

Report to Congress on FY 2021 Activities

Defense Contract Audit Agency

U.S. Department of Defense

March 31, 2022



The estimated cost of this report or study for the Department of Defense is approximately \$10,910 in Fiscal Years 2021-2022. This includes \$10 in expenses and \$10,900 in DoD labor.



DEFENSE CONTRACT AUDIT AGENCY

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Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's Fiscal Year 2021 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 \$3.7 billion in defense spending last year—significant savings that can be reinvested in our warfighters or returned to the Treasury. We reviewed nearly \$260 billion in contract costs, identified more than \$5.3 billion of audit exceptions across 2,712 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.

Our audit services in FY 2021 were marginally impacted by the COVID – 19 pandemic. In FY 2020, we created innovative approaches to continue the audit mission and further refined these approaches in FY 2021. With a majority of the workforce teleworking, we effectively leveraged technology to overcome most limitations and complete our audits on time. However, there were instances where we had to tailor our audits to best meet the customers' needs while adhering to COVID restrictions. A majority of these instances were during COVID surges when maximum precautions were being taken. In spite of these restrictions, we continued to provide value to the Department and our customers in support of the acquisition process.

We also continued to issue 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). We also successfully implemented our Contractor Submission Portal for receiving incurred cost submissions, a great improvement over the previous method. Additionally, we successfully met the Congressional requirement to complete incurred cost audits within one year of adequate submission for the third year in a row. We also contracted for Independent Public Accounting firms to perform 122 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. Our workforce is dedicated, professional, and ready to meet any challenge as they demonstrated by their performance in FY 2021.

Respectfully,

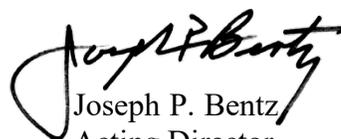

Joseph P. Bentz
Acting Director

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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 a Headquarters, 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 Quality, 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 (General Dynamics/Raytheon Technologies); McLean, Virginia (Northrop Grumman); Chicago, Illinois (Boeing); and Fort Worth, Texas (Lockheed Martin/BAE). 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.

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

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

B. Staffing. DCAA has a professional workforce of about 4,100 employees. About 89 percent of DCAA employees are auditors, and 11 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	3,611	89%
Professional Support Staff	468	11%
Total Employees	4,079	100%

C. Education and Professional Certifications. Roughly 94 percent of DCAA employees have a bachelor’s degree, 47 percent have a higher level degree and 21 percent are Certified Public Accountants (CPA). Some employees have one or several professional certifications such as a Certified Fraud Examiner (CFE), Certified Information System Auditor (CISA) or Certified Defense Financial Manager (CDFM) (Table 2). Our auditors and financial managers also maintain certification in accordance with DOD Financial Management and Defense Acquisition Workforce Improvement Act (DAWIA) requirements.

Table 2 – DCAA Education and Professional Certifications

Type	Number	Percent
Bachelor’s Degrees	3,840	94%
Advanced Degrees	1,904	47%
Certified Public Accountants	855	21%
Other Professional Certifications	411	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. 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, 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, 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 review of contractor business systems, adequacy of the contractor's Cost Accounting Standards (CAS) Disclosure Statement, compliance with cost accounting standards and contractor compliance with the Truth in Negotiations (TIN) Act.

4. FY 2021 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 \$259.7 billion in contract costs, identified over \$5.3 billion in audit exceptions, reported \$3.7 billion in net savings, and produced a return on investment of about \$5.7 to \$1.

B. Net Savings. Net savings are calculated only for contracting actions taken by government contracting officials based on results of a formal DCAA audit. In FY 2021, DCAA reported net savings of \$3.7 billion. Year after year, DCAA has consistently returned over \$3 billion in savings to the government (Figure 1).

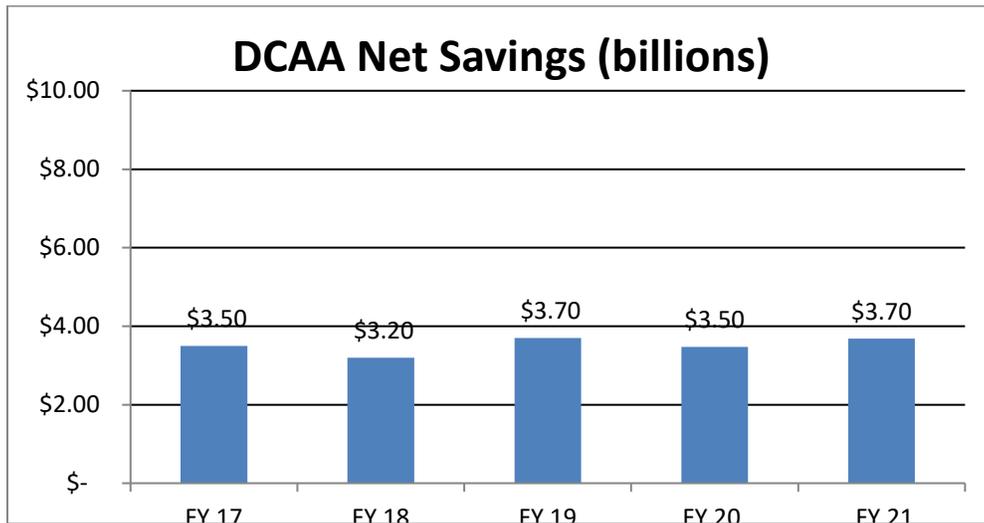


Figure 1 – DCAA Net Savings (in billions)

C. 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 2021, the return on taxpayers’ investment in DCAA was about \$5.70 for each dollar invested, savings DoD can reinvest in the warfighter or return to the Treasury (Figure 2).

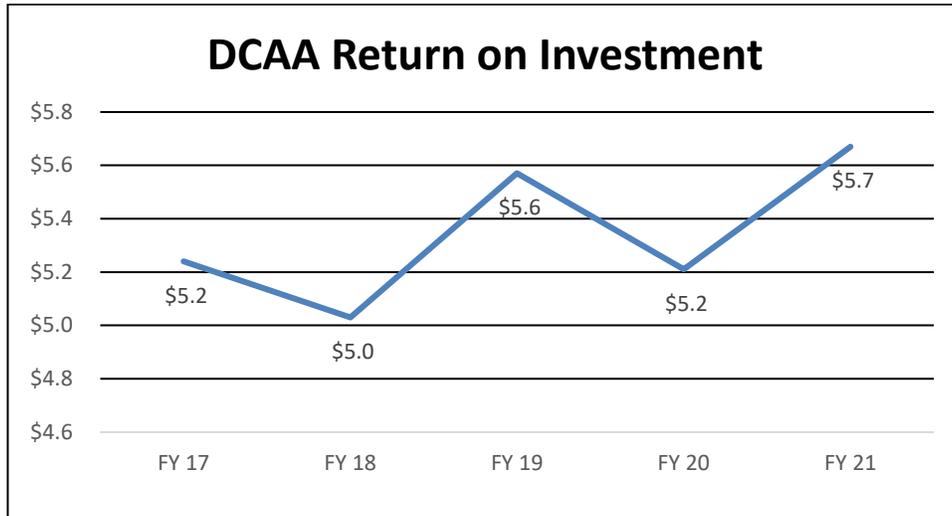


Figure 2 – DCAA Return on Investment

Table 3 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 2021 \$649.7 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 or impact savings in other types of audits. 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 3 –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	\$2,612,900,000	\$105,170,000	\$24.84
Incurred Cost	\$453,900,000	\$212,573,000	\$2.14
Claims and Terminations	\$572,900,000	\$27,758,000	\$20.64
Systems, CAS & TIN	\$38,800,000	\$304,209,000	\$0.13*

* Audits in this category provide long term value to the government without providing direct significant dollar savings.

D. Questioned Cost Sustained. DCAA sustained \$4.5 billion of \$8.4 billion in questioned costs during FY 2021. Table 4 shows audit exceptions and sustention data based solely on contract actions taken by government contracting officers in FY 2021. Complex contracting actions can take multiple years, therefore these audits were not necessarily completed in FY 2021.

Table 4 – Sustention by Amount and Percentage of Audit Exceptions

Audit Type	Audit Exceptions	Exceptions Sustained	Percent Sustained
Forward Pricing	\$5,412,501,000	\$3,315,329,000	61.3%
Incurred Cost	\$1,587,790,000	\$488,282,000	30.8%
Claims and Terminations	\$1,394,531,000	\$635,645,000	46.6%
Systems, CAS & TIN	\$49,618,000	\$27,441,000	55.3%
Total	\$8,444,440,000	\$4,466,697,000	52.9%

E. Audit reports completed in FY 2021. 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 2021, DCAA issued 2,712 audit reports with over \$5.3 billion in audit exceptions from \$259.7 billion total dollars examined (Table 5).

Table 5 – FY 2021 Audit Reports Completed and Dollars Examined

Audit Type	Reports	Dollars Examined	Audit Exceptions
Forward Pricing	632	\$63,009,308,000	\$3,731,773,000
Incurred Cost	594	\$164,887,418,000	\$1,252,135,000
Claims and Terminations	894	\$4,805,744,000	\$228,322,000
Systems, CAS & TIN	592	\$27,008,602,000	\$131,340,000
Total	2,712	\$259,731,054,000	\$5,343,570,000

F. Incurred Cost. When a contract price is not fixed, a contractor is required to submit a certified report of its incurred cost for each year of contract performance. 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 may be able to avoid negotiations and go straight to closing out contracts using the rates established in these memos.

DCAA continued to implement the 2018 NDAA requirement to use Independent Public Accountants (IPA) to conduct incurred cost audits. In FY 2021, DCAA awarded task orders for 122 audits to be performed by IPAs.

In FY 2021, DCAA issued 594 reports and 2,745 low risk memos (Table 6) essentially completing all incurred cost audits within the 12 month requirement unless a waiver was granted.

Table 6 –Incurred Cost Completed and Dollars Examined

Type	Number	Dollars Examined
Reports	594	\$164,887,418,000
Memos	2,745	\$37,962,196,000
Total	3,339	\$202,849,614,000

Under the 2018 NDAA guidelines, the DoD Comptroller can grant a waiver to the 12 month requirement. During FY 2021, 11 contractors were approved for waivers relating to 15 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	1	1
Lack of Hardcopy Documentation due to COVID – 19	8	12
Other	2	2

For 15 of the waivers granted, DCAA completed work on a total of nine as the contractor was able to overcome the challenges in the waiver request. Of these nine, seven had revised due dates in FY 2021 and two had revised dates in FY 2022. The remaining 6 incurred cost proposals have revised due dates in FY 2022.

Incurred cost audits may not be completed in 12 months, however there are specific reasons for this. Submissions received prior to the 2018 NDAA are not subject to the 12 month requirement. Others are subject to litigation holds or are from reimbursable customers who still desire but cannot currently fund the audit. In FY 2021, there were 27 audits pending longer than 12 months (Table 8). DCAA constantly works to reduce these numbers and in FY 2021 closed 20 audits pending longer than one year, five from 2017, five from 2018, and 10 from 2019.

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
2016	1	\$ 913,390,000
2018	1	\$3,623,000
2019	2	\$4,264,000
2020	16	15,727,893,000
Total	27	\$20,649,170,000

G. Meeting Forward Pricing Proposal Agreed-to Dates. DCAA continues to focus on meeting agreed-to dates with a goal of 85 percent on time. In FY 2021, 90 percent were completed on time (Figure 3). Over the past five years, DCAA has increased from 78 percent to over 90 percent on time.

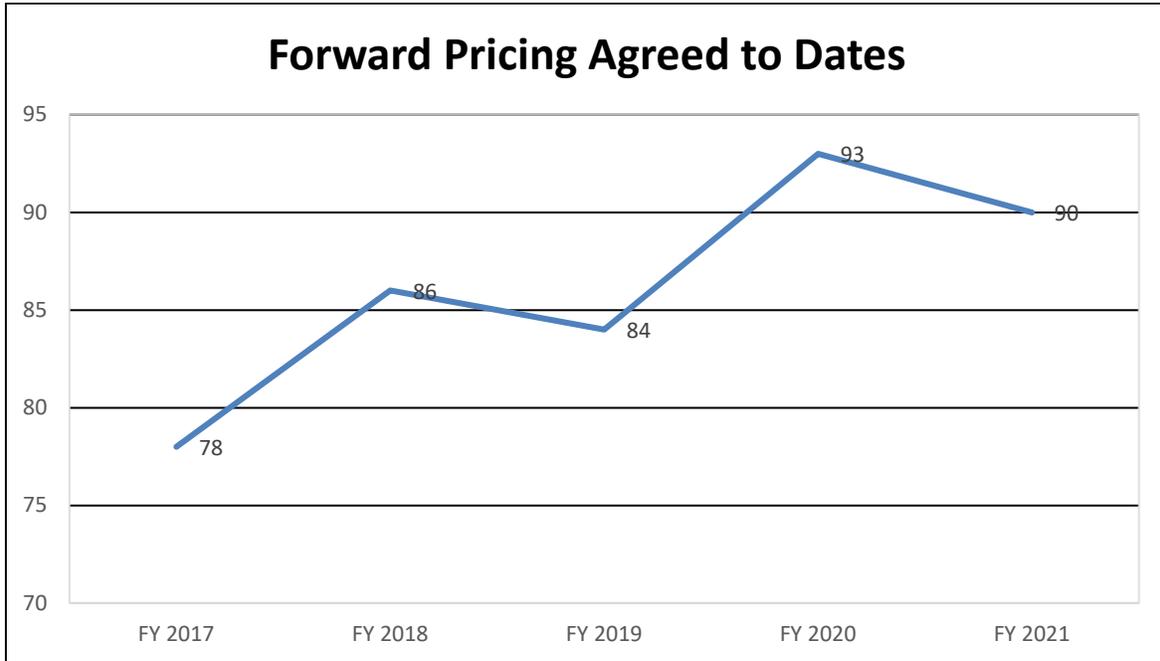


Figure 3 – Forward Pricing Agreed-to Dates Met (percentage)

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.

H. 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.

- Incurring 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 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 2021, 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 audits of 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.

I. 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. 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. 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.

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).

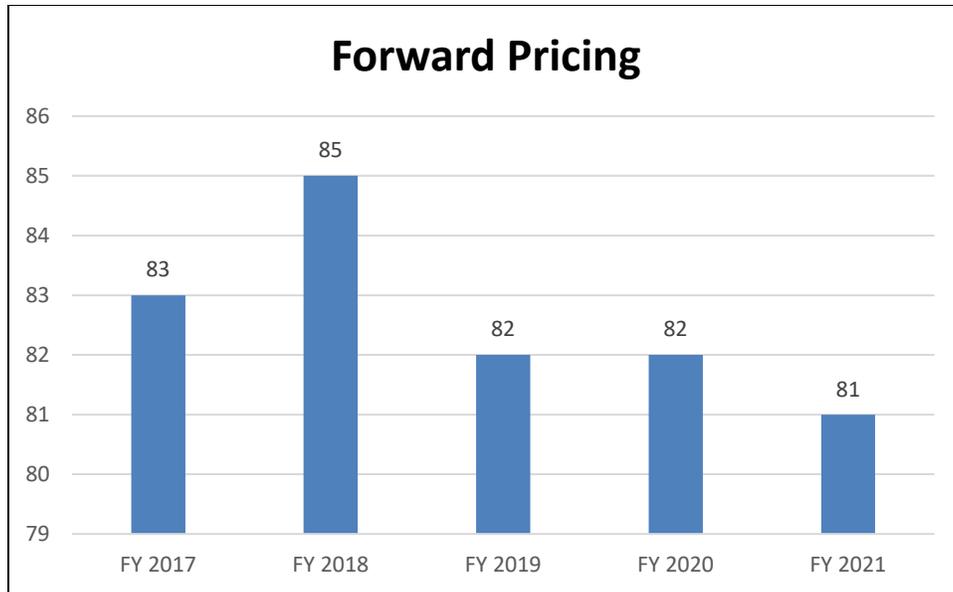


Figure 4 – Forward Pricing average elapsed days

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). While DCAA has 12 months to complete these audits, the average time is about seven months.

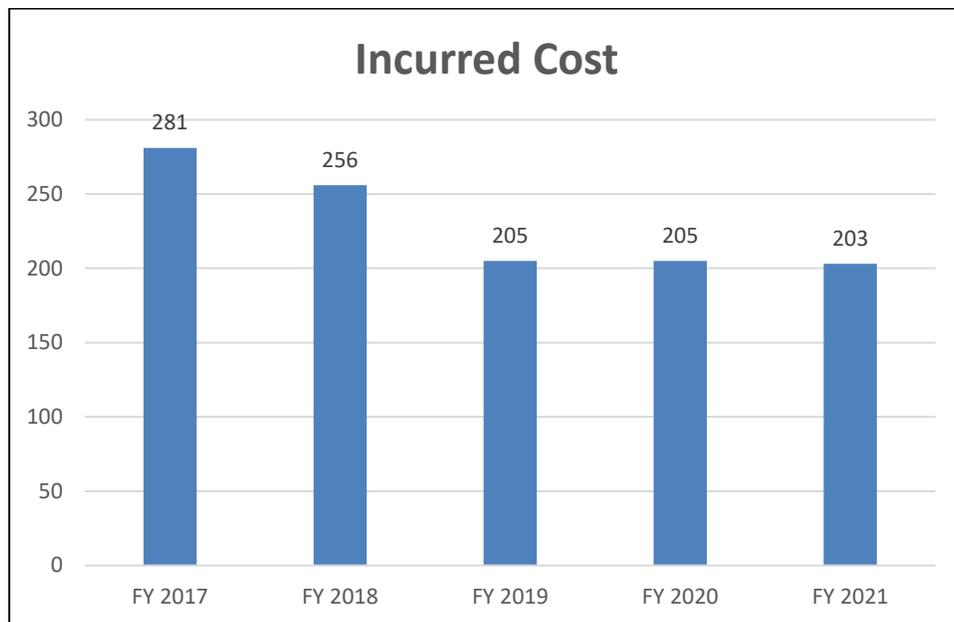


Figure 5 – Incurred Cost average elapsed days

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). In FY 2021, the time to complete these types of audits increased as we issued reports on several complex audits that took multiple years to complete.

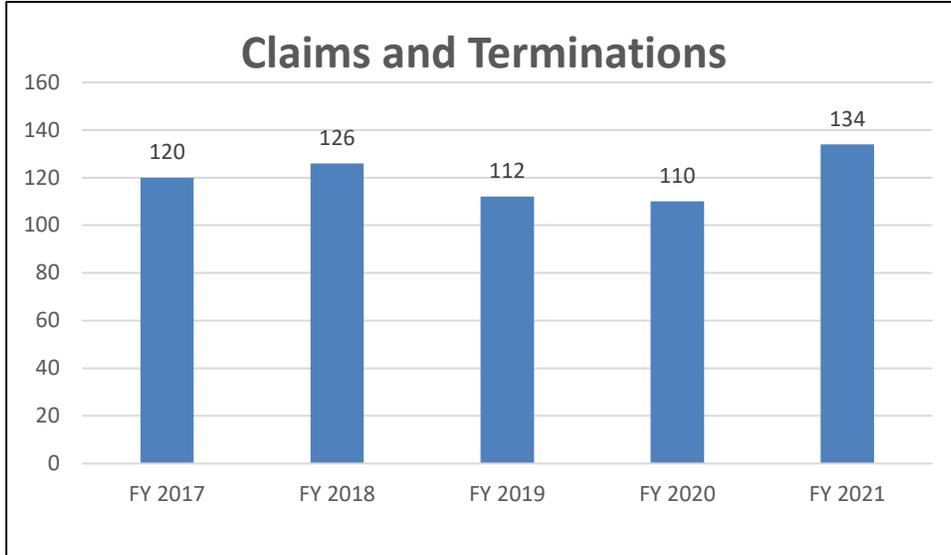


Figure 6 – Claims and Terminations average elapsed days

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

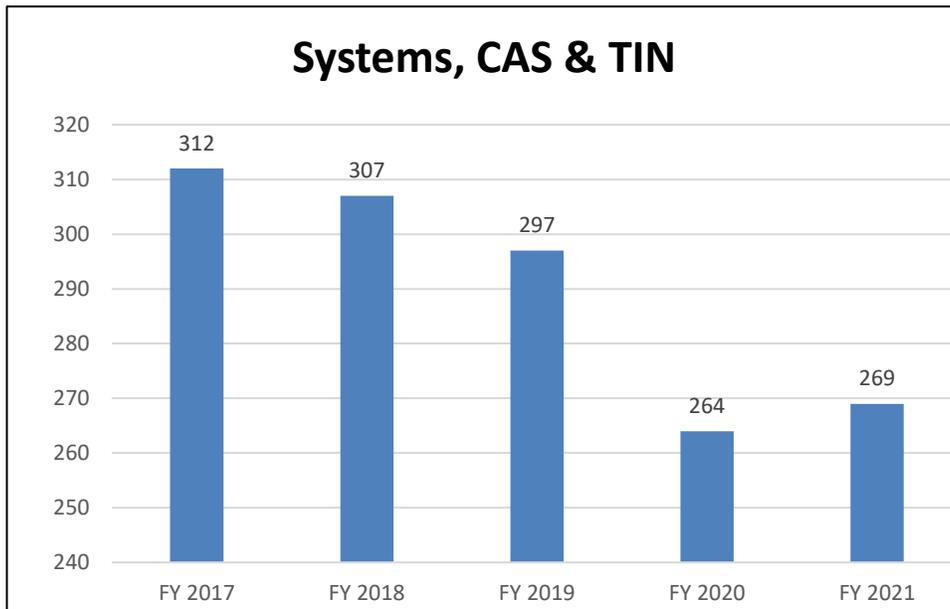


Figure 7 – Systems, CAS & TIN average elapsed days

J. 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 2020 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 2020

	Allowable Costs	Allowable Cost as Percentage of Total Indirect Costs
IR&D	\$6,770,000,000	5.8%
B&P	\$3,114,000,000	2.7%
Total IR&D and B&P	\$9,884,000,000	8.5%

5. FY 2021 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 but do result in savings. 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. 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 2021, DCAA examined \$826 million and questioned \$56 million related to this type of agreement.
- C. 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. During FY 2021, the team worked on 468 investigative cases and their efforts contributed to monetary recoveries of \$250 million.

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

DCAA has a strong relationship with Congress and values being part of the legislative process. In the past, we have briefed congressional leadership and appreciate the opportunity to inform members and their staff about our audit activities. We look forward to continuing these activities.

The DCAA mission relies on our workforce of highly professional auditors and support staff. However, current staffing levels are not sufficient to support the execution of all of the Department's highest priority contract audits. Historically, the level of DCAA's workforce and effort has tracked with DoD's spending in procurement and Research, Development, Test & Evaluation (RDT&E), lagging by a couple of fiscal years. However, the DCAA workforce remained at about 3,600 personnel even though procurement and RDT&E spending significantly increased from 2001 through 2008.

In 2009, the GAO issued a report (GAO-09-468), finding that DCAA's approach to performing the increased audit workload associated with the increased spending in procurement and RDT&E with the existing workforce of 3,600 auditors "substantially contributed to the widespread audit quality problems" they identified. Consequently, an additional 650 employees were added to the DCAA auditor workforce. Six years later, DCAA's labor funding again decreased while DoD's investment spending steadily increased. In February 2019, a GAO report (GAO-19-212) highlighted a deficiency in the number and timeliness of business systems audits performed by DCAA and pointed to insufficient resources as a cause.

During the FY 2021 budget submission process, DCAA's funding and associated workforce was again reduced by 349 auditors. To absorb this reduction, we examined our audit portfolio and determined that severely curtailing Interim Voucher Advisory Services and Post Payment Voucher Audits would be the least disruptive to our customers. However, the Services have expressed their concerns over the loss of these services and their desire to have DCAA perform the work.

We appreciate Congress partially restoring the funding in FY 2021 by adding \$19 million to DCAA's budget; however, this Congressional intent along with the funding was not carried through to subsequent budget years. As a result, DCAA must continue to limit our voucher review services in order to ensure sufficient resources are applied to our highest priority audits. Consistent and predictable annual funding levels allow us to hire and retain our workforce and have a direct impact on DCAA's ability to fully execute its audit mission and generate savings and return on investment for the Department of Defense. Additionally, FY 21 budget decisions negatively affected the Defense Acquisition Workforce Development Account (DAWDA) and DCAA lost additional personnel funded through that account.

Hiring auditors is a continuous challenge especially in the current labor market, which has seen an increase in employees leaving the workforce. DCAA appreciates and has used a variety of special hiring authorities and funding sources to recruit, develop and retain a high-performing workforce. DCAA uses Direct Hire for Post-Secondary Students and Recent Graduates authority as well as the Pathways Internship Program to attract audit intern candidates. Together, these

programs allow us flexibility to efficiently recruit, select and onboard interns. These internship programs allow 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. Further, we use Direct Hire Authority (DHA) as our primary hiring authority to appoint permanent, entry level auditors, GS-0511-07/09/11. DHA is a crucial authority to supplement Delegated Examining Unit and Merit Promotion as DCAA is unable to attract enough qualified candidates to satisfy our staffing plan via traditional hiring authorities alone. Utilizing all of these hiring authorities support our recruitment and outreach efforts. By participating in hiring events sponsored by colleges, the flexibilities allow us to collect resumes and transcripts and identify qualified candidates eligible for subsequent job offers. These programs also spread awareness and knowledge of DCAA as an employer throughout strategically identified colleges, universities and associations.

As the largest Federal audit organization, we conduct much of our training at our own Defense Contract Audit Institute (DCAI) in Atlanta, Georgia. For the last two years, we have trained our workforce entirely through virtual instructor led training converting a majority of our classes to this 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 operations and maintenance funds as well as DAWDA funding. DCAA truly values the additional resources available through the DAWDA, however, as mentioned, these funds were reduced from a historical average of \$6.3M for training and development to only \$1.3M in FY 2022. An increase in overall DAWDA funding levels would help ensure our workforce continues to receive the training necessary to more effectively accomplish our audit mission.

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 2021.

A. Continued Assistance with CARES Act/Paycheck Protection Program. DCAA continues to provide assistance to the acquisition community on issues related to the CARES Act and the Paycheck Protection Program (PPP) loans. DCAA coordinates with the Office of Defense Pricing and Contracting (DPC) to promote consistency across the entire Department. DCAA's guidance serves to provide consistent and comprehensive information to customers, contractors and DCAA auditors. We publish this guidance, along with frequently asked questions, on our website. We also participate in numerous industry outreach events and speaking engagements in an effort to maintain an open and transparent process that allows for discussion of differing viewpoints. Also, DCAA maintains a dedicated email mailbox to readily address inquiries from both internal and external sources. This mailbox allows DCAA to directly interact with industry consultants and address some of the unique aspects of our guidance such as proper treatment of PPP loan credits. We assist various Buying Commands by performing different audit services related to CARES Act and PPP loans. Lastly, we expanded our audit portfolio to address customers' unique needs in this area. In one such instance, we conducted a performance audit for the Navy on a contractor's ability to appropriately apply and monitor the use of PPP loans. We will continue these efforts as necessary.

B. Initial Success of the Contractor Submission Portal. DCAA receives over 3,000 contractor incurred cost proposal submissions a year, a significant number of which arrive in June. In the past, most contractors used DCAA's ICE (Incurred Cost Electronically) model to assist in assembling submission data. However, as technology improved, DCAA looked to improve or replace the ICE model, which resulted in development of the Contractor Submission Portal (CSP).

After a multi-year development and testing process, the CSP was ready for use by all contractors in FY 2021. The CSP improves the submission process by providing a single, secure, automated capability for contractors to formally submit their incurred cost proposal, including large supporting files, to DCAA via a secure website. Contractors automatically receive formal notification validating their submission was received by the cognizant Field Audit Office (FAO). Further, there is a simple process for withdrawing or updating a proposal once submitted. The CSP also eliminates the need for the contractor to either email their completed ICE model or deliver it via disk to their FAO.

In June 2021, DCAA successfully used the CSP during the summer submission surge – a real test of its capabilities and limitations. To educate contractors on the CSP, DCAA's communication strategy focused on engaging every contractor required to submit an incurred cost submission. Each contractor received a letter from their FAO with comprehensive information and all necessary instructions to use the CSP. During the months of June and July 2021, we received 874 incurred cost submissions via the CSP, or about 45 percent of all

contractor submissions received during the summer submission surge. We are extremely pleased with our first year's results and are working toward increasing submissions via the CSP next year.

Future CSP improvements 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 and built-in data checks between schedules.

- C. Small Business Outreach.** DCAA's small business program offers targeted information to assist with audit issues of interest to small businesses. Our outreach to the small business community serves to clarify audit expectations, offer guidance and training, provide opportunities for discussion, and gather feedback on additional ways we can provide assistance.

Our small business focal point offers information and training seminars to include introduction to contracts with commercial organizations, overviews of DCAA and the audit process, as well as specific accounting system requirements training that aids small businesses design an adequate accounting system that meets criteria under the Defense Federal Acquisition Regulation Supplement. For FY 2021, DCAA attended 94 events hosted by small business partners such as the Small Business Administration and Procurement Technical Assistance Centers. This outreach was attended by over 2,900 participants, an increase of approximately 900 compared to FY 2020. In addition, we responded to over 250 inquiries, which we have analyzed for themes to incorporate into our FY 2022 program.

Future improvements include a redesigned small business public website that is more user-friendly and includes training material, frequently asked questions, a listing of upcoming DCAA led training events, and other tools and resources of benefit to small businesses. These improvements were a direct result of our analysis of small business inquiries and real-time feedback provided by small business owners at the DCAA led training events. In addition, we continue to improve upon our existing training material to highlight specific regulations applicable to small businesses and to develop new material that discuss DCAA's audit process and audit expectations.

- D. Contractor Information Survey.** The Contractor Information Survey is a new tool DCAA is using to understand the processes and procedures at small to medium sized DoD contractors. This tool is used primarily for contractors where we have not had an audit presence for a period of time. Contractors are audited based on risk, and small to medium sized contractors are frequently low risk meaning DCAA would have few interactions.

The survey is administered interview style. DCAA and the contractor will discuss key cost accounting processes and procedures to confirm our understanding of the contractor's structure. From this interview, the auditors are able to either validate continuation of the low risk determination or identify risk factors that may necessitate specific audits to draw conclusions about the contractors' processes and procedures.

In FY 2021, DCAA performed Contractor Information Surveys at 1,466 contractors. Through these surveys, additional audit requirements such as accounting system audits, labor floor checks, provisional billing reviews, and incurred cost audits have been planned at contractors with identified weaknesses in these areas. DCAA shared this valuable information with other acquisition agencies to determine the need for additional audit services beyond those already identified.

DCAA will continue to use this valuable tool in the future to reduce risk in the acquisition process and also to help small and mid-sized business maintain compliant systems and process, which will assist them in bidding on future contracts.

8. SIGNIFICANT FY 2021 ACTIVITIES AND THEIR IMPACT

DCAA had many organizational accomplishments in FY 2021. Some of these are summarized below.

- A. Continuing Efforts with Other Transaction Agreements.** As key members of the acquisition process, DCAA continues to assist the acquisition community regarding the expanding interest in and use of other transaction agreements for goods or services purchased using Other Transaction Authorities. These agreements are not subject to the Federal Acquisition Regulation and other related regulations and therefore have more risk factors.

DCAA continues to team with Service buying commands and the Defense Contract Management Agency related to other transactions. This collaboration includes promoting awareness of DCAA support services, identification of risk factors for consideration when developing agreement terms, recommending agreement terms, and providing training. During FY 2021, DCAA provided outreach sessions to more than 100 DoD and non-DoD Agreement Officers and other contracting professionals. DCAA participated in meetings with Agreement Officers, legal officers, and the contractor to discuss agreement language related to existing or future agreements. The discussions covered improvements to promote the Government team's ability to monitor the agreement, terms which permit oversight processes to occur as intended through administration and closeout of the agreement, and terms which support the assessment that fair and reasonable prices are paid.

Early, continuous communication and collaboration between all team members is necessary for the efficient award of an agreement using Other Transaction Authority. DCAA supported over 250 requests for pre-award assistance. This assistance consisted of advisory services to support the award and price reasonableness determinations for prime or subcontract other transaction proposals. In one example, an audit team provided negotiation support related to a potential awardee's direct and indirect costs, equipment, and product price fluctuations. The services resulted in over \$50 million of potential initial award savings. Additionally, future savings from the support could reach as high as \$600 million, depending on the market prices and the additional quantities purchased on future awards.

As a vital component of our workforce development strategy, DCAA created other transaction agreement training and tools to further improve our workforce's expertise related to these agreements. We also implemented agency-wide communication practices using an internal other transaction agreement working group and collaborative practices between technical staff, financial liaison auditors and policy personnel to promote consistency and responsiveness to customer needs.

Going forward, DCAA will continue to participate as a key member of the other transaction agreement government team and to build on current successes to continue delivering services that are flexible and responsive to evolving customer needs.

- B. High Level Coordination with Service Buying Commands.** Service buying commands are supported by several DCAA Field Audit Offices (FAO). To provide a comprehensive view across the Agency, each of DCAA's Regional Directors are designated the Executive Level Focal Point for a specific Service and meet regularly with their commands to discuss ongoing audits. This high level communication and coordination facilitates time sensitive requests, improves long term planning, and educates the buying command on DCAA's portfolio of services. This frequent communication also bridges communication gaps at all levels in both organizations.

Requests for DCAA's services can be time sensitive due to fiscal, situational or operational reasons. In FY 2021, the Army Focal Point facilitated the delivery of traditional and non-traditional audit services to support the Department's efforts to develop, manufacture and distribute vaccines and other equipment and supplies in response to the COVID pandemic. As refugees from Afghanistan arrived in the US, the Army Focal Point facilitated audit services to support the Department's efforts to provide temporary housing and sustainment.

Planning and workload forecasting helps both DCAA and buying commands provide service and supplies in a timely manner. In FY 2021, the Navy Focal Point collaborated to develop and execute a plan where DCAA accompanied members of Naval Sea Systems Command Supervisor of Shipbuilding, Conversion, and Repair (SUPSHIP) on their annual surveillance monitoring of the ship building community. As a result, SUPSHIP was able to accomplish their mission in a more efficient manner and DCAA was able to gain information to inform future business system audits. Working with Naval Air Systems Command, we collaboratively developed a FY 2022 schedule of forward pricing audits by contractor and acquisition program that will ensure a consolidated schedule of audit requirements synchronized with the buying command's acquisition program.

The Executive Level Focal Points also assist the buying commands with all aspects of acquisition to minimize risks and costs. The Air Force Focal Point worked with the Department to put in place a Long Term Agreement (LTA) process with the industry partners and DCAA supported the effort prior to the request for proposal. The Executive Level Focal Points have also been assisting the Army and Air Force in mitigating risks in using Other Transaction agreements by recommending changes to the Other Transaction Consortium Management Firm's fee structure and the agreement language allowing for appropriate government oversight, both of which were adopted by the Army and the Consortium Management firm and its members.

The Executive Level Focal Points' efforts are in addition to the actions of the Financial Liaison Advisors (FLAs) who are assigned to a service buying command and work with that command on a daily basis coordinating between the command and the Field Audit Office. FLAs also provide a full range of educational briefings to personnel involved in the contracting process.

- C. External Peer Review.** During FY 2021, the DoDIG conducted a peer review of DCAA by examining a sample of 60 audits completed between July 2018 and June 2019. There are three opinions possible: Pass, Pass with Deficiencies, and Fail. DCAA received a rating of

Pass with Deficiencies. DCAA's next peer review is being conducted in FY 2022 by an Independent Public Accounting Firm. This change from the DoDIG to an IPA is required by Section 803 of the 2018 NDAA. The entrance conference was held in early January 2022.

9. OUTLOOK

In FY 2021, the DCAA workforce continued to meet our audit mission while working through challenges related to the COVID-19 pandemic. We continued to meet customer demands by providing traditional audit and flexible financial advisory services. Additionally, we worked with the acquisition community to keep contractors informed of changes in regulation as a result of the FFCRA and CARES Act.

Looking to FY 2022, we will continue these efforts and look forward to returning to normal operations. We are preparing our return to the office plans and are eager to reconnect with our DCAA teammates. Our three Strategic Action Teams (SAT) are advancing the initiatives in our Strategic Plan and will complete their actions in FY 2022. To better understand the needs of our potential customers, one team is meeting with acquisition organizations who rarely use our services to understand their expectations, needs, operations, requirements, and products. This team has already met with many organizations in all Services and gained a greater understanding of how DCAA could better support those organizations. The efforts of this team feed directly into our second SAT, which is examining how to tailor our products to meet customer needs. This team has just started and we look forward to their recommendations in the coming year. Our final SAT is focused on internal processes related to hiring and workload planning. Based on this team's findings, we made changes to our workload planning method to better inform our recruiting and hiring processes, which we will test in FY 2022. The team will monitor the outcome and recommend further changes to improve the effectiveness of our processes.

Our workforce has made great strides in meeting customer needs and we believe with these efforts we will continue these steady improvements. I am proud of the DCAA workforce and the resiliency they demonstrated during this continued pandemic. I look forward to a very productive FY 2022.

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
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 Accountant
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



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