

Report to Congress on FY 2020 Activities

Defense Contract Audit Agency

U.S. Department of Defense

March 31, 2021





DEFENSE CONTRACT AUDIT AGENCY

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Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's Fiscal Year 2020 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—significant savings that can be reinvested in our warfighters or returned to the Treasury. We reviewed over \$365 billion in contract costs, identified more than \$8.6 billion of audit exceptions across 2,830 audit reports, and supported Contracting Officers with other valuable products and services that give those Contracting Officers the leverage to confidently negotiate fair and reasonable contract prices for the Department.

The second half of FY 2020 was impacted by the COVID – 19 pandemic, which required DCAA to use innovative approaches to continue the audit mission. We issued valuable guidance and information to our auditors, customers and contractors related to the Coronavirus Aid, Relief, and Economic Security (CARES) Act and Families First Coronavirus Response Act (FFCRA), and enhanced our efforts to directly collaborate with contractors to obtain access to personnel and data to effectively complete our audits. Even with a majority of the workforce teleworking 100 percent of the time, we were able to support the needs of our customers and reduce the time required to deliver our highly-valued products and services. In 2020, we capitalized on the elimination of the incurred cost audit backlog by enhancing our customer service in other areas such as proposal reviews and business systems audits, achieving an all-time high 93 percent customer satisfaction rating. We also met customer agreed-to deadlines for requested work 93 percent of the time, up from 64 percent just a few years ago. Additionally, we again successfully met the Congressional requirement to complete incurred cost audits within one year of adequate submission, an accomplishment we actually achieved in 2019, a year ahead of schedule. We also continued contracting with independent public accounting (IPA) firms awarding contracts to perform 99 incurred cost audits.

Our vision, *Every audit or service we deliver is on time, on point, and highly valued*, is demonstrated by our workforce every day. I am proud of our workforce and all they accomplished while demonstrating resiliency and dedication as they worked through the challenges of FY 2020.

Respectfully,

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

Anita F. Bales
Director

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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 mission 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 the contracting officer can officially 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 four Corporate Audit Directorates 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, 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 about 650 employees and serves 2000 to 3000 contractors. The Field Detachment has nearly 500 employees to serve 700 contractors.

Corporate Audit Directorates (CAD) are located in Lowell, Massachusetts (Raytheon, General Dynamics, BAE); McLean, Virginia (Northrop Grumman); Chicago, Illinois (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 General Atomics, AECOM, and Pratt & Whitney.

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

During FY 2020, DCAA examined the workload at each office and the number of contractors supported to determine if organizational changes should be made to better balance workload across the Agency. Based on the results, plans were made to remove Honeywell from the CAD structure, shift BAE to the Lockheed Martin CAD, and consolidate several FAOs co-located in the same geographic area. These changes will be made in FY 2021.

B. Staffing. DCAA has a professional workforce of about 4,400 employees. Roughly 92 percent of these employees have a bachelor’s degree, 45 percent have a higher level degree and 21 percent are Certified Public Accountants (CPA). Some employees have a different professional certification such as a Certified Fraud Examiner (CFE), Certified Information System Auditor (CISA) or Certified Defense Financial Manager (CDFM). 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 and Education

Employee	Number	Percent
Auditors	3,843	88%
Professional Support Staff	524	12%
Total Employees	4,367	100%
Bachelor’s Degrees	4,018	92%
Advanced Degrees	1,965	45%
Certified Public Accountants	917	21%
Other Professional Certifications	61	1%

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 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 and forward pricing rates.
- B. 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.
- C. Claims and Terminations.** These audits are largely conducted after contract award. 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. 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.
- D. Systems, CAS, TIN.** 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 adequacy of the contractor's Cost Accounting Standards (CAS) Disclosure Statement, compliance with cost accounting standards, review of contractor business systems, and contractor compliance with the Truth in Negotiations (TIN) Act.

4. FY 2020 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 \$365.3 billion in contract costs, identified over \$8.6 billion in audit exceptions, reported \$3.5 billion in net savings, and produced a return on investment of about \$5.20 to \$1.

(1) Net Savings. In FY 2020, DCAA reported net savings of \$3.5 billion. Year after year, DCAA has consistently returned over \$3 billion in savings to the government (Figure 1).

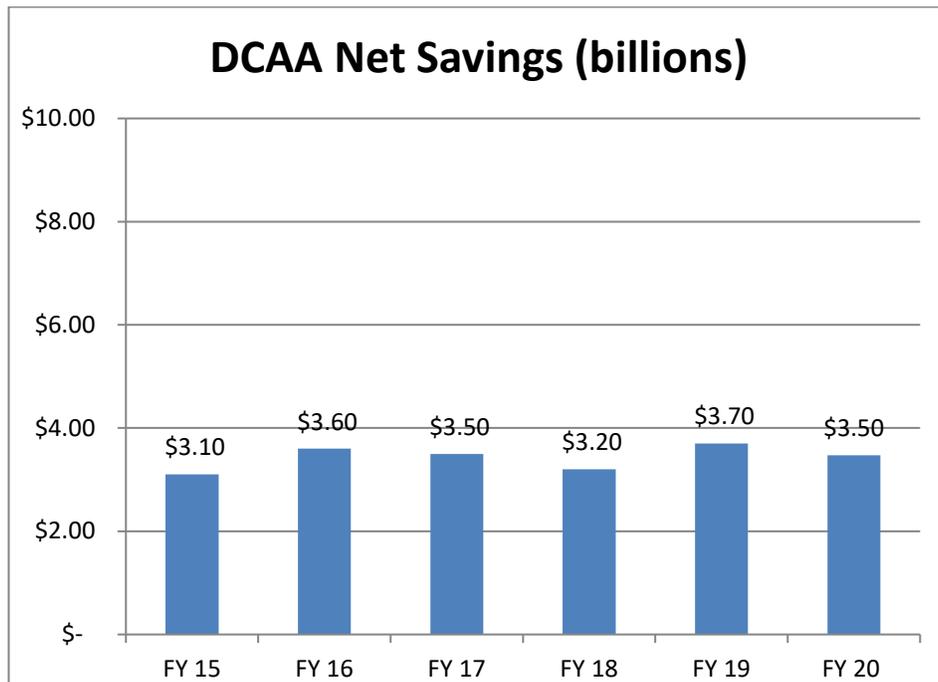


Figure 1 – DCAA Net Savings (in billions)

Net savings are calculated only for contracting actions taken by government contracting officials based on results of a formal DCAA audit. DCAA performs other advisory services that are not considered audits which also result in savings, such as providing advice to contracting officers pre-proposal or during negotiations. Contracting officials also benefit from the advice of DCAA’s auditors during negotiations for Other Transaction Authority agreements, which can result in reduced costs. In FY 2020, DCAA auditors supporting Investigators and Prosecutors resulted in \$623 million in penalties and fines.

(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 2020, 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).

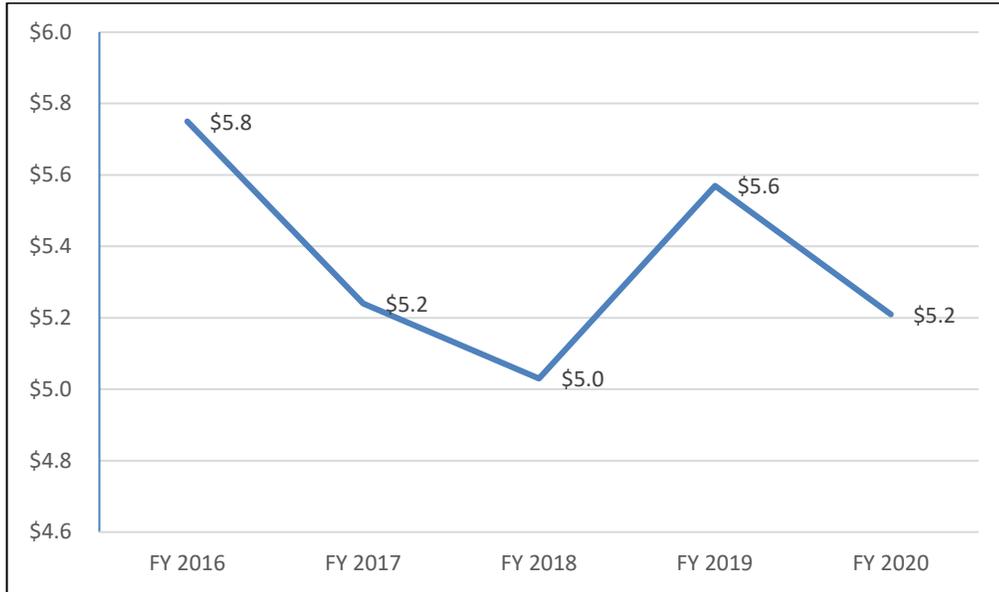


Figure 2 – DCAA Return on Investment

Table 2 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, for FY 2020 \$665.8 million, and direct audit hours by audit type. Return on investment for System, CAS, and TIN audits is low, as some audits in this category provide long-term value to the government without providing direct savings. For example, CAS and business systems audits determine contractor compliance with regulation, and audit findings result in contractor actions to bring their systems into compliance, thus assuring accuracy of cost data.

Table 2 –Net Savings and ROI by Audit Type

	Net Savings	Aggregate Cost of Performing Audits based on Percentage of Direct Audit Hours	Return On Investment (Net Savings /Aggregate Cost)
Forward pricing	\$2,929,970,000	\$113,040,000	\$25.92
Incurred Cost	\$307,093,000	\$230,812,000	\$1.33
Claims and Terminations	\$185,278,000	\$38,122,000	\$4.86
Systems, CAS & TIN	\$46,375,000	\$283,829,000	\$0.16*

* This figure is low as audits in this category provide long term value to the government without providing direct savings, e.g. CAS and business systems.

B. Questioned Cost Sustained. DCAA sustained \$4.3 billion of \$7.7 billion in questioned costs during FY 2020. The total sustention rate increased by 5 percent in FY 2020. Table 3 shows audit exceptions and sustention data. This data is calculated based on contracting officer negotiation decisions, not estimates or savings projections.

Table 3 – Sustention by Amount and Percentage of Audit Exceptions

Audit Type	Audit Exceptions	Exceptions Sustained	Percent Sustained
Forward Pricing	\$6,266,858,000	\$3,734,288,000	59.6%
Incurred Cost	\$1,161,178,000	\$350,945,000	30.2%
Claims and Terminations	\$238,402,000	\$183,189,000	76.8%
Systems, CAS & TIN	\$12,699,000	\$8,240,000	64.9%
Total	\$7,679,137,000	\$4,276,662,000	55.7%

C. Audit reports completed in FY 2020. 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 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 and regulations and contract terms.

In FY 2020, DCAA issued 2,830 audit reports with over \$8.6 billion in audit exceptions from \$365.3 billion total dollars examined. (Table 4). In addition to issuing audit reports, DCAA reviews and closes thousands of incurred cost audit assignments with low risk memos, which contain rate information allowing contracting officers to efficiently close contracts by setting rates. DCAA also supports contracting officers with advisory services that do not result in an audit; for example, DCAA provides negotiation support, independent financial analysis and opinions on specific elements of a contract, and assessment of compliance with specific acquisition regulations or contract terms.

Table 4 – FY 2020 Audit Reports Completed and Dollars Examined

Audit Type	Reports	Dollars Examined	Audit Exceptions
Forward Pricing	719	\$185,262,581,000	\$6,892,049,000
Incurred Cost	710	\$145,804,743,000	\$917,622,000
Claims and Terminations	964	\$3,250,862,000	\$495,481,000
Systems, CAS & TIN	437	\$30,978,226,000	\$268,642,000
Total	2,830	\$365,296,412,000	\$8,573,794,000

D. Incurred Cost. A contractor is required to submit a certified report of its incurred cost for each year of contract performance under flexibly-priced contracts. 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 determining a submission is adequate, DCAA has 12 months 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 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. In FY 2020, DCAA issued 710

reports and 2,868 low risk memos (Table 5) completing 100 percent of incurred cost audits within the 12 month requirement unless a waiver was granted (table 6).

Table 5 – Incurred Cost Closed by Method and Dollars Examined

Incurred Cost Years Closed	Number	Dollar Value
Reports	710	\$145,804,743,000
Memos	2,868	\$31,612,360,000
Total	3,578	\$177,417,103,000

Under the 2018 NDAA guidelines, the DoD Comptroller can grant a waiver to the 12 month requirement. During FY 2020, 22 contractors were approved for waivers relating to 39 qualified incurred cost proposals. Table 6 details reasons for approved waivers.

Table 6 – Reasons for Approved Incurred Cost Waivers

Reason for Waiver	Number of Contractors	Number of Incurred Cost Proposals
Subject to Cease and Desist Orders	4	7
Lack of Hardcopy Only Documentation due to COVID – 19	15	29
Other	3	3

Of the 39 waivers granted, DCAA completed work on a total of 18. The remaining 21 incurred cost proposals have revised due dates in FY 2021.

Table 7 depicts incurred cost assignments pending longer than one year from the date of adequate submission. These audits are on hold due to investigations or are from reimbursable customers who still desire the audit be performed but cannot currently fund the audit.. Those submissions from reimbursable customers and those received prior to the enactment of the 2018 NDAA (Dec 1, 2017), are not subject to the 12 month NDAA requirement. As of the end of FY 2020, DCAA had 27 submissions pending audit, a decrease from the 48 pending at the end of FY 2019.

**Table 7 – 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
2014	0	0
2015	0	0
2016	1	\$ 913,390,000
2017	5	\$ 40,911,000
2018	6	\$384,469,000
2019	12	\$2,906,778,000
2020	0	0
Total	27	\$8,245,548,000

E. Meeting Forward Pricing Agreed-to Dates. DCAA continues to focus on meeting agreed-to dates with a goal of 85 percent on time. In FY 2020, 93 percent were completed on time (Figure 3). Over the past five years, DCAA has made steady progress in this area.

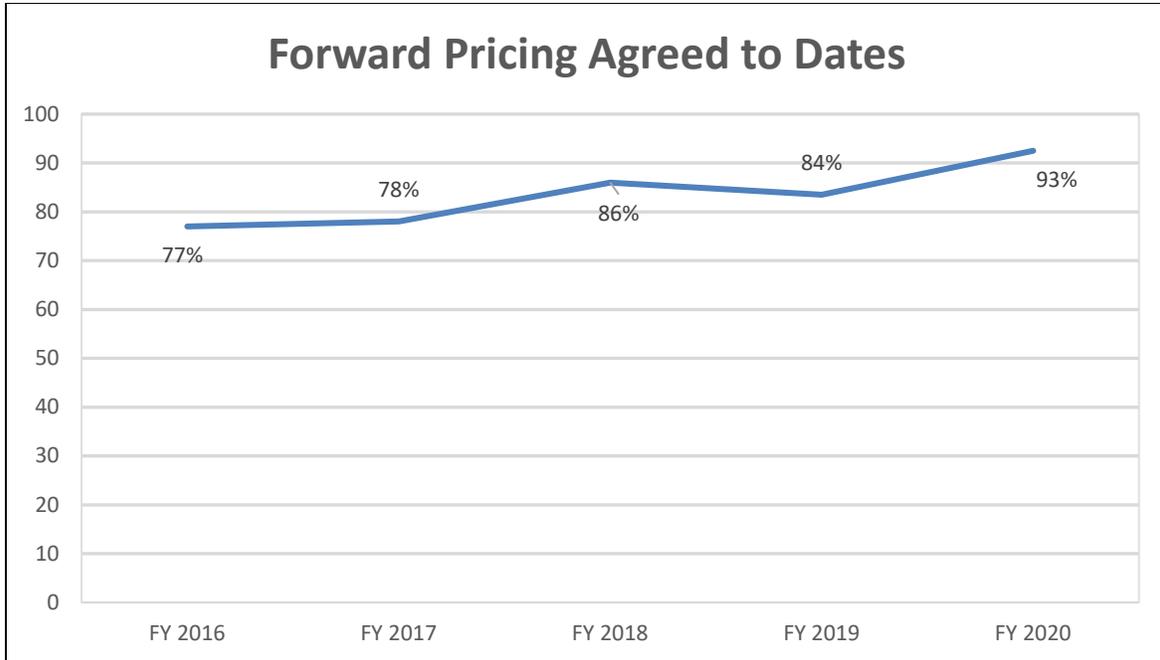


Figure 3 – Forward Pricing Agreed-to Dates Met (percentage)

We know the acquisition community relies on us to meet our agreed-to dates and help them keep the contract award process on track. We meet early with the contracting officer to come to a mutual agreement on a due date for the audit. Once we agree to this date, we do not change it, even when conditions change. If we don't expect to meet the date, we communicate with the command and make sure we provide data throughout the audit to minimize any impact on the acquisition cycle. DCAA's ongoing communication with DCMA, buying commands, and military service executives has also 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 to work effectively as a 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.

- 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, ease contractor burden, encourage better compliance, and identify 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 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 2020, 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.
- Claims and Terminations represent time-sensitive requests for contract terminations or claims. DCAA prioritizes these audits in coordination with contracting officer needs.
- Systems, CAS & TIN 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 Truth in Negotiations (TIN) Act 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 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. In FY 2020, DCAA reduced or maintained the time to complete audits across all audit types.

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 (Figure 4).

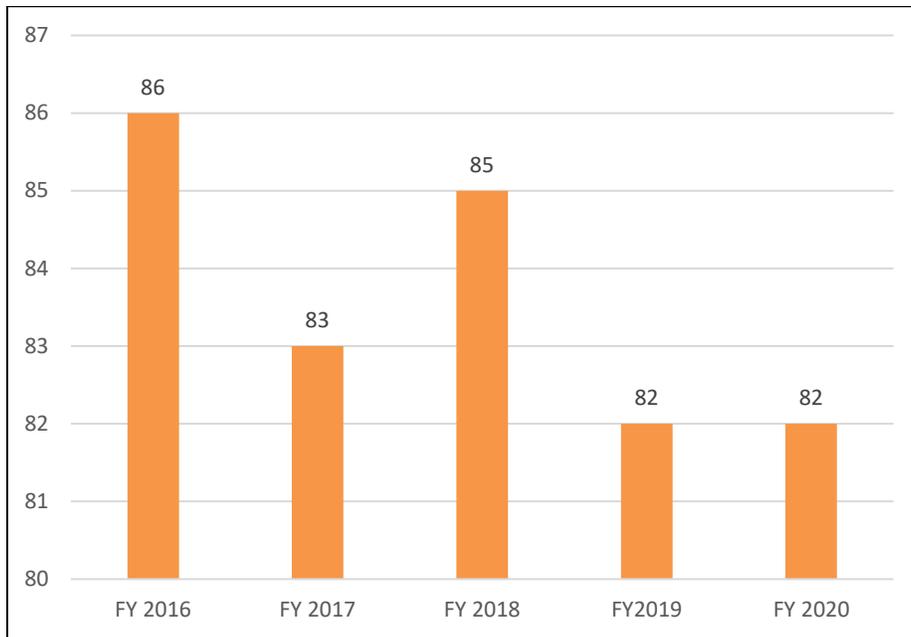


Figure 4 – Forward Pricing average elapsed days

Incurred Cost. The time to complete an incurred cost audit is measured from the date an adequate submission is received to the date the report is issued (Figure 5).

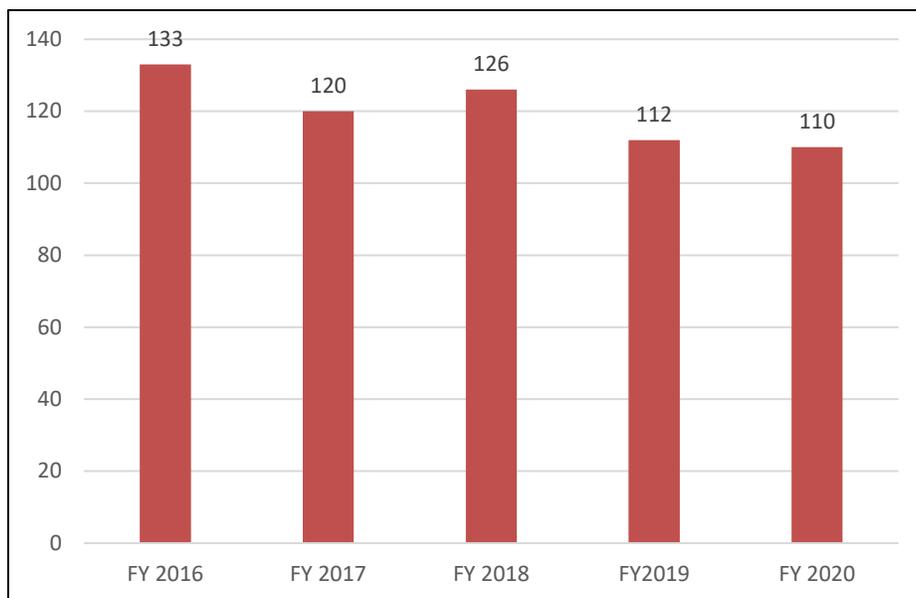


Figure 5 – Incurred Cost average elapsed days

Claims and Terminations. The time to complete audits in this category is measured from the date DCAA receives the audit request to the date we issue the audit report (Figure 6).

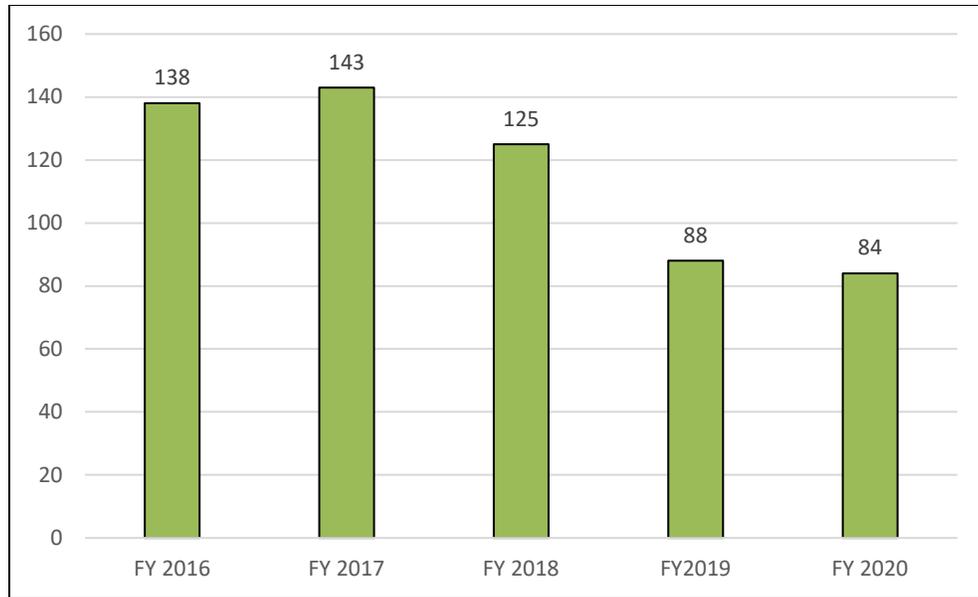


Figure 6 – Claims and Terminations average elapsed days

Systems, CAS & TIN. The time to complete these audits is generally measured from the time audit work began to the date of the audit report issuance (Figure 7). Audits in this category are generally more complex taking more time to complete.

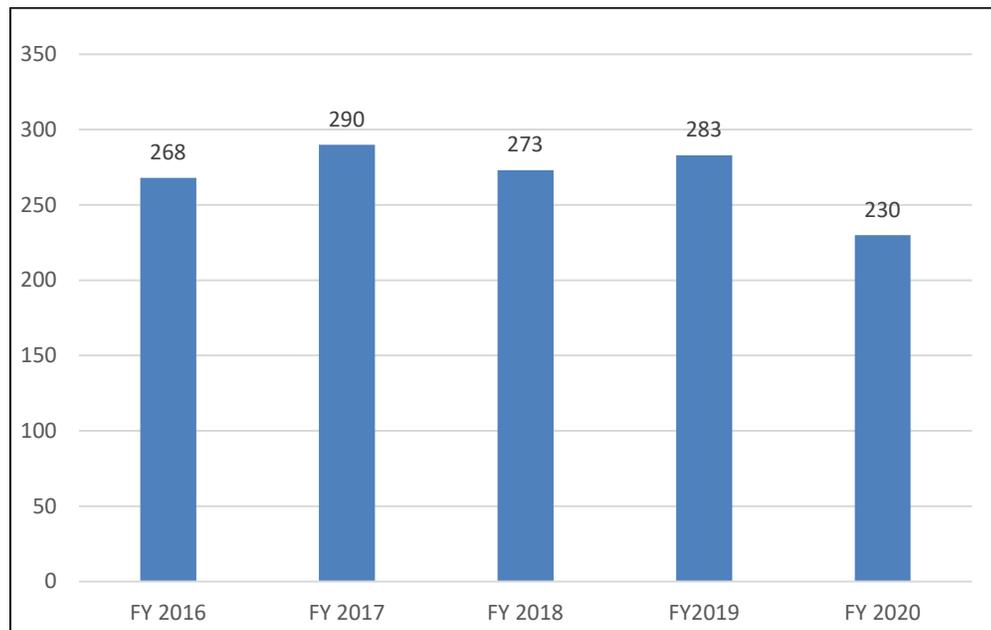


Figure 7 – Systems, CAS & TIN average elapsed days

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 8). This data only includes those contractors who detailed their IR&D and B&P costs on their FY 2019 incurred cost submission and does not represent indirect costs for all DoD contractors.

Table 8 – Total Indirect Costs for IR&D and B&P Incurred by Contractors in FY 2019

	Allowable Costs	Allowable Cost as Percentage of Total Indirect Costs
IR&D	\$6,239,000,000	4.5%
B&P	\$2,899,000,000	2.1%
Total IR&D and B&P	\$9,138,000,000	6.6%

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

As a key member of the acquisition community, DCAA's independent and objective audit and financial advisory services directly impact the value the government, taxpayer, and warfighter receive for contracted work. We strive to develop and enhance broad professional working relationships in order to continuously improve the value we bring to Defense acquisition.

Each new administration brings the opportunity to develop new and enhance existing relationships. DCAA has a solid relationship with Congress and looks forward to continuing this relationship. We have found that early engagement provides us the opportunity to assist Congress in its efforts to reform the acquisition process. We appreciate the opportunity to be included in the discussion and contribute our perspective to future initiatives and reforms being contemplated that address Defense acquisition and contracting. In 2020, we were provided the opportunity to engage with Senate Armed Services Committee (SASC) and House Armed Services Committee (HASC) staff personnel through the DoD Acquisition Policy Cycle briefings process. We discussed the use of independent public accounting firms in support of the DCAA mission, and other thoughts to enhance DCAA mission execution in support of Defense acquisition.

In 2020, DCAA fully implemented two important requirements from the FY 2018 NDAA that it prepared for in 2018 and 2019: 1) contracting with Independent Public Accounting (IPA) firms to conduct select Incurred Cost audits, and 2) completing DCAA Incurred Cost audits within one year of the receipt of the contractor's submission. DCAA contracted out 100 audits to IPA firms that were completed in 2020, and contracted for a similar number to be completed in 2021. Also in 2020, DCAA achieved the requirement to complete incurred cost audits within one year, as it had also done in 2019, one year ahead of the required deadline.

In addition, other key professional working relationships with Congress, the Department, and across Industry, have been invaluable in improving DCAA's service. We continued efforts throughout the year to implement suggested recommendations of the Section 809 panel to include adjusting the parameters for our risk-based sampling and addressing materiality thresholds for Incurred Cost audits. In January 2020, DCAA implemented revised sampling parameters developed in late 2019, and the revised materiality thresholds were used in audits starting in FY 2020. We also collaborated with the Office of the Under Secretary of Defense (Acquisition and Sustainment) and Defense Contract Management Agency to address and begin to resolve audit findings related to Truth in Negotiations audits.

Of course, 2020 was a very unique year operating amidst a worldwide pandemic that required us to work remotely away from our offices, our customers, and contractors. This unique operating environment required deliberate action to leverage our professional relationships with contractors to obtain and maintain direct access to contractor systems and data while we both were working remotely. This has been a major success, initially necessitated by the circumstances, but regardless of the operating environment, this is a best practice which hopefully will continue. We will continue to provide emphasis to ensure the proper business processes and controls are in place to address cybersecurity requirements and to safeguard information.

In addition to initiatives focused on the effective and efficient execution of our audit mission, DCAA appreciates and has used a variety of special hiring authorities and funding sources available to us to recruit, develop and retain a high-performing workforce. As a service organization our ability to deliver on our mission relies directly on the quality of our people and is dependent on our ability to recruit, retain, train and develop high-quality auditors, other professional staff, and leaders. Consistent and predictable annual funding levels ensure that we have the ability to do so with the least disruption to mission and least negative impact on our customers.

DCAA relies heavily on a variety of special hiring authorities to recruit and bring new auditors on-board. We participate in hiring events sponsored by colleges and collect resumes and transcripts for subsequent job offers using authorities for Direct Hire for Post-Secondary Students and Recent Graduates. At hiring events, we use direct hire authorities to give qualified candidates on-the-spot job offers, and we take full advantage of the Pathways Internship Program to bring college students into DCAA offices. This internship program allows students, who are prospective full-time employees, to directly experience the DCAA work environment and to determine whether DCAA is a good career fit for them. The program also spreads awareness and knowledge of DCAA as an employer throughout colleges and universities as Interns return to school when not at the office participating in their internship.

Also, training and development is essential to our workforce. As the largest Federal audit organization, we conduct much of our training at our own Defense Contract Audit Institute in Atlanta, Georgia. Last year we conducted nearly 300 classes, and, as necessitated by the pandemic, converted many courses to a virtual instructor-led format. We also take full advantage of other acquisition workforce training and development opportunities such as courses available through the Defense Acquisition University (DAU). This training and development is funded through our normal operating funds as well as the Defense Acquisition Workforce Development Fund (DAWDF). DCAA truly values the additional resources available through the DAWDF. The Defense-wide review conducted in the fall of 2019, which affected the FY 2021 budget submission, restructured DAWDF (now referred to as the Defense Acquisition Workforce Development Account (DAWDA)) and impacted Agencies' access to this valued source of workforce development funding. The impacts to the DCAA workforce resulting from the changes to the amount and availability of this funding is not yet fully known.

These are just a few areas in which DCAA benefits from, and adds value to, professional working relationships with the Congress, the Department, and Industry. DCAA values these effective professional relationships and looks forward to continued collaboration with all parties associated with Defense acquisition.

6. OUTREACH ACTIONS TOWARD INDUSTRY

DCAA proactively engages 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. **FFCRA and the CARES ACT: Proactively Keeping Affected Parties Informed.**

In March 2020 in response to the Coronavirus pandemic, Congress enacted two pieces of legislation to assist individuals and businesses – the Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Both have implications for defense acquisition and DCAA took proactive measures to provide information to defense contractors and the DCAA workforce.

DCAA's efforts were part of those of the DoD acquisition community. Initially, the focus was on understanding the legislation and how various aspects would impact defense contracts and contractor costs. Working with the Defense Contract Management Agency, DCAA deconflicted and synchronized efforts to prevent duplication of work and ensure similar understanding of various sections. DCAA also worked closely with the Defense Pricing and Contracting Office (DPC) for coordination on guidance as well as to discuss questions and concerns from industry. This collaborative effort among the acquisition community continues today.

As questions from industry continued to be received, DCAA prepared a frequently asked questions (FAQ) document with answers to the most common questions regarding the CARES Act and the impact of the CARES Act on contract billing and costing. Answers to the FAQs provide insight into the unique cost issues related to the legislation, including the treatment of costs paid by the Paycheck Protection Program (PPP) loans; reimbursed expenses under CARES Act Section 3610; and deferred expenses under CARES Act Section 2302 (payroll taxes). The answers to the FAQs also address DCAA's approach to the legislation's impacts related to forward pricing rate engagements, noting that auditors will assess factual circumstances encountered by contractors. These FAQs were posted to the DCAA public website to assist contractors as they work through their individual situations.

The effort to keep DCAA's auditors informed paralleled the contractor effort. In addition to issuing guidance, efforts focused on early engagement with contractors prior to audits to discuss how each contractor implemented various sections of these Acts. In an environment of fluid guidance, this engagement is essential to understanding all aspects of the audit and planning an effective and efficient audit.

B. **Implementing the Contractor Submission Portal.** DCAA receives over 4,000 contractor incurred cost proposal submissions a year, 80 percent of which arrive in June. Many contractors use DCAA's ICE (Incurred Cost Electronically) model to assist in assembling submission data. Currently, contractors either email the ICE model or deliver it via disk to their cognizant DCAA Field Audit Office (FAO). With the Contractor Submission Portal (CSP), we are modernizing this process. DCAA is taking a phased

approach to the implementation of the CSP and successfully rolled-out phase one of the CSP at the beginning of fiscal year 2021.

In phase one of the CSP, we improved the submission process by providing a single, secure, automated capability for contractors to formally submit their incurred cost proposal to DCAA. In doing so, we alleviated the problem of ICE models being too large to email and issues with delivering the files to the correct FAO as the CSP can accept very large files or multiple files and has a built-in FAO locator.

Phase one of the CSP benefits contractors in several ways. First, the CSP has the capability to easily transfer large incurred cost submissions eliminating the need to submit via multiple emails. Second, contractors receive a formal automatic notification validating that their submission was received by the cognizant FAO. Third, the CSP provides centralized storage with version control, to ensure that DCAA works with the most current version provided. Finally, there is a simple process for withdrawing or updating a proposal once submitted.

The CSP was piloted in June, 2020. A sample of 60 contractors serviced by audit offices from across DCAA participated. At the end of the pilot, approximately 50 incurred cost proposal submissions were completed using the CSP. Feedback from contractors was positive with many appreciating the user-friendly features of the CSP as well as the real-time notification the submission was received. As a result, phase one of the CSP is fully functional and ready for contractor usage.

DCAA is continuing to develop the CSP using an iterative approach. Future phases include integration with DCMA for a single point of entry to the Government and converting the ICE model to a web-based input form built into the CSP itself thereby allowing for real time error checking and validation routines. We envision “wizard-driven” screens, built-in data checks between schedules, and simultaneous submission to both DCAA and DCMA.

7. SIGNIFICANT FY 2020 ACTIVITIES AND THEIR IMPACT

DCAA had many organizational accomplishments in FY 2020. Some of these are summarized below.

- A. **Adapting Audits for a COVID – 19 Environment.** DCAA’s audits have several steps that require an in person presence at the contractor location. From floor checks verifying employee time keeping procedures to audit entrance briefings and negotiations, DCAA’s auditors are normally physically present. When the COVID – 19 pandemic began, DCAA, like all businesses, had to adapt procedures.

The initial shutdown orders resulted in a majority of DCAA’s employees teleworking 100 percent of the time. Many contractors and other government acquisition organizations found themselves in the same situation. As time moved on, the realization hit both contractors and DCAA that this was not a short term situation and innovative ways to continue to do business needed to be found.

One of the easiest solutions was to move meetings to virtual platforms. DoD quickly rolled out Microsoft Teams. Contractors used Webex or GoToMeeting or Zoom. Other than some connectivity and latency challenges, meetings quickly adapted to a telework environment. Other aspects of the audit process were more challenging. Some DCAA offices had access to contractor systems so they could pull contractor data reports as needed, but only when physically in the office. Typically these reports are too large to email or to make available in hard copy for delivery, so DCAA worked with contractors to ensure proper controls were in place for contractors to allow DCAA auditors direct access to their systems or to provide a contractor-issued laptop enabling system access.

One challenging audit procedure to modify was the verification that contractor personnel complied with procedures such as timekeeping or data input. Normally, auditors conduct in-person interviews and observations of contractor personnel, but this was not possible with both auditors and contractor personnel working remotely. Again, innovative solutions were found. Using a virtual meeting and screen sharing, auditors watched as contractor personnel performed various tasks. In one instance, the audit team used a virtual meeting platform to perform test to payment procedures, which traces contractor financial transactions to source documents such as cancelled checks, electronic funds transfers, bank statements, or other evidence of payment. Using MS Teams, the auditors watched the contractor’s personnel generate reports and financial statements to verify payment. As the auditors observed, they captured screen shots as evidence for their audit report.

As the COVID – 19 pandemic continues, DCAA’s workforce will continue to find innovative solutions to any new challenges that arise.

- B. **Assisting with Other Transaction Authority.** DCAA continues to assist the acquisition community regarding the expanding interest in and use of Other Transaction Authorities (OTA). OTAs are a more flexible acquisition approach that enables DoD to access goods and

services outside of the traditional acquisition processes, use non-traditional defense contractors, and provide access to state-of-the-art technology. OTAs are not subject to the Federal Acquisition Regulation (FAR) and other related regulations.

Advance planning and early, continuous communication and collaboration between all team members is necessary for the efficient awarding of an OTA. As Service Buying Commands increase their use of OTAs, DCAA has focused on providing information and assistance prioritized for commands with the greatest use of OTAs. For example, DCAA worked with a command's Agreement Officers as they negotiated a \$10.2 billion OTA. DCAA participated in meetings with Agreement Officers, legal officers, and the contractor to discuss the suggested OTA language and potential impacts of changes for all parties. DCAA's assistance throughout the process led to an efficient award and also resulted in language in the OTA that mitigated the risk to the DoD and the taxpayers.

DCAA is also assisting Agreement Officers as they update the solicitation language to include definitions of cost principles (allowable, allocable, and reasonable), accounting system requirements, and details regarding use of interim/provisional billing rates and final indirect rates for expenditure-based awards. Standard language for OTAs can reduce the time required to negotiate an agreement, benefitting all parties.

Going forward, DCAA will capitalize on this success and expand its effort to more Buying Commands and Contracting and Agreements Officers to continue to increase the efficiency and effectiveness to the OTA process and to mitigate the risks associated with OTAs.

- C. **DCAI Pivots to Virtual Learning.** DCAA's educational institution, the Defense Contract Audit Institute (DCAI), is a key part of initial and continuing technical and leadership training and education for auditors. On average, over 400 classes are taught each year, the majority in person at the institute in Atlanta, GA or one of four DCAA locations. The DCAI curriculum also includes eLearning courses. In Mid-March, stay-at-home orders related to the COVID – 19 pandemic caused a cancellation of DCAI's live courses. As the pandemic continued, DCAI ultimately cancelled all remaining live classes in fiscal year 2020, over 230 scheduled live classes.

When it became evident the travel ban and contagion concerns related to the pandemic were going to last months, DCAI pivoted to a virtual format for instructing its auditors. The first virtual instructor-led training (VILT) was conducted the first week of June 2020. This first course, Cost Accounting Standards (CAS), was selected as it primarily covers theory with scenario-based research exercises and was more readily translated into a virtual format. Since that first course, DCAI converted 20 additional courses into a virtual format and provided 44 VILT classes to over 900 students in FY 2020. The courses have an over 90 percent satisfaction rate.

Going forward, DCAI is planning to add VILT classes to its regular offerings. While in many cases it is not possible to replicate the experience of in-classroom training, this type of class creates another method to deliver training, adding to DCAI's flexibility, scalability and general ability to support our auditors' development.

D. DCAA Strategic Plan 2021-2025. Throughout FY 2020, DCAA developed its 2021-2025 Strategic Plan to define our path forward and take DCAA to the next level of excellence in customer service, employee and leader development, and operational performance. As the new plan was developed, we assessed our efforts to achieve our goals in the 2015-2020 Strategic plan. With the efforts of the entire Agency, advancements were made in the following areas.

- Eliminated the Incurred cost backlog in FY 2018 through innovative efficiency measures and the dedication of the workforce. Additionally, DCAA met the 2018 NDAA requirement to complete all incurred cost audits within one year of adequate submission a year before the congressional deadline.
- Improved the delivery of Forward Pricing Proposal audits reducing the elapsed days to deliver our reports and meeting customer agreed-to delivery dates 93 percent of the time compared to 64 percent in FY 2015: a 45 percent improvement.
- Realigned the major contractors within the Agency Corporate Audit Directorate (CAD) structure to improve efficiency, communication, collaboration, and customer service.
- Increased engagement with industry to better understand and address industry's perspective on relevant issues.
- Continued to see increases in both the Federal Employee Viewpoint Survey (FEVS) scores and Best Places to Work rankings. In 2019, the last year results were available, DCAA ranked in the top 16 percent in its subcomponent workplace category.

As we developed our new plan, we refined our objectives to maintain momentum in key areas, addressed new challenges, and pursued opportunities that will increase our value to the Department, the taxpayer, and the warfighter. Our 2021-2025 strategic plan was published in September 2020 with three overarching goals:

- Better Serve the Department by Strengthening Strategic Alliances
- Align our Products and Services to be Flexible and Responsive to Customer Needs
- Recruit, Cultivate, and Retain a Highly Skilled, Flexible, and Empowered Workforce

8. OUTLOOK

DCAA is an integral member of the acquisition team and continues to deliver high quality audits and services that assist contracting officials negotiate fair and reasonable prices for goods and services.

In FY 2020 our audit staff showed great flexibility in developing innovative ways to complete the audit mission in a COVID – 19 environment. Despite challenges, our productivity continued to be high as we met customer demands. Additionally, we worked with the acquisition community to keep contractors informed of changes in regulation as a result of the FFCRA and CARES Act.

As we move into FY 2021, we will continue these efforts. We are optimistic the availability of the COVID – 19 vaccine will allow us to return to normal operations. As we prepare our return to the office plans, we are examining lessons learned to formally adopt those processes that improved our effectiveness and efficiency such as access to contractor systems and use of internet based systems. We also look to operationalize our goals in our 2021-2025 strategic plan focusing on surveying our customers' needs and examining our audit portfolio to ensure it meets those needs as well as looking to find the optimal balance of workload and staffing.

I am proud of the DCAA workforce and their resiliency. The outlook for the Agency is positive, and I look forward to returning to the office and a very productive FY 2021.

ACRONYMS

CAD	Corporate Audit Directorate
CARES	Coronavirus Aid, Relief, and Economic Security
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
DAWDF	Defense Acquisition Workforce Development Fund
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
FAQ	Frequently Asked Questions
FAR	Federal Acquisition Regulation
FFCRA	Families First Coronavirus Response Act
GAGAS	Generally Accepted Government Auditing Standards
IPA	Independent Public Accounting
MMAS	Material Management and Accounting System
NDAA	National Defense Authorization Act
OTA	Other Transaction Authority
PPP	Paycheck Protection Program
ROI	Return on Investment
TIN	Truth in Negotiations
VILT	Virtual Instructor Lead Training



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