

# ANNUAL REPORT TO CONGRESS | FY 2025

**U.S. Department of War**  
Defense Contract Audit Agency



The estimated cost of this report or study for the Department of War is approximately \$22,010 in Fiscal Years 2025-2026. This includes \$10 in expenses and \$22,000 in DOW 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 (FY) 2025 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.

In FY 2025, DCAA achieved a return on investment of \$7.5 for every \$1 spent and \$5.3 billion saved in defense spending. DCAA issued 2,480 audit reports and 7,047 memos, reviewing \$788 billion in contract costs. Our advisory services examined \$72 billion in costs, identifying and creating critical efficiencies and savings for the Department.

Notably, DCAA continues expanding its efforts regarding the government property in contractor possession inventory project, supporting the Department's Financial Improvement and Audit Remediation priorities. This effort supports the Pentagon's goal to pass a full financial audit.

Additionally, DCAA provided critical support to the Office of Management and Budget's (OMB) Cost Accounting Standards (CAS) Board in its aggressive efforts to modernize the government contracting rules.

DCAA also focused on improving the acquisition process by serving on the Munitions Acceleration Council, playing a key part in the Department's work to increase production and availability of critical munitions

DCAA is a key partner in defense acquisition. Our audits and insights into defense contractors help ensure our military gets the most value for each dollar spent in defense contracting and that our military remains the most lethal force in the world. The DCAA workforce is proud to be members of DoD and to support our warfighters.

Respectfully,

A handwritten signature in black ink that reads "Jennifer L. Desautel". The signature is written in a cursive style.

Jennifer L. Desautel

Director

# Contents

|   |    |
|---|----|
| WHO WE ARE .....  | 1  |
| DELIVERING FINANCIAL OVERSIGHT WITH PRECISION .....           | 3  |
| AUDIT SAVINGS .....   | 5  |
| FINANCIAL ADVISORY SERVICES .....                             | 7  |
| INDUSTRY OUTREACH .....                                       | 8  |
| SUMMARY OF RECOMMENDATIONS TO IMPROVE THE AUDIT PROCESS ..... | 10 |
| THE WAY FORWARD .....   | 11 |
| ACRONYMS .....  | 13 |

# Tables and Figures

|   |   |
|---|---|
| Table 1 - FY 2025 Prioritized Audit Reports and Memos Completed and Dollars Examined .....  | 3 |
| Table 2 - Total Indirect Costs for IR&D and B&P Incurred by Contractors in FY 2024.....     | 4 |
| Table 3 - Average Elapsed Days by Audit Type .....  | 5 |
| Table 4 - Incurred Cost Pending Longer than One Year from Date of Adequate Submission ..... | 5 |
| Table 5 - Savings and Return on Investment by Audit Category .....                          | 6 |
| Table 6 - Sustention by Amount and Percentage of Audit Exceptions .....                     | 7 |
| Table 7 - Identified Savings from Special Projects.....                                     | 9 |
| Figure 1 - DCAA's role throughout the contract life-cycle .....                             | 1 |
| Figure 2 - Current DCAA Organizational Structure .....                                      | 2 |



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## WHO WE ARE

The Defense Contract Audit Agency (DCAA) provides independent audit and financial expertise to ensure every dollar is used effectively to safeguard our nation's interests.

- DCAA operates under the authority, direction, and control of the Under Secretary of War (Comptroller) (USW-C).
- DCAA oversees approximately 9,000 contractors and issues nearly 10,000 products each year.

DCAA's capabilities span the entire acquisition lifecycle, from before a contract is awarded to its final closeout (*Figure 1*). This presence promotes financial integrity at every stage and assures the Department of War (DoW) maximizes the value of every taxpayer dollar spent on the Warfighter.

*Figure 1 - DCAA's role throughout the contract life-cycle*



## How we deliver excellence

- **Optimize Value for Strategic Partners**
  - Enhance auditability, enable timely acquisition decisions, and collaborate to increase efficiency and ensure fiscal accountability.
- **Cultivate an Innovative and Multi-Talented Workforce**
  - Leverage Human Capital to fullest potential to increase innovation and problem solving. Provide targeted learning and achieve benchmark-setting levels of employee engagement.
- **Transforming through Technology**
  - Utilize and leverage technology to enable data-driven insights, streamline tools and processes, and modernize IT architecture.



## Reorganization

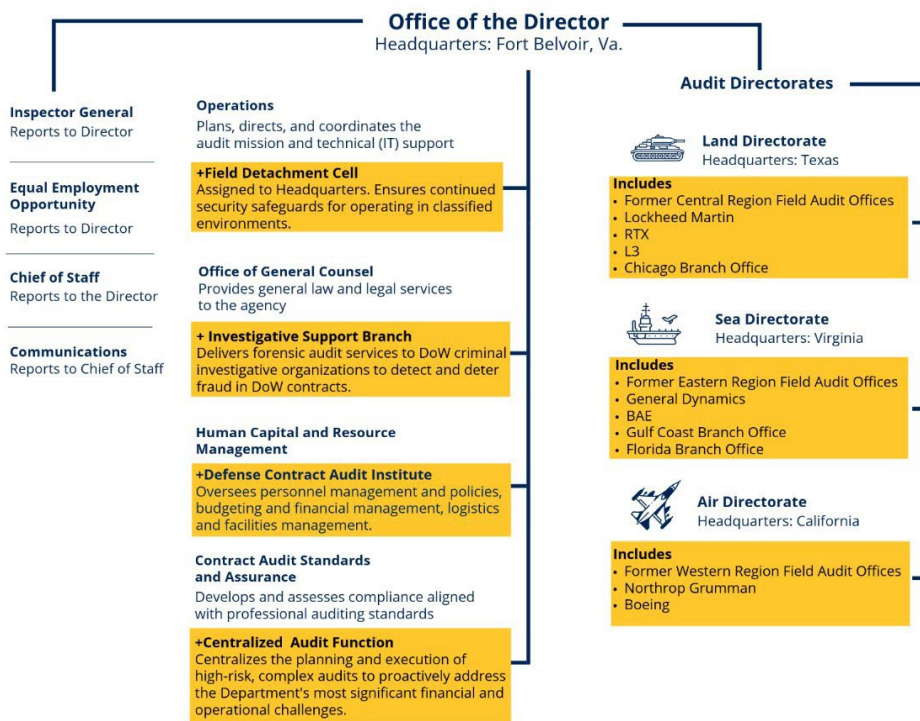
Fiscal Year (FY) 2025 was a landmark year for DCAA. DCAA executed a reorganization to deliver audit expertise with greater speed, precision, and impact. Replacing the legacy regions with three new mission-focused directorates strategically realigns and embeds DCAA audit teams directly with the military buying commands they support. Forming the Land Directorate, Sea Directorate, and Air Directorate break down legacy silos, creating unified and flexible audit teams ready for rapid deployment for the DoW's most urgent acquisition priorities.

A Centralized Audit Function (CAF) team was established to focus on complex, high-risk, and enterprise-level audits. This provides robust oversight into the Department's largest expenditures, enhancing oversight capability and responsible stewardship of funds.

Additionally, DCAA emphasized integration to provide greater flexibility and responsiveness. DCAA's Field Detachment auditors, those responsible for the most sensitive work for classified contractors, are now fully integrated into the new directorates. A central Field Detachment Cell provides dedicated oversight and safeguards for all classified work.

This new, purpose-built structure positions DCAA as an agile partner in the defense acquisition community. DCAA remains Headquartered in Fort Belvoir, Virginia, and continues specialized training at the Defense Contract Audit Institute (DCAI) in Atlanta, Georgia. The agency is continuously evaluating its organizational structure and strategic locations to enhance support to the acquisition community. DCAA's position to ensure the greatest value for every dollar and ensure the military maintains its decisive edge is stronger than ever.

Figure 2 - Current DCAA Organizational Structure





## DELIVERING FINANCIAL OVERSIGHT WITH PRECISION

Each year, DCAA conducts thousands of audits that provide the basis for recommendations to the acquisition community. In FY 2025, DCAA identified over \$18 billion in total audit exceptions, creating crucial negotiation space for contracting officers by offering critical insight. Auditors performed 9,527 engagements consisting of 2,480 reports and 7,047 memos, totaling over \$788 billion.

DCAA’s audits ensure industry complies with applicable laws, regulations, and contract terms. These audits provide negotiation space, confidence in contractor capabilities, and maximize value of the DoW dollars spent on weapons systems, services, and supplies to equip the Warfighter.

*Table 1 - FY 2025 Prioritized Audit Reports and Memos Completed and Dollars Examined*

| Audit Type            | Reports      | Memos        | Total        | Dollars Examined         | Audit Exceptions        |
|-----------------------|--------------|--------------|--------------|--------------------------|-------------------------|
| Incurring Cost        | 536          | 2,831        | 3,367        | \$302,861,145,226        | \$1,010,312,747         |
| Forward Pricing       | 604          | 63           | 667          | \$174,832,849,671        | \$10,621,192,097        |
| Systems, CAS, & TINA* | 488          | 3,108        | 3,596        | \$197,029,523,554        | \$3,783,363,561         |
| Claims & Terminations | 852          | 1,045        | 1,897        | \$113,634,049,621        | \$3,427,232,720         |
| <b>Total</b>          | <b>2,480</b> | <b>7,047</b> | <b>9,527</b> | <b>\$788,357,568,072</b> | <b>\$18,842,101,125</b> |

*Note: Systems, Cost Accounting Standards (CAS), & Truth in Negotiation Audits (TINA)*

### Audit Prioritization

DCAA leverages a risk-based planning process to prioritize workload. For example, incurred cost audits are prioritized because they are legally mandated.

In FY 2025, DCAA delivered 536 incurred cost audit reports for high-risk submissions. In these cases, auditors conducted in-depth audits to mitigate risk and ensure financial accuracy. Lower-risk audits received expert assistance through streamlined reviews. This deliberate process allowed contracting officers to close contracts faster and avoid lengthy negotiations by using the DCAA-established final indirect rates. DCAA issued 2,831 memos for these low-risk submissions.

DCAA’s next priority are audits requested by contracting officers, including forward pricing audits, which are finished prior to the contract award, and Truth in Negotiation (TiN) audits, also known as defective pricing. DCAA collaborates with contracting officers to assess risks and determine the appropriate level of engagement, whether a full audit or advisory service, to support DoW acquisition decisions.



## Independent Public Accountants (IPA)

To efficiently manage demand and expedite contract closeouts, DCAA leverages the expertise of IPAs. In FY 2025, DCAA evaluated contract risks and awarded 114 incurred cost audits task orders to IPAs. This was consistent with prior years and allows the agency to focus resources on higher-risk, complex audits.

## Voluntary Deletions

DCAA's incurred cost audits provide immense value through both direct findings and their powerful deterrent effect. In FY 2025, the presence of DCAA's audit oversight alone led contractors to voluntarily remove over \$3.8 billion in unallowable costs from their submissions before the audits even began. This demonstrates a deterrent effect by promoting contractor compliance from the start.

## Indirect Costs Incurred for Bid and Proposal and Independent 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 2*). This data only includes contractors who detailed their IR&D and B&P costs on their FY 2024 incurred cost submission and does not represent indirect costs for all DoW contractors.

*Table 2 - Total Indirect Costs for IR&D and B&P Incurred by Contractors in FY 2024*

|              | <b>Allowable Costs</b>  | <b>Allowable Cost as Percentage of Total Indirect Costs</b> |
|--------------|-------------------------|---|
| IR&D         | \$7,187,177,227         | 4.9%  |
| B&P          | \$7,440,138,617         | 5.1%  |
| <b>Total</b> | <b>\$14,627,315,844</b> | <b>10%</b>  |

## Audit Timing

The length of time to finish an audit is generally measured starting from receipt of request, adequate proposal, or start date if self-initiated, to the audit report issuance. Under 10 U.S.C. §3842, incurred cost audits have statutory time limits – 60 days to finish the adequacy review and one year for audit completion. No other audits have specific or mandatory time limits; instead, we assess what is necessary to conduct an audit that will meet professional audit standards and provide timely and valuable advice to contracting officials. Average length of time to finish an audit varies based on complexity of contractor's government sales volume, size and organizational structure, indirect rate structure, contract type mix, and the quality of information systems. The type of audit also impacts completion as some types are more complex and involve more cost factors. (*Table 3*).



*Table 3 - Average Elapsed Days by Audit Type*

| <b>Audit Type</b>       | <b>Elapsed Days</b> |
|-------------------------|---------------------|
| Incurring Cost          | 208                 |
| Forward Pricing         | 92                  |
| System, CAS, and TINA   | 264                 |
| Claims and Terminations | 148                 |

### **Audits Pending Over One Year**

Under 10 U.S.C. §3842, incurred cost audits are required to be finished within one year of receiving an adequate submission from a contractor unless the USD-C waives this requirement. In FY 2025, the USW-C granted extensions for five audits due to external factors. Four were submitted in FY 2020 from a single contractor; these were delayed due to active litigation. One audit involving an FY 2024 submission was delayed due to a contractor's bankruptcy proceeding (*Table 4*).

*Table 4 - Incurred Cost Pending Longer than One Year from Date of Adequate Submission*

| <b>Year Submission Received</b> | <b>Number of Assignments</b> | <b>Estimated Dollar Value</b> |
|---------------------------------|------------------------------|-------------------------------|
| 2020                            | 4                            | \$8,000,000,000               |
| 2024                            | 1                            | \$90,633,741                  |
| <b>Total</b>                    | <b>5</b>                     | <b>\$8,090,633,741</b>        |

### **AUDIT SAVINGS**

DCAA delivers significant and measurable returns on investment to the American taxpayer. In FY 2025, DCAA examined over \$788 billion in contract costs, delivering over \$5.3 billion in savings. This demonstrated an impressive \$7.50 in savings for every \$1 invested in its audit activities (*Table 5*).

DCAA's audit strategy is designed to maximize return on investment (ROI) through proactive engagements early in the acquisition cycle. The immediate and substantial savings from forward pricing audits, prior to contract award, consistently deliver the highest ROI for the audit hours expended. Other audits, such as business systems and CAS, provide immense long-term value by preventing future issues.



Table 5 - Savings and Return on Investment by Audit Category

| Audit Category        | Savings                | Cost of Performing Audits | Return On Investment (Savings / Cost) |
|-----------------------|------------------------|---------------------------|---------------------------------------|
| Incurring Cost        | \$433,303,172          | \$241,860,000             | 1.8                                   |
| Forward Pricing       | \$2,621,050,503        | \$161,724,000             | 16.2                                  |
| Systems, CAS, & TINA  | \$1,509,440,232        | \$177,049,000             | 8.5                                   |
| Claims & Terminations | \$752,999,262          | \$123,751,000             | 6.1                                   |
| <b>Total</b>          | <b>\$5,316,793,169</b> | <b>\$704,384,000</b>      | <b>7.5</b>                            |

Note: The cost of performing audits is calculated based on FY 2025 funding and the direct audit hours applied to each audit type.

This powerful ROI was achieved through audit findings that reduced contract prices and through proactive early engagements and identifying deficiencies in contractor business systems to prevent future overcharges. Due to the multi-year nature DoW contracting, such as forward pricing audits, audit savings conducted in prior fiscal years are realized only after the contracting officer's actions are finalized (*Table 5*).

### Exceptions Sustained

Contracting officer sustention rate, or audit exceptions, serve as a key measure of effectiveness. High sustention rates confirm the credibility of DCAA's audit findings, directly contributing to cost savings and financial benefits. This confidence empowers contracting officers to negotiate from a position of strength to ensure fair and reasonable prices for the DoW. This work frequently results in additional value and capabilities to DoW acquisitions. The \$5 billion in sustained exceptions reported for FY 2025 is a powerful testament to DCAA's long-term accountability (*Table 6*).

This process strengthens the entire defense industrial base by ensuring a fair and level playing field, fostering competition, and reinforcing trust in defense contractors. Ultimately, every dollar sustained is returned to the Department to be reinvested and provide our Warfighters with the critical capabilities they need to maintain their decisive edge.



Table 6 - Sustention by Amount and Percentage of Audit Exceptions

| Audit Type            | Exceptions              | Exceptions Sustained   | Percent Sustained |
|-----------------------|-------------------------|------------------------|-------------------|
| Incurring Cost        | \$1,016,144,991         | \$433,303,172          | 42.6%             |
| Forward Pricing       | \$5,417,493,528         | \$2,481,057,093        | 45.8%             |
| Systems, CAS, & TINA* | \$2,539,761,376         | \$1,396,317,664        | 55.0%             |
| Claims & Terminations | \$1,278,584,583         | \$696,557,282          | 54.5%             |
| <b>Total</b>          | <b>\$10,251,984,478</b> | <b>\$5,007,235,211</b> | <b>48.8%</b>      |

## FINANCIAL ADVISORY SERVICES

Beyond the core audit mission, DCAA provides indispensable advisory and investigative support. These capabilities allow DCAA to proactively assist acquisition partners and hold contractors accountable, protecting taxpayer dollars across the entire defense enterprise.

### Financial Advisory Services

DCAA provides tailored advisory services to help contracting officers navigate complex financial issues and negotiate from a position of strength. DCAA supported contracting officers throughout FY 2025 through advisory services that examined \$72 billion in contract costs. These services are tailored to reduce costs and provide full benefits.

This direct support strengthens the acquisition process by providing on-demand expertise for better decisions. Key services include:

- Direct contract negotiation support
- Independent analysis of contractor proposals
- Advice on pricing and specific cost elements
- Assessments of compliance with acquisition regulations

Financial advisory services are especially vital for agile acquisition methods like Other Transaction Authority (OTA), where DCAA advised on over \$145.5 million in costs in FY 2025, ensuring fiscal discipline was applied.

### Combating Fraud and Ensuring Accountability

DCAA's Office of Investigative Support played a critical role detecting and deterring fraud in DoW contracts, providing specialized audit and financial expertise combating fraud and holding violators accountable. This support contributed to investigations and prosecutions that recovered over \$689.9 million and resulted in 485 months of sentencing along with other sanctions in FY 2025. These achievements included key contributions to major cases, including a \$428 million settlement for a weapon systems pricing scheme, an \$86 million recovery safeguarding the TRICARE military healthcare program, and a \$62 million settlement for false cost and pricing data submissions aimed at overcharging the DoW.



## **INDUSTRY OUTREACH**

Throughout FY 2025, DCAA regularly participated in industry association meetings and maintained open communication with major defense contractors. These engagements aimed to optimize the use of audit resources and foster a collaborative environment to support ongoing acquisition reform. DCAA provided subject matter expertise on key audit processes and maintained a productive dialogue with industry groups such as the National Defense Industrial Association (NDIA) and the Aerospace Industries Association (AIA). This collaboration helped address concerns and identified opportunities to streamline requirements and reduce administrative burdens. Key engagements included:

- Collaboration with Major Industry Associations: DCAA met with NDIA leadership and the AIA to attend crucial forums to gather industry feedback on proposed audit policy changes so the agency can collaboratively resolve systemic issues in the acquisition process.
- Establishing the annual DoW Audit Conference: DCAA brought together key acquisition partners across the Department and military service audit agencies. This event provided a critical platform to align audit priorities, share best practices, and improve future efforts to promote a unified and consistent approach between the DoW and the industrial base.

## **DCAA's Critical Role Supporting the Cost Accounting Standards Board**

In FY 2025, DCAA was a driving force in the Office of Management and Budget's (OMB) initiative to modernize CAS. A primary goal of this initiative was to address the long-overdue need for greater alignment between Cost Accounting Standards and Generally Accepted Accounting Principles (GAAP). With DCAA's Director serving as the Secretary of War's representative to the CAS Board, the DoW leveraged accounting and acquisition expertise to deliver essential research and data-driven analysis that shaped the Department's position on these critical reforms. This influential role was instrumental in reducing barriers and accelerating change, including the rescission of over 60 duplicative requirements, and a major increase in the CAS applicability threshold from \$7.5 million to \$35 million. These actions directly support the President's goals by streamlining the rules that govern contract spending, reducing the regulatory burden on industry, and lowering barriers for innovative small businesses to compete for defense contracts.

## **Government Property and Accountability**

DCAA is at the forefront of the DoW's effort to resolve the critical material weakness of government property in the possession of contractors. This is a key objective in DoW's Financial Improvement and Audit Remediation (FIAR) goals. In a major step forward for FY 2025, DCAA teams finished a targeted review of property records valued at over \$10 billion across four major contractors. This collaborative effort, conducted in partnership with the DoW Inspector General, independent public accounting firms, and cooperation from industry partners provides the essential data needed to strengthen the accuracy of government property systems. Building on this success, DCAA will expand these targeted reviews in FY 2026 to accelerate the Department's path toward achieving a clean financial audit opinion.



## Strategic Partnerships

DCAA's multi-billion-dollar successes during FY 2025 were forged through strategic partnerships, a multi-talented and empowered workforce, and embracing technology to create efficiencies. The following accomplishments highlight DCAA's actions to become a more agile, responsive, and indispensable partner in safeguarding the nation's defense.

*Table 7 - Identified Savings from Special Projects*

| Project                                  | Savings         |
|--|-----------------|
| Munitions Acceleration Council           | \$129.7 million |
| Proposals for 155mm Artillery Ammunition | \$374 million   |
| Leveraging Technology                    | \$12.6 billion  |

### **Delivering Munitions Quickly: Munitions Acceleration Council**

As a pivotal member of the Pentagon's Munitions Acceleration Council (MAC) Deal Team, DCAA worked to expedite the procurement of high-priority munitions for the Warfighter. In partnership with senior leaders from across the defense acquisition community, DCAA's experts provided the real-time financial analysis needed to streamline cost data requirements and accelerate negotiations. This collaborative approach allowed the DoW to rapidly verify costs and secure fair deals. In FY 2025 alone, DCAA examined \$1.8 billion contractor dollars for these targeted munitions, identified \$129.7 million in questioned costs, and provided the essential data necessary to achieve fair and reasonable prices.

### **Maximizing Buying Power for High-Priority Ammunition**

In a critical win for the taxpayer and the Warfighter, DCAA secured over \$374 million in savings on proposals for 155mm artillery ammunition, a top-priority munition for the DoW. The agency's deep-dive analysis revealed a subcontractor's propellant costs were significantly inflated, providing the data needed to negotiate price reductions of up to 65 percent. In a testament to the precision of this analysis, 100 percent of DCAA's recommended cost reductions were sustained during negotiations. Ultimately, the \$374 million saved allows the DoW to purchase an additional 35 million pounds of propellant, directly increasing its buying power for critical munitions stockpiles.

### **Leveraging Technology to Enhance DoW Resource Allocation and Efficiency**

In FY 2025, DCAA leveraged cutting-edge technology and strategic collaboration to deliver unprecedented financial returns for the DoW. By deploying Artificial Intelligence and Large Language Models, the agency achieved an efficiency of \$36.8 million in savings for every hour worked on targeted contract reviews. This technology-driven approach was instrumental in identifying over \$11.8 billion in funds that could be freed up for more critical Warfighter needs by reallocating funds, canceling unneeded obligations, and halting a major program extension.



Furthermore, strategic collaboration with other government entities was crucial in identifying \$1 billion in contracts over seven years that were potentially funneled to former agency executives, directly strengthening accountability and fraud prevention across the DoW.

### **SUMMARY OF RECOMMENDATIONS TO IMPROVE THE AUDIT PROCESS**

DCAA looks forward to working with the DoW and Congress on acquisition reform. Building on the successful pilot of government property in the possession of contractors, DCAA will expand these targeted reviews in FY 2026 to accelerate the Department's path toward achieving a clean financial audit opinion.

DCAA continues leveraging technology for efficiency with work already started on expanding data management capabilities within the new audit management system, and collecting and managing audit leads centrally. This work is tied directly to audits and contractor profiles, providing better tracking and a more streamlined workflow. DCAA has already begun rebuilding the existing data warehouse into a data lakehouse to provide greater centralization, linkage, and access to data. This allows strategic insights into DCAA's performance and the overall DoW contracting environment.

DCAA also greatly expanded to enterprise data in the War Data Platform, providing leadership with a more holistic view of the acquisition lifecycle and enabling more data-driven strategic decisions. DCAA added the capability to collect provisional billing submissions in the contractor submission portal, automating a previously manual process and resulting in greater efficiency and faster establishment of billing rates. These data management initiatives provide the crucial foundation to expand DCAA's use of artificial intelligence (AI). DCAA has launched a Generative AI (GenAI) scaling initiatives, starting with GenAI Guardrails, and continues integrating AI tools into the data analysis workflow.

Finally, DCAA created an external audit lead tool as an expansion on the Audit Request Issuance, Engagement, and Status portal (ARIES) providing a more comprehensive tool to manage potential audit issues and lead to faster, more informed decision-making.



## THE WAY FORWARD

Building on FY 2025's transformational success, DCAA is poised to deliver even greater value to the DoW. DCAA is focused on the following key priorities in FY 2026:

1. Strengthen DCAA support for the MAC by providing actionable data and insights to expedite negotiations, achieve cost savings, and mitigate risks in emerging contracting frameworks, thereby maximizing the DoW's buying power to procure critical munitions at scale.
2. Drive progress to meet the Department's FIAR objectives by expanding the Government Property project to deliver targeted reviews and data necessary to mitigate a critical material weakness. DCAA is on track to finish its full inventory by the end of FY 2026, providing the accountability necessary to accelerate the DoW's path to a clean financial audit opinion.
3. Capitalize on CAF capabilities to increase DCAA's responsiveness and audit efficiency in TiN and forward pricing audits and other complex engagements that provide high ROI and other benefits to maximize the value for every dollar spent on defense contracting.
4. Drive CAS Board efforts to reduce the regulatory burdens on contractors and promote greater speed and competition in defense contracting. As DoW's representative continue to accelerate the Board's initiatives to conform CAS to Generally Accepted Accounting Principles by completing the rescission of CAS 404, 408, 409 and 411, and identifying additional opportunities to reduce regulatory complexity and streamline burdensome compliance standards.
5. Continuously assess DCAA's organizational structure and geographic footprint to enhance our operations and foster greater collaboration across our workforce. Work towards reducing costs associated with office leases, increasing our presence on military installations, and bringing us closer to each other and the customers we support.



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## ACRONYMS

|       |   |
|-------|---|
| ARIES | Audit Request Issuance, Engagement, and Status portal                           |
| AI    | Artificial Intelligence   |
| AIA   | Aerospace Industries Association  |
| CAF   | Centralized Audit Function  |
| CAS   | Cost Accounting Standards   |
| CASA  | Contract Audit Standards and Assurance  |
| DCAA  | Defense Contract Audit Agency   |
| DCAI  | Defense Contract Audit Institute  |
| DoW   | Department of War   |
| FIAR  | Financial Improvement and Audit Remediation                                     |
| FY    | Fiscal Year   |
| GAAP  | Generally Accepted Accounting Principles  |
| GenAI | Generative AI   |
| IPA   | Independent Public Accountant   |
| IR&D  | Independent Research and Development  |
| MAC   | Munitions Acceleration Council  |
| NDIA  | National Defense Industrial Association   |
| OMB   | Office of Management and Budget   |
| OTA   | Other Transaction Authority   |
| ROI   | Return on Investment  |
| TiN   | Truth in Negotiations   |
| TINA  | Truth in Negotiations Act, now called the Truthful Cost or Pricing Data Statute |
| USW-C | Under Secretary of War (Comptroller)  |



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