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OFFICE OF PREPUBLICATION AND SECURITY REVIEW

Report to Congress on FY 2023 Activities

Defense Contract Audit Agency

U.S. Department of Defense

March 31, 2024



The estimated cost of this report or study for the Department of Defense is approximately \$22,010 in Fiscal Years 2022-2023. This includes \$10 in expenses and \$22,000 in DoD labor.



DEFENSE CONTRACT AUDIT AGENCY

8725 JOHN J. KINGMAN ROAD, SUITE 2135
FT BELVOIR, VA 22060-6219

Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's (DCAA) Fiscal Year 2023 annual Report to Congress, as required by 10 U.S.C. §3847. 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 and realized a return on investment of \$5.1 to \$1. We reviewed \$253.6 billion in contract costs and issued 2,314 audit reports. DCAA's auditors also provided advisory services examining over \$1.9 billion in costs. Audits and advisory services support Contracting Officers and provide them the leverage to confidently negotiate and maximize DoD's buying power.

In FY 2023, DCAA began a concerted effort to examine internal processes to make the Agency more agile and to better support our customers with more flexible and responsive audit services. We have numerous initiatives underway including improving supervisor training, examining our audit programs' relationship to Generally Accepted Government Auditing Standards (GAGAS), and integration of our business information technology systems. To synchronize this effort, DCAA stood up a Strategic Initiative Group.

DCAA also began a multiyear effort to bring additional clarity to the value of our services. Our current management information software limits our ability to capture data, but our purchase of new software in FY 2023 will enable us to capture additional data. We are now developing these desired data fields to bring additional fidelity to our report. A more detailed discussion of this effort is in Section 9 of this report.

We also completed several significant actions this year including updating audit policies in response to changes in technology and external influences. We enhanced our recruiting process to bring qualified new hires and implemented new technology to improve the audit process such as new management information software, which will go live at the start of FY 2025. These actions will increase the efficiency and effectiveness of the audit process and improve the agility and customer service of DCAA.

Our vision, to be the leader in contract audit and advisory services delivering unparalleled value, agile solutions, and data-driven insights in support of our nation's ever-evolving defense needs, is demonstrated by our workforce every day. Our workforce is dedicated, professional, and ready to meet any challenge as they demonstrated by their performance in FY 2023.

Respectfully,

A handwritten signature in black ink that reads "Terri L. Dilly".

Terri L. Dilly
Director

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1. DEFENSE CONTRACT AUDIT AGENCY MISSION

DCAA's mission is to conduct contract audits and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. DCAA may also provide contract audit services to other federal agencies, as appropriate. DCAA only audits and provides financial information and advice on proposed or existing contracts and contractors; it has no internal audit responsibilities in DoD nor does it have a role in determining which companies are awarded contracts. DCAA's role in the financial oversight of 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.

DCAA's work supports the 2022 National Defense Strategy's key priorities of defending the homeland, deterring strategic attacks and aggression, and building a resilient joint force and defense ecosystem. DCAA's audits and financial advisory services enable contracting officials to make necessary investments to deter current and future threats while minimizing the resources required. DCAA's outreach to small business owners strengthens and diversifies the defense ecosystem by enhancing their understanding of requirements. Through outreach to industry, we strive to learn their challenges and, when possible, ease the burden of defense contracting.

DCAA's contract audits are independent, professional reviews of financial representations made by defense contractors and the systems the contractors use to make those representations. DCAA audits are conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) to ensure our audit conclusions are unbiased and well supported by evidence. DCAA audits help contracting officials determine whether contract costs are allowable, allocable, and reasonable. The type and extent of DCAA's audit work varies based on the type of contract, but these audit services are generally limited to acquisitions under Federal Acquisition Regulation Part 15 (Contracting by Negotiation). DCAA considers risk and materiality to determine the extent of auditing performed in each case.

In addition to audits, DCAA also provides advisory services that assist the government in getting the best value for its dollar. Examples of advisory services include negotiation support, advice on specific cost elements of a contract, or assistance with Other Transaction Authority terms. These services may result in lower costs or assist the contracting officer by providing assurance.

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.

Government officials draw on DCAA audit findings throughout the acquisition process to better negotiate prices and settle contracts for major weapons systems, services, and supplies. At the front end, DCAA's findings can directly impact the price the government pays for contracted work. After a contract is underway, DCAA findings may address instances where the

government overpaid contractors for work, uncover potential fraud, and impact future contract prices by addressing inadequacies early on. Before the contracting officer can close out a flexibly priced 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. DCAA's organizational structure consists of a Headquarters, four Corporate Audit Directorates (CAD) organized by major contractors, three geographical Regions primarily focused on other large, mid-sized, and small contractors, and a Field Detachment focused on classified work. DCAA has about 230 offices located throughout the United States, Europe, and the Middle East.

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

Regional Offices and Field Detachment are in Smyrna, Georgia (Eastern Region); Irving, Texas (Central Region); Lone Tree, Colorado (Western Region); and Reston, Virginia (Field Detachment). Each region directs and administers the DCAA audit mission at locations near contractors. With a staff of about 600 employees, each region serves 1,200 to 1,800 contractors. The Field Detachment has approximately 475 employees to serve 600 contractors.

Corporate Audit Directorates (CAD) are in Lowell, Massachusetts (General Dynamics/RTX); McLean, Virginia (Northrop Grumman); St. Louis, Missouri (Boeing); and Irving, Texas (Lockheed Martin/BAE). Each CAD directs and administers the DCAA mission at its major defense contractors and is staffed with approximately 300 employees located at each contractors' major business segment.

Branch Offices are strategically situated within the regions and are responsible for most 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.

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

The Defense Contract Audit Institute, located in Atlanta, Georgia, provides specialized contract audit training for DCAA's audit staff, and provides leadership and interpersonal skills training to new supervisors and other Agency employees.

B. Staffing. DCAA has a professional workforce of about 4,000 employees. About 88 percent of DCAA employees are auditors, and 12 percent are professional support staff in various fields including administrative support, human resources, financial management, information technology, and legal (Table 1).

Table 1 – DCAA Workforce

Employee	Number	Percent
Auditors	3,504	88%
Professional Support Staff	485	12%
Total Employees	3,989	100%

C. Education and Professional Certifications. Roughly 92 percent of DCAA employees have a bachelor’s degree, 45 percent have a higher level degree and 17 percent are Certified Public Accountants (CPA). Some employees have one or more professional certifications such as a Certified Fraud Examiner (CFE), Certified Information System Auditor (CISA) or Certified Defense Financial Manager (CDFM) (Table 2).

Table 2 – DCAA Education and Professional Certifications

Type	Number	Percent
Bachelor’s Degrees	3,700	92%
Advanced Degrees	1,821	45%
Certified Public Accountants	667	17%
Other Professional Certifications	389	10%

3. TYPES OF AUDITS

- A. 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 contractor costs are the starting point for fair and reasonable prices throughout the acquisition process as subsequent costs are often based on the initial estimated contract costs. Forward pricing audits are normally requested by the customer. This category includes proposal audits and forward pricing rates.
- B. Incurred Cost.** Incurred cost audits determine the accuracy of a contractor's annual allowable cost representations submitted after the costs were incurred. 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.
- C. Claims and Terminations.** These audits are largely conducted during or after contract performance. Most of the reports in this category are issued in response to requests from contracting officers. These audits address circumstances where contracts are adjusted for changes or are partially or fully terminated before completion, which can result in complex and high-risk audits. DCAA must carefully evaluate the cost of original contract work and compare it to the changed scope of work.
- D. Systems, CAS, Truthful Cost or Pricing Data Statute.** These audits 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 review of contractor business systems, adequacy of the contractor's CAS Disclosure Statement, compliance with cost accounting standards and contractor compliance with the Truthful Cost or Pricing Data Statute, commonly referred to by its historical name, the Truth in Negotiations Act or TINA. TINA will primarily be used throughout this document.

4. FY 2023 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 \$253.6 billion in contract costs, identified over \$5.4 billion in audit exceptions, reported \$3.5 billion in net savings, and produced a return on investment of approximately \$5.1 to \$1. DCAA also supports contracting officers with advisory services that are detailed in Section 5. In FY 2023, DCAA examined \$1.9 billion in advisory services. Every audit and advisory service brings value and helps the contracting officer complete vital contracting actions for the DoD.

Beginning in FY 2023, DCAA began a multiyear effort to bring additional clarity to the value of DCAA’s services. Our current management information software limits our ability to capture additional data, but we purchased a new system, which we are currently configuring. This system will allow us to bring additional fidelity to our report and better document our value to DoD. A greater discussion of this effort is in Section 9.

B. Audit reports completed in FY 2023. DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit DCAA completes, whether before or after contract award, supports government officials as they 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 applicable government laws, regulations and contract terms.

In FY 2023, DCAA issued 2,314 audit reports identifying over \$5.4 billion in audit exceptions from \$253.6 billion total dollars examined (Table 3).

Table 3 – Audit Reports Completed and Dollars Examined

Audit Type	Reports	Dollars Examined	Audit Exceptions
Forward Pricing	525	\$48,151,392,000	\$3,548,883,000
Incurring Cost	583	\$186,395,782,000	\$1,125,486,000
Claims and Terminations	694	\$9,343,348,000	\$698,118,000
Systems, CAS & TINA	512	\$9,766,429,000	\$71,172,000
Total	2,314	\$253,656,951,000	\$5,443,659,000

C. Net Savings and Return on Investment. Net savings are calculated only for contracting actions taken by government contracting officials based on results of a formal DCAA audit. In FY 2023, DCAA reported net savings of \$3.5 billion. DCAA has consistently returned over \$3 billion in savings to the government (Figure 1).

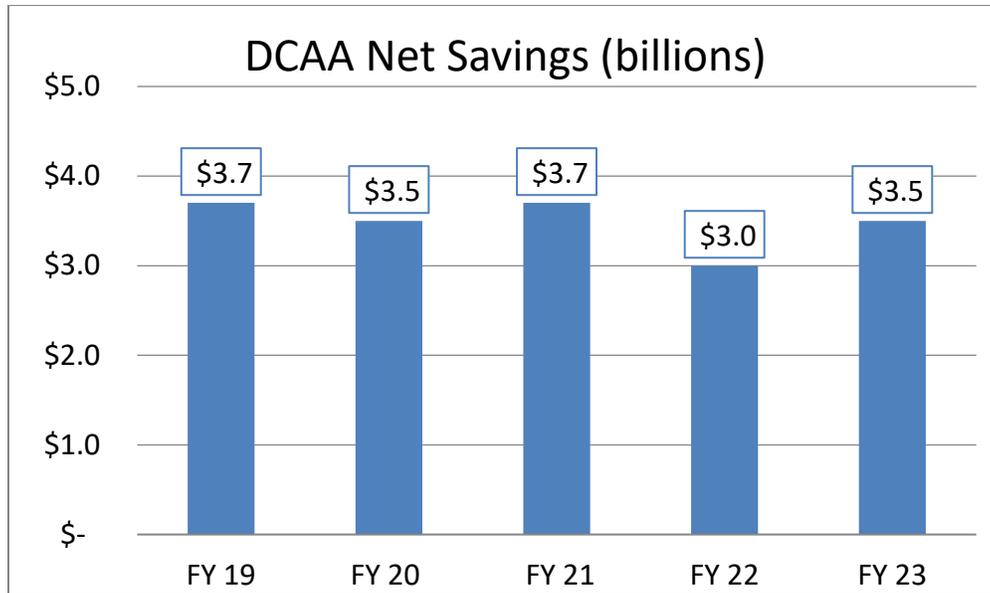


Figure 1 – DCAA Net Savings (in billions)

DCAA’s business systems and CAS audits evaluate compliance and not cost, therefore these audits do not contribute to net savings. However, by applying an average savings rate per hour (annual savings divided by annual total hours spent on audits) to the total hours spent on these types of audits, the saving would equal \$843 million for business systems and \$399 million for CAS, which would increase our net savings by \$1.2 billion.

DCAA is conservative when reporting ROI, only reporting actual savings based on contract actions taken by government contracting officers. In FY 2023, the return on taxpayers’ investment in DCAA was about \$5.10 for each dollar invested, savings DoD can reinvest in the warfighter or return to the Treasury (Figure 2).

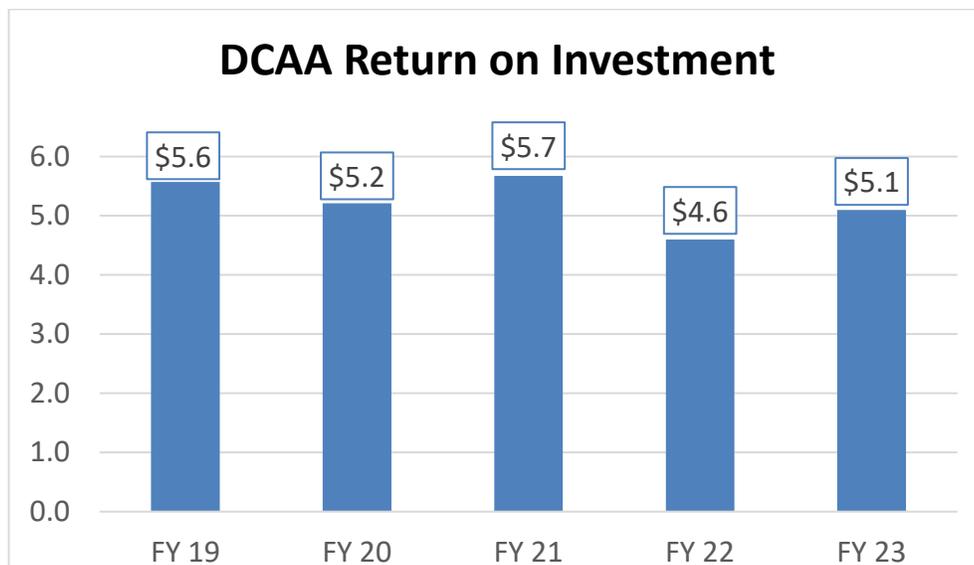


Figure 2 – DCAA Return on Investment

Table 4 shows the return on investment by audit type based on net savings and cost of performing audits. The cost of performing audits was calculated using annual funding (FY 2023 \$685.7 million) and direct audit hours by audit type. Audits such as System, CAS, and TINA provide long-term value to the government by identifying deficiencies. For example, CAS and business systems audits determine contractor compliance with regulations, and audit findings result in contractor actions to bring their systems into compliance, thus assuring accuracy of cost data.

Table 4 –Net Savings and ROI by Audit Type

Audit Category	Net Savings	Aggregate Cost of Performing Audits based on Percentage of Direct Audit Hours	Return On Investment (Net Savings /Aggregate Cost)
Forward Pricing	\$2,082,700,000	\$119,806,000	17.4
Incurred Cost	\$1,129,100,000	\$214,615,000	5.3
Claims and Terminations	\$244,000,000	\$88,184,000	2.8
Systems, CAS & TINA	\$74,200,000	\$263,160,000	0.3
Total	\$3,530,000,000	\$685,765,000	5.1

D. Audit Exceptions Sustained. DCAA identifies audit exceptions, such as costs that are not compliant with relevant law, regulation or contract terms, during the conduct of an audit, and provides this information in the audit report to the contracting officer. However, DCAA does not know if the Contracting Officer sustains the exceptions until the contracting action is complete. Complex contracting actions can take multiple years to finalize, therefore, DCAA must wait to learn which exceptions were sustained. The \$9 billion in audit exceptions comes primarily from audit reports issued in prior fiscal years (Table 5).

Table 5 – Sustention by Amount and Percentage of Audit Exceptions

Audit Type	Audit Exceptions	Exceptions Sustained	Percent Sustained
Forward Pricing	\$4,417,350,000	\$2,341,730,000	53.0%
Incurred Cost	\$3,828,073,000	\$1,221,619,000	31.9%
Claims and Terminations	\$509,219,000	\$254,599,000	50.0%
Systems, CAS & TINA	\$248,586,000	\$71,014,000	28.6%
Total	\$9,003,228,000	\$3,888,962,000	43.2%

E. Incurred Cost. For cost reimbursable contracts, a contractor is required to submit a certified incurred cost submission with detailed contract costs and performance information. After receiving an annual incurred cost submission, DCAA auditors have 60 days to 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. After an adequate submission is received, DCAA has 12 months from the date of the submission to complete the audit.

Using a risk-based approach, DCAA closes incurred cost submissions in several ways. It conducts audits on high risk submissions and a sample of low risk submissions. For low risk submissions not audited, the Agency provides valuable assistance to contracting officers by following the procedures established for low risk reviews and issuing low risk memos. Because DCAA has the authority to establish final indirect rates under the circumstances identified in FAR 42.705-2, contracting officers may be able to avoid negotiations and go straight to closing out contracts using the rates established in these memos.

DCAA continues to use Independent Public Accountants (IPA) to conduct incurred cost audits. In FY 2023, DCAA awarded task orders for 124 audits to be performed by IPAs, a number similar to previous years.

In FY 2023, DCAA issued 583 incurred cost audit reports and 2,640 low risk memos (Table 6) essentially completing all incurred cost audits within the 12-month requirement unless a waiver was granted. Not included in the table data is the costs voluntarily deleted by the contractor from their initial submission. In FY 2023, 1,081 submissions had voluntary deletions totaling \$3.3 billion, which demonstrates the deterrence aspect of DCAA’s audits.

Table 6 – Incurred Cost Completed and Dollars Examined

Type	Number	Dollars Examined
Reports	583	\$186,395,782,000
Memos	2,640	\$54,334,978,000
Total	3,223	\$240,730,760,000

Pursuant to 10 U.S.C. §3842, the Undersecretary of Defense (Comptroller) may grant a waiver to the 12-month requirement. During FY 2023, five contractors were approved for waivers relating to 6 qualified incurred cost proposals. Table 7 details reasons for approved waivers.

Table 7 – Reasons for Approved Incurred Cost Waivers

Reason for Waiver	Number of Contractors	Number of Incurred Cost Proposals
Subject to Cease and Desist Orders	4	5
Limited Contractor Resources due to small business concerns	1	1

Of the six waivers granted, DCAA completed work on four of the audits after the cease and desist order was lifted. The remaining two incurred cost proposals are subject to cease and desist orders.

Some incurred cost audits may not be completed in 12 months for specific circumstances beyond DCAA’s control. In FY 2023, there were 17 audits pending longer than 12 months (Table 8). The audits listed in the table from the years 2012 to 2020 are now being performed as the cease and desist order was lifted.

Table 8 – Incurred Cost Pending Longer than One Year from Date of Adequate Submission

Year Submission Received	Number of Assignments	Estimated Dollar Value
2012	2	\$2,000,000,000
2013	1	\$2,000,000,000
2020	9	\$14,500,000,000
2021	1	\$150,603,000
2022	4	\$868,255,000
Total	17	\$19,518,858,000

F. Prioritization of Audits. DCAA’s risk-based planning process helps ensure that audit resources are focused on maximizing DoD’s buying power. DCAA’s first priority is audits required by regulation or legislation such as incurred cost audits. Our second priority is demand work to support contracting officers, principally forward pricing audits but these can also be other audit types. In FY 2023, as in the past few years, business systems audits were DCAA’s next priority. Finally, TINA audits are the fourth priority. However, other types of audits may be programmed in the annual audit plan based on risk and planned contracting actions.

While this is the audit priority for planning purposes, in any given year contracting officers will request audits based on their requirements and assessment of contractor risks such as significant costs, significant audit findings in the past, or circumstances that reduce the incentive to control costs, such as those inherent in cost-reimbursement contracts. DCAA will work these audits into the workload as a high priority.

In some cases, such as for short due dates, an audit might not be possible. If this occurs, the Field Audit Office will work with the contracting officer and may perform an advisory service, which could be a review of specific costs or examination of contract terms. These types of advisory services are a high priority due to their short timeline and are unforeseen and not included in the annual program plan.

- Incurred Cost audits continue to be a priority to meet both the adequacy review (60 days) and completion (12 months) timelines. Working these audits closer to

the year costs were incurred improves our ability to retrieve relevant records, eases contractor burden, encourages better compliance, and identifies issues that may impact future audits. Additionally, timely completion of incurred cost audits facilitates contract closeout.

- Forward pricing audits net the highest rate of return and are time sensitive because 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 2023, DCAA engaged with contracting officials at all levels, focused on the highest risk contract actions, and ensured we provided the right audit services to meet their needs.
- Claims and Terminations represent time-sensitive requests for audits of contract terminations or claims. DCAA prioritizes these audits in coordination with contracting officer needs.
- Systems, CAS & TINA 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. This category includes post-award audits of compliance with the 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 System, Estimating System, and Material Management and Accounting System (MMAS) audits.

G. Length of time to complete audits. The length of time to complete an audit is generally measured from receipt of request or adequate proposal to issuance of audit report. Incurred cost audits have a specific time requirement; 60 days for the adequacy review and 12 months for audit completion. All other audits do 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. The length of time to complete audits by audit type in FY 2023 is below (Table 9).

Table 9 – Average Elapsed Days by Audit Type

Audit Type	Elapsed Days
Forward Pricing	85
Incurred Cost	188
Claims and Terminations	162
Systems, CAS & TINA	259

Forward pricing audits vary vastly in scope and complexity. The majority of DCAA’s forward pricing proposal audits cover proposals with a value between \$10 and \$100 million taking months to complete, or they may cover forward pricing rates unrelated to a specific contract action. In FY 2023, it took an average of 85 days to complete a forward pricing audit. The quickest completion was 11 days and the longest was 244 days for a complex, high dollar value proposal.

For incurred cost audits, DCAA has 12 months to complete, but the average time has consistently been just under seven months. Incurred cost audits also vary vastly in scope and complexity. Incurred cost audits cover the contractor's costs incurred for all contracts during a contractor fiscal year rather than costs for a single contract. Most contractor incurred cost proposals fall within a range between \$1 million and \$100 million, with most audits taking an average of 188 days to complete. About 7 percent of the audits take over 5,000 hours to complete.

The time to complete claims and termination audits has increased as the number of complex audits in the category has increased. This year these audits averaged 162 days, up 15 days from the previous year. Similarly, Systems, CAS & TINA audits are also more complex. Business systems audits for a large contractor with multiple segments can take up to a year to complete due to the complexity and interrelationship of the systems. Business systems took, on average, 259 days to complete.

H. Indirect Costs Incurred for Bid and Proposal and Research and Development. The following table summarizes the amount of incurred contractor Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs computed as a percentage of total contractor indirect costs (Table 9). This data only includes those contractors who detailed their IR&D and B&P costs on their FY 2022 incurred cost submission and does not represent indirect costs for all DoD contractors.

Table 9 – Total Indirect Costs for IR&D and B&P Incurred by Contractors in FY 2022

	Allowable Costs	Allowable Cost as Percentage of Total Indirect Costs
IR&D	\$9,279,000,000	5.4%
B&P	\$3,835,000,000	2.2%
Total IR&D and B&P	\$13,114,000,000	7.6%

5. FY 2023 ADVISORY SERVICES

- A. Overview.** In addition to audits, DCAA also performs advisory services that assist the government in getting the best value for its dollar. These services may result in lower costs or funds returned to the Treasury. DCAA is now starting to capture the benefits, both monetary and non-monetary, of many of the advisory services in its audit management software.
- B. Financial Advisory Services.** DCAA supports contracting officers with advisory services that are not considered audits and therefore are not reported in the previous section. Every audit and advisory service brings value and helps the contracting officer. Examples include negotiation support, independent financial analysis and advice on specific elements of a contract, and assessment of compliance with specific acquisition regulations or contract terms. In FY 2023, \$1.9 billion in costs were examined in an advisory service. Contracting officials also benefit from the advice and knowledge of DCAA's auditors during negotiations for agreements using Other Transaction Authority, which can result in reduced costs. In FY 2023, DCAA examined \$588.7 million related to this type of agreement.

Investigative Support. DCAA's investigative support team provides accounting and financial advisory services to investigative agencies and the Department of Justice in civil and criminal fraud investigations. Their assistance includes designing investigative support approaches for evaluating the allegations, developing necessary evidence, and identifying damages. DCAA's investigative support auditors assisted with one case that resulted in a \$377.45 million dollar settlement to resolve False Claims Act violations related to Booz Allen Hamilton Holding Corporation. DCAA's support included reviewing accounting records, developing the damages model that demonstrated the impact of the alleged fraud, serving as CAS subject matter experts, and providing negotiation support during mediation. Four auditors worked for several years supporting this important case.

During FY 2023, the team worked on 464 investigative cases and their efforts contributed to monetary recoveries of \$705 million. Additionally, 254 disclosures were received from the DoD Office of the Inspector General and disseminated to audit field offices as part of the DoD Contractor Disclosure Program.

6. SUMMARY OF RECOMMENDED ACTIONS OR RESOURCES TO IMPROVE THE AUDIT PROCESS

DCAA looks forward to continuing our engagement with Congress to help shape legislation by clarifying our audit processes and sharing our in-depth knowledge of contracting requirements. We look forward to furthering the dialog started in the summer of 2023, when we discussed DCAA's contribution to maximizing DoD's buying power. This fiscal year, we look forward to productive conversations to deepen Congressional understanding of DCAA's value and impacts.

We also look forward to continuing our ongoing conversations with industry groups. Our leadership team has regular engagements with the National Defense Industrial Association, the Aerospace Industries Association, and others. Our engagement with these organizations allows us to discuss DCAA policy, learn of industries' concerns, and work toward mutually agreeable outcomes. In FY 2023, we updated our process for performing mandatory annual audit requirements (MAAR), or MAAR 6 and 13 audits. The decision to perform these audits is now based on risk instead of being a mandatory requirement. This change was coordinated with industry, and we continue our engagement seeking implementation impacts.

At the end of FY 2023, in coordination with DCMA, we released guidance clarifying the policy related to CAS unilateral cost accounting practice changes. This change addressed long standing inconsistencies as well as recent Armed Services Board of Contract Appeal (ASBCA) decisions. We learned of industry concerns related to this change in January and have started our outreach to fully understand these challenges.

Our industry engagement is also key to our implementation of new technology. Our Chief Digital and Artificial Intelligence Office (CDAO) assists our audit offices as they analyze data from contractors which will improve the efficiency of our audits. As technology continues to be leveraged by both industry and DoD, we look forward to contributing to the conversation. As DCAA looks to adopt new technology, we seek input from industry to leverage their knowledge and lessons learned. We also engage with industry to understand their use of technology. This is essential because as industry adopts new technology, we must be able to understand what the system is doing so we can effectively audit. We look forward to many positive conversations on this topic.

As we adopt new technology, our workforce must have the knowledge to effectively employ it. We train our workforce on a wide range of audit and leadership skills, but because of rapid changes to technology, training is an imperative. Appropriation of funds requested in the President's budget are essential to purchase and train the workforce on new technology to improve the efficiency and effectiveness of our audits.

DCAA stands ready to perform our mission to maximize DoD's buying power by delivering audits and advisory services that promote timely acquisition decisions and supports our military's readiness.

7. OUTREACH ACTIONS TOWARD INDUSTRY

DCAA proactively engages with industry to clarify audit requirements, understand and address contractor concerns, and improve acquisition and audit processes. The paragraphs below highlight the major initiatives in FY 2023.

- A. Continued Process Improvement for Real-Time Labor and Material Audits.** During FY 2023, DCAA made significant revisions to the audit requirements and procedures related to real-time audits of labor, formerly MAAR 6 and purchase existence and consumption audits, formerly MAAR 13. DCAA eliminated these annual audit requirements by changing to a risk-based approach. This change creates more flexibilities for audit staff and contractors, and aligns audit resources to acceptable risk levels.

DCAA removed the “mandatory” term to eliminate the perceived notion of an arbitrary process to perform audits on non-valued added activities. This change allows DCAA to be more agile and flexible while focusing on high-risk areas. Although DCAA’s policies related to this type of audit have not changed significantly since the introduction of MAARs 6 and 13 procedures decades ago, advances in technology and our audit environment have changed dramatically. The changes include adopting best practices, such as video interviews, and other efficiencies from lessons learned during the pandemic and adapting ourselves to this new post pandemic environment.

Contractors will gain significant benefits from this change. One benefit is the reduction in number of audits, which will free-up resources to perform other work. Additionally, the use of technology to perform the interviews required by the audit means contractor personnel can continue with their daily schedule and cooperate from wherever their workplace is located, even their home. This is much more convenient than having to schedule a time and place for both the auditor and contractor personnel to meet.

Audit teams also benefit as they now have increased flexibility to determine when, where, and how audits of real-time testing should be conducted. This new approach enables our audit teams to have the autonomy to shift resources from lower-risk audits to greater-risk audits that would protect the Government’s interest, increase efficiencies, and maximize buying power.

- B. Cost Accounting Standards Cost Impact Guidance.** DCAA and DCMA concurrently issued new guidance on cost impacts that will help ensure consistency in how the Government evaluates and resolves these cost impacts. This new guidance also gives industry insight into how the Government will resolve these types of cost impacts, thereby reducing uncertainty.

The methodology to determine the increased cost to the Government, in the aggregate, for unilateral cost accounting practice changes under the CAS has been a longstanding debate in the acquisition community. To address the different perspectives on this topic, DCMA and DCAA formed a working group to develop the appropriate methodology for determining the cost impact for these accounting changes. The working group analyzed several aspects of unilateral cost accounting practice changes, including implications of certain ASBCA

decisions, multiple scenarios with different cost allocations between contract types, and the provisions of FAR and CAS.

The new guidance provides a consistent, appropriate method for determining the cost impact for unilateral cost accounting practice changes. It addresses four cost allocation scenarios for determining increased cost to the Government in the aggregate. For example, one of the four scenarios improves the methodology by avoiding cost duplication, which prevents overstating the amount of the cost impact. In another scenario, the new guidance prevents understating the cost impact amount by excluding decreases on fixed price contracts, which will result in a more accurate cost impact amount and protects the taxpayer.

In response to this policy change, two industry associations sent a joint letter outlining their concerns with this policy change. DCAA and DCMA policy and legal teams are evaluating the stated concerns and will work with industry to address the issue.

- C. Small Business Outreach.** DCAA remains committed to advancing the DoD's Small Business Strategy with a specific focus on fostering growth the Defense Industrial Base. Our Small Business Program Managers take a proactive approach, offering comprehensive training and guidance on government contracting.

Our primary objective is to facilitate small businesses' entry into contracting with DoD, breaking down barriers and helping them navigate the complexities of government contracting. Our small business team actively works to prepare small businesses for common challenges encountered when engaging with the federal government to ensure their success.

In FY 2023, DCAA allocated additional staff to help small businesses. The program is now staffed with two Financial Liaison Advisors (FLA) who help small businesses understand contracting requirements, available resources, and available support mechanisms within the defense marketplace. This dedicated team also works with local Field Audit Office (FAO) resources to expand small business outreach to new locations and also develops new strategic partnerships. In FY 2023, the small business team facilitated 181 virtual and in-person training sessions reaching just under 12,000 individuals. They also organized 65 small business events with a total of about 6,000 attendees.

Looking ahead FY 2024, the Small Business Program Office aims to exceed a 10% increase in event attendance by small businesses. Progress towards this goal is promising with 35 sessions already attended by December 7, 2023. The office plans to build on this momentum, continuing to leverage well-received presentations and training materials such as the "Breaking into GovCon from DCAA's Perspective" seminar across the small business community.

8. SIGNIFICANT FY 2023 ACTIVITIES AND THEIR IMPACT

DCAA had many organizational accomplishments in FY 2023. Some of these are summarized below.

A. Enhanced Recruitment Efforts. To address recruiting and retention challenges, DCAA shifted recruitment efforts to focus almost exclusively on attracting recent college graduates to fill a majority of vacant entry-level auditor positions. Increased on campus presence combined with using student focused websites, allowed DCAA to hire approximately half of its new hire requirements with recent college graduates.

The agency leveraged specialized research-based recruitment tactics to specifically recruit Gen Z in alignment with the DoD's initiatives to attract college graduate new hires. To increase on campus presence, DCAA field auditors were temporarily assigned as recruiters for a semester. This approach allowed the recruitment program to build DCAA brand awareness and cultivate relationships with 70 strategically selected colleges and universities nationwide. Additionally, university and employee partnerships streamlined and simplified the recruiting process.

DCAA also contracted with Handshake, an online recruiting platform for higher education students and alumni to increase recruitment. Handshake allows students to learn about and connect with DCAA on a platform they know and trust. In addition to Handshake, DCAA leveraged LinkedIn for recruitment and the marketing of the Agency. LinkedIn allows sharing of Agency news stories and adds context to job postings without having to navigate multiple websites. Due to these efforts, DCAA successfully onboarded over 550 total new hires in FY 2023.

B. Success with Current and Future Technology. In FY 2023, DCAA established the CDAO to drive agency-wide digital transformation. The CDAO explores, evaluate and recommends digital strategies and ideas to leverage artificial intelligence, machine learning and robotic process automation to improve business outcomes and enhance data-driven decision-making.

In its first year, the CDAO successfully created new programs and initiatives that enhance audit and project planning, communications, management, data access and reporting capabilities while reducing security risks and costs. CDAO focused on creating the new Data Governance Program to provide a comprehensive approach to data. This program also developed centralized cloud-based data models. These models reduce errors and establish clear standards and processes for data management.

Several significant projects are currently underway including EPIC and ARIES. EPIC will replace the legacy DCAA Management Information System (DMIS) in FY 2025. Currently, the off-the-shelf software for EPIC is being tailored to meet DCAA requirements. EPIC's capabilities include Artificial Intelligence and automation to provide enhanced audit and project planning, management and advance reporting. ARIES or the Audit Request, Issuance, Engagement and Status initiative will centralize communication for DCAA services. ARIES is being developed iteratively. It will connect DCAA and DoD applications to exchange pertinent data and create a comprehensive picture of DCAA services for faster and improved decision making for government teams. ARIES should be live in the second quarter of FY 2024.

The CDAO is also looking to increase efficiency by automating routine administrative tasks, such as data request letters and contractor notifications. In FY 2023, the automation of Contractor Submission Portal reminder letters saved the administrative workforce approximately 7,000 hours. Reporting and requests in these areas are now centralized, resulting in streamlined processes. Similarly, the reminder letter for post-negotiation memorandums was automated saving field audit offices hundreds of hours. This is an area the CDAO looks to expand its efforts.

With consideration for current and future needs, CDAO is actively creating a roadmap for enterprise automated systems, Artificial Intelligence (AI), and machine learning (ML) strategies. Collaborative efforts, such as active participation in the DoD's Task Force Lima and the founding of a DCMA/DCAA Digital working group ensure DCAA's digital solutions are in alignment with enterprise impact. Furthermore, the CDAO is developing a framework for responsible artificial intelligence (RAI) to guide the acquisition and deployment of ML models to ultimately enhance DCAA's mission impact in the procure-to-pay value stream.

- C. Assistance to DoD's Financial Improvement and Audit Readiness Posture.** DCAA aided DoD in their efforts to improve financial reporting and property accountability on the \$1.7 trillion F-35 aircraft program consistent with the Financial Improvement and Audit Readiness (FIAR) methodology. An F-35 Inventory Support Project Team was setup within DCAA under the Lockheed Martin/BAE Corporate Audit Directorate to assist DoD, the F-35 Joint Program Office, the military services, and the Defense Logistics Agency (DLA) in resolving numerous audit findings in various GAO and DoD-IG reports.

Initial DCAA effort has concentrated on determining correct asset values of millions of Government owned spare parts located in warehouses and main and forward operating bases worldwide. Additionally, the DCAA team continues to be involved in DoD's implementation of the new strategy to ensure all F-35 Government Property in Possession of Contractors is properly controlled, accounted for, and appropriately reported on financial statements of the respective military services and DLA.

As a result of DCAA's proactive involvement with F-35 property, the US Air Force and the Missile Defense Agency have also requested similar DCAA support relative to all of their Government Owned Property in Possession of Contractors to improve financial management operations and ensure audit readiness.

9. OUTLOOK

The DCAA workforce had a very successful year in FY 2023. In addition to exceeding the prior year's performance, they also demonstrated their initiative and developed new methods to increase the efficiency of audits.

In FY 2024, we will publish a new Strategic Plan, which emphasizes our support and commitment to the DoD mission of defending the Nation. Our vision is to be the premier leader in DoD contract audit and advisory services delivering unparalleled value, agile solutions, and data driven insights in support of our nation's defense needs. To realize our vision, our plan emphasizes our strategic priorities: 1) Optimize Value and Customer Service, 2) Cultivate a Premier and Diverse Workforce, 3) Capitalize on Technological Innovations, and 4) Influence the Business Environment.

One aspect of our strategic plan is moving beyond demonstrating our value solely in terms of net savings by better highlighting the impact of all our audits and services. To do so, we will break out categories into individual audit types. For example, in the table below (Table 10) those lines highlighted in grey are now reported as the category "Systems, CAS and TINA." We anticipate this change for next year's report.

Table 10 – Example: Audit Category Breakout

Audit Type
Systems, CAS, TINA
CAS
Business Systems
Real-Time Labor/Material Testing
TINA

We are also working to highlight the value of those audits or services which directly impact the contracting life cycle by ensuring the reliability of contractor data and systems, which do not contribute to net savings, such as business systems or CAS audits. We are examining several possible options such as average saving rate per audit hour or total dollars that flow through a contractor's system. We will continue to develop these and additional concepts as we implement our new audit management information system.

We also have other initiatives underway that support our new strategic plan. These initiatives were started in FY 2023 and focus on both our audit processes and our workforce. Initiatives with an audit focus are related to customer relationships, technology, and audit services. Those related to our workforce are examining our rotation policy, supervisor training, hiring, and manpower. We expect to complete most of these initiatives in FY 2024 and implement the recommendations in early FY 2025. Continual improvements benefit both our customers and our workforce keeping DCAA the employer of choice and increasing the value DCAA brings to DoD and the taxpayer.

Finally, we will leverage our new audit management information system to accelerate DCAA's agility and drive change. DMIS served us well since 1999 but has limitations. As we implement the new system, we will be better able to adapt and analyze which data we collect and more effectively use it to plan and perform audits and enable leadership to make more informed, data-driven decisions.

The DCAA workforce is professional, dedicated and performs vital work for DoD, our warfighters and taxpayers. We will continue our focus on meeting customer needs and look forward to a productive FY 2024.

ACRONYMS

AI	Artificial Intelligence
CAD	Corporate Audit Directorate
CAS	Cost Accounting Standards
CDFM	Certified Defense Financial Manager
CFE	Certified Fraud Examiner
CISA	Certified Information System Auditor
CPA	Certified Public Accountant
CSP	Contractor Submission Portal
DAWDA	Defense Acquisition Workforce Development Account
DCAA	Defense Contract Audit Agency
DCAI	Defense Contract Audit Institute
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DLA	Defense Logistics Agency
DoD	Department of Defense
FAQ	Frequently Asked Questions
FAR	Federal Acquisition Regulation
FIAR	Financial Improvement and Audit Readiness
FLA	Financial Liaison Auditor
GAGAS	Generally Accepted Government Auditing Standards
IPA	Independent Public Accountant
MAAR	Mandatory Annual Audit Requirement
ML	Machine Learning
MMAS	Material Management and Accounting System
NDAA	National Defense Authorization Act
OTA	Other Transaction Authority
ROI	Return on Investment
TINA	Truth in Negotiations Act, now called the Truthful Cost or Pricing Data Statute



**Defense Contract Audit Agency
8725 John J. Kingman Road
Fort Belvoir, VA 22060
(703) 767-3200
www.dcaa.mil**