overall direction of the Agency.



**Figure 10 – Command Feedback Initiative Results**

**B. External Peer Review.** During FY 2017, the DoDIG conducted a peer review of DCAA by examining a sample of audits completed between July 2015 and June 2016. There are three opinions possible: Pass, Pass with Deficiencies, and Fail. DCAA received a rating of Pass with Deficiencies.

**C. Results of Realignment - Corporate Audit Directorates.** Our first year under the new Corporate Audit structure clearly indicates improvements in contractor relationships and audit efficiency. This structural change—which realigned our resources into four Corporate Audit Directorates (CADs) focused on major contractors; three geographic regions focused on large, mid-sized, and small contractors; and a Field Detachment focused on classified work—is enabling us to better meet the needs of the entire acquisition community. Prior to this realignment, several regions would have jurisdiction over audits for a single contractor, a circumstance that led to multiple DCAA points of contact at the executive level, duplicate work at DCAA offices, and other communication and operational inefficiencies.

The CADs have made impressive gains in a short period of time. The new CAD structure resulted in improvements in several areas including:

- Coordination and networking between the corporation and DCAA leadership
- Information sharing and access to contractor systems
- Creating a corporate wide view
- Sharing priorities and challenges among the acquisition team
- Reducing duplication of effort

These improvements contributed to an increase in several key indicators of audit efficiency and effectiveness. The below are examples of successful outcomes in key areas brought about by the new CAD structure:

**Reduced Inadequate Submissions:** CAD senior leadership was invited to attend quarterly Corporate Management Council meetings to discuss inadequacies with incurred cost submissions. This engagement helped build relationships and resulted in significant improvements to the corporation’s 2016 submissions.

**Reduced Unsupported Costs:** Better communication with the contractor before and during audits enabled DCAA to resolve many unsupported costs prior to report issuance. As a result, one CAD reduced annual unsupported costs from an account from \$2-3M to \$58K, which simplified negotiations and shortened cycle time.

**Reduced CAS Issues:** Prior to the CAD realignment, cognizance over CAS issues at 90 segments of a major contractor was spread over 50 Field Audit Offices (FAOs). Now, cognizance is split between three FAOs, and these offices prioritized CAS resolution and aggregated the unresolved issues. Subsequent analysis led to significant findings, resolution of 32 CAS issues, and savings of \$56K.

**Improved Sustention Rates:** Through daily, dedicated, onsite engagement with contractors and audit teams, CAD executives gain important insights about ways DCAA can be more effective. One CAD developed robust communication requirements with customers, improving our sustention rates with DCMA from 0.1 percent to 36 percent and with the buying command from 24 to 86 percent.

**Improved Efficiencies:** By conducting a corporate-wide travel audit instead of multiple travel audits by segment, one CAD was able to save eight staff years.

Moving forward, we have identified several focus areas to help build on CAD successes and address known challenges:

- Develop innovative ways to improve audit efficiency
- Improve information sharing across the CAD network
- Develop shared training opportunities between CADs and Regions
- Increase coordination with the Field Detachment

Focusing on these areas will ensure our CADs continue to achieve their goals and better meet the need of our customers.

**D. Business Initiatives to Reduce Manual Processes:** Boosting audit efficiency and effectiveness is a top priority, and DCAA's Business Integration Branch (OITB) has been an incubator for several business process improvement projects. During the Agency's Business Process Reengineering initiative that began in 2015, the Business Integration team identified significant opportunities to replace old manual processes with streamlined, technology-enabled capabilities. Driven by the business needs of auditors—and in collaboration with government partners—the team is identifying ways to use existing information sources across the acquisition community.

DCAA will be leveraging Defense Logistics Agency's (DLA's) "Data Lake," a new information resource that aggregates defense acquisition data from multiple, authoritative sources. Replacing redundant, time-intensive efforts with automated solutions from a single data source will increase auditor productivity across the Agency. The team is also developing a Contractor Submission Portal, which will greatly simplify how contractors complete incurred cost submissions.

In 2017 DCAA adopted new audit management software to replace our current 20 year old system. This new system will address several of our current audit management software's shortfalls—difficult collaboration, time consuming work-arounds, and lack of transparency. Auditors will save time using workflow dashboards and automated process tools. With this software, we can automate required steps in the audit process to improve our compliance and quality. We have successfully deployed the software to three branch offices and expect full deployment by fall 2018. Early feedback has been positive and users report that the software will greatly enhance collaboration and efficiency.

**E. Workforce Development.** The professional development of our workforce is a top priority. DCAA's Defense Contract Audit Institute (DCAI) is leading efforts to improve existing and design new programs and classes. They are guided by their commitment that professional development takes place in both the classroom and the office, and that it is a shared responsibility between the supervisor and employee.

To assist supervisors and employees in building a feasible performance plan, DCAI developed an electronic Individual Development Plan (IDP), which links employee goals with available DCAI courses and other developmental opportunities.

In the classroom, DCAI's Audit Academy delivers top tier technical training by DCAA experts with proven track records in the field. At DCAI's Leadership Academy, courses by diverse faculty focus on leadership at all levels and soft skills such as interpersonal communication, team building, and conflict resolution.

Outside of the classroom, we improved our developmental assignment process and coaching and mentoring programs. Developmental assignments give participants a broader view of DoD, the acquisition community, and DCAA headquarters procedures. Our coaching program is focused on professional skills, while our mentoring program is focused on leadership and managerial skills. These two programs provide a more informal venue for learning and seeking professional advice.

Finally, at the Agency level, we formalized our succession plan, which is the critical framework for ensuring that the agency has a pool of qualified, motivated employees to fill key leadership positions within the Agency. Our overarching goal is for each employee to meet their professional goals, build their audit skills, and hone their leadership ability to ensure the continued success of our organization.

**F. Federal Employees Viewpoint Survey.** The results of the 2017 Federal Employees Viewpoint survey indicate DCAA employees continue to have a high level of satisfaction. The Office of Personnel Management conducts this survey to measure employee views in six major categories: work experience, work unit, agency, supervisor, leadership, and overall satisfaction. DCAA's response rate was 72 percent, a rate higher than both DoD and the federal government. Likewise, DCAA's score in the Best Places to Work in the Federal Government increased by 5 points in 2017, and scores in all categories were significantly above the median. DCAA was ranked at 92 out of 339 subcomponents, putting us in the top 30 percent and exceeding our previous results to date.

Each year DCAA leadership at all levels analyzes the survey results and develops action plans for improvement, often with employee input. These plans are briefed up the chain of command as a means of capturing best practices and identifying areas for synergy across the Agency. We feel our consistent high scores are a result of leadership focus, employee engagement, and targeted action plans.

## **7. OUTLOOK**

DCAA is an important member of the acquisition community with a unique and valuable mission. Going forward, we will continue to develop innovative ways to improve the audit process, support improvements in the acquisition reform process, and work with congress and others to meet the requirements of the FY 2018 National Defense Authorization Act.

Externally, our focus will be working with DCMA, buying commands, and contractors as the changes from the FY 2018 NDAA go into effect. Based on the NDAA requirements to complete incurred cost adequacy reviews within 60 days and audits within one year, we issued interim guidance to our offices until we revise our Contract Audit Manual. We are also working with the Section 809 Panel and providing information as necessary to help them in their efforts to reform the acquisition process.

Another initiative is the Strategic Workload Resource Initiative (SWRI). After piloting this process for a year, we have seen its significant potential to conduct long term planning over multiple years; make geographically-based workload assessments to effectively allocate resources where they are needed most; significantly increase coordination and resource planning amongst all levels of management across Regional and CAD boundaries; and institutionalize a collaborative, One Agency approach to resource planning that best meets the needs of the acquisition community.

I am proud of our workforce and their ability to perform well in the dynamic and ever changing acquisition process. DCAA remains ready to meet the challenges of the future.

## ACRONYMS

CAM	Contract Audit Manual
CAS	Cost Accounting Standards
DCAA	Defense Contract Audit Agency
DCAI	Defense Contract Audit Institute
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
FAR	Federal Acquisition Regulation
FEVS	Federal Employee Viewpoint Survey
GAO	Government Accountability Office
GAGAS	Generally Accepted Government Auditing Standards
NDAA	National Defense Authorization Act
NDIA	National Defense Industrial Association
OCO	Overseas Contingency Operations
OSBP	Office of Small Business Programs
OSD	Office of Secretary of Defense
PTAC	Procurement Technical Assistance Centers
SBA	Small Business Association



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