

# **Report to Congress on FY 2018 Activities Defense Contract Audit Agency**

**U.S. Department of Defense**

**March 31, 2019**





## DEFENSE CONTRACT AUDIT AGENCY

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Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's Fiscal Year 2018 annual Report to Congress, as required by 10 U.S.C. §2313a. This report highlights DCAA's audit performance, recommendations to improve the audit process, industry outreach activities, and key accomplishments.

As a result of DCAA audits, contract officials saved \$3.2 billion in defense spending last year—significant savings that can be reinvested in our warfighters or go back to the treasury. We examined nearly \$409 billion in defense contractor costs, identified over \$9.6 billion of audit exceptions across 3,717 audit reports, and supported Contracting Officers with other valuable products and services to help them ensure fair and reasonable contract prices. Additionally, we continued to improve communication and coordination with our acquisition partners, resulting in responsive approaches that met their needs and timelines.

In FY 2018, DCAA successfully eliminated the incurred cost backlog. This was a significant undertaking by the entire workforce resulting in 8,482 incurred cost years closed with a total dollar value of \$392.2 billion. We also worked with DCMA and industry to lay the groundwork for the use of Independent Private Accountants to conduct select incurred cost audits. We feel we have laid a solid foundation in this area to ensure they will be prepared and successful. We look forward to continuing this coordination.

Our vision, *Every audit or service we deliver is on time, on point, and highly valued*, is demonstrated by our workforce every day. I look forward to working with Congress and other stakeholders to achieve the vision for acquisition reform. I am proud of our workforce and our ability to deliver outstanding audit products and services to the Department in FY 2018.

Respectfully,

A handwritten signature in black ink, appearing to read "Anita F. Bales", is positioned above the printed name.

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 primary function is to conduct contract audits and related financial advisory services. Contract audits are independent, professional reviews of financial representations made by defense contractors, and DCAA helps determine whether contract costs are allowable, allocable, and reasonable. DCAA conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), a set of standards that ensures audit conclusions are unbiased and well supported by evidence. The type and extent of DCAA's audit work varies based on the type of contract awarded, but its audit services are generally limited to acquisitions under Federal Acquisition Regulation Part 15 (Contracting by Negotiation). The extent of auditing performed is based on risk and materiality considerations.

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

Government officials draw on DCAA audit findings throughout the acquisition process. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. At the front end, DCAA's findings can directly impact the price that the government pays for contracted work. Even after a contract is underway, DCAA findings may address instances where the government overpaid contractors for work, uncover potential fraud or misuse of funds, and impact future contract prices by addressing inadequacies early on. Before 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 300 offices located throughout the United States, Europe, and the Middle East.

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

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

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

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

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

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

**B. Staffing.** DCAA has a professional workforce of about 4,600 employees. Roughly 93 percent of these employees have a bachelor’s degree, 43 percent have a higher level degree, 23 percent are Certified Public Accountants (CPA), and 10 percent have a professional certification such as a Certified Fraud Examiner (CFE), Certified Internal Auditor (CIA), Certified Information System Auditor (CISA) or Certified Defense Financial Manager (CDFM). About 89 percent of DCAA employees are auditors, and 11 percent are professional support staff in various fields including administrative support, budget, human resources, information technology, and legal (Table 1).

**Table 1 – DCAA Workforce and Education**

Auditors	4148	89%
Professional Support Staff	502	11%
<b>Total Employees</b>	<b>4,650</b>	<b>100%</b>
Bachelor’s Degrees	4327	93%
Advanced Degrees	1994	43%
Certified Public Accountants	1078	23%
Other Professional Certificates	464	10%

### 3. TYPES OF AUDITS

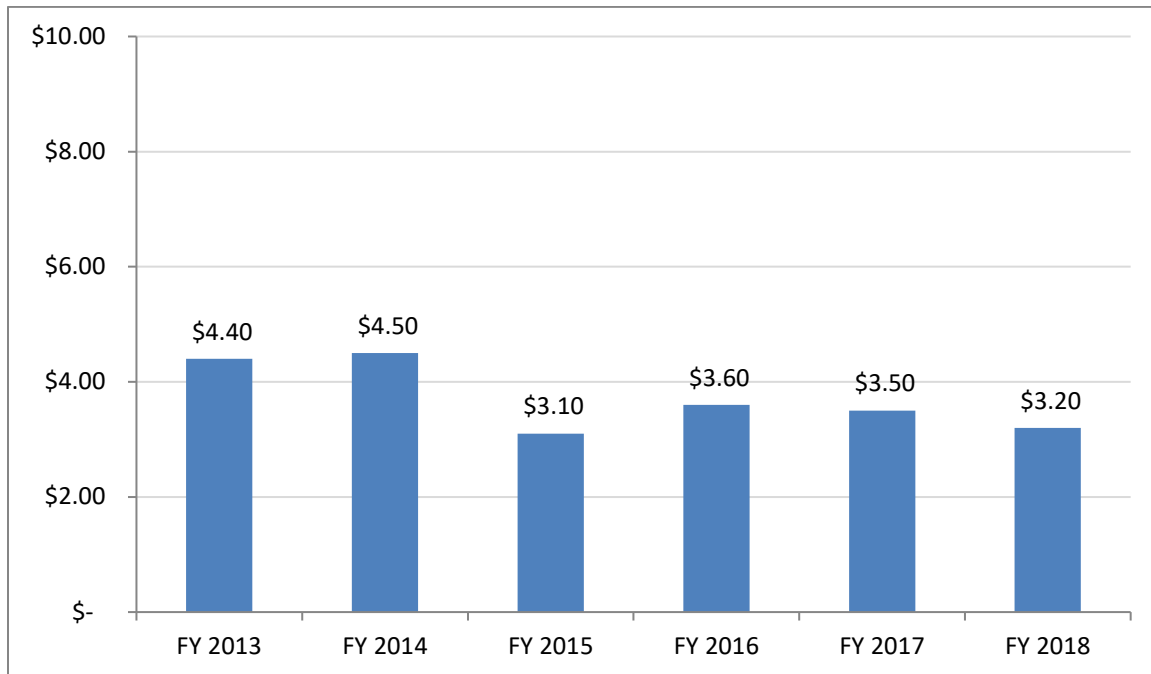
- A. Forward Pricing.** Forward pricing audits are generally completed before contract award where DCAA evaluates a contractor's estimate of how much it will cost the contractor to provide goods or services to the government. Accurate contract prices are the starting point for fair and reasonable prices throughout the acquisition process because subsequent costs are often based on the initial estimated contract costs. Forward pricing includes demand work—proposal audits, forward pricing rates, and high risk estimating system audits.
- 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. Special Audits.** Special audits can be conducted before or after contract award. Most of the reports in this category are issued in response to requests from contracting officers who need an independent financial opinion on specific elements of a contract or on a contractor's accounting business system in order for the contract work to proceed. Special audits are conducted after contract award primarily to address circumstances where contracts are adjusted for changes or are partially or fully terminated before completion. These circumstances represent complex and high-risk audits where DCAA must carefully evaluate the cost of original contract work from the changed scope of work. Special audits include pre-award surveys, claims, and terminations.
- D. Other Audits.** Other audits primarily consist of audits performed after contract award and can be requested by a contracting officer or initiated by DCAA. DCAA typically initiates this type of audit when there is potential for a high risk for misallocation or mischarging of costs. The audit effort in this category focuses on adequacy of the contractor's Cost Accounting Standards Disclosure Statement, compliance with cost accounting standards, assessment of contractor Cost Impact Statements for noncompliances, review of contractor business systems, and contractor compliance with the Truth in Negotiation (TIN).



#### 4. FY 2018 AUDIT PERFORMANCE

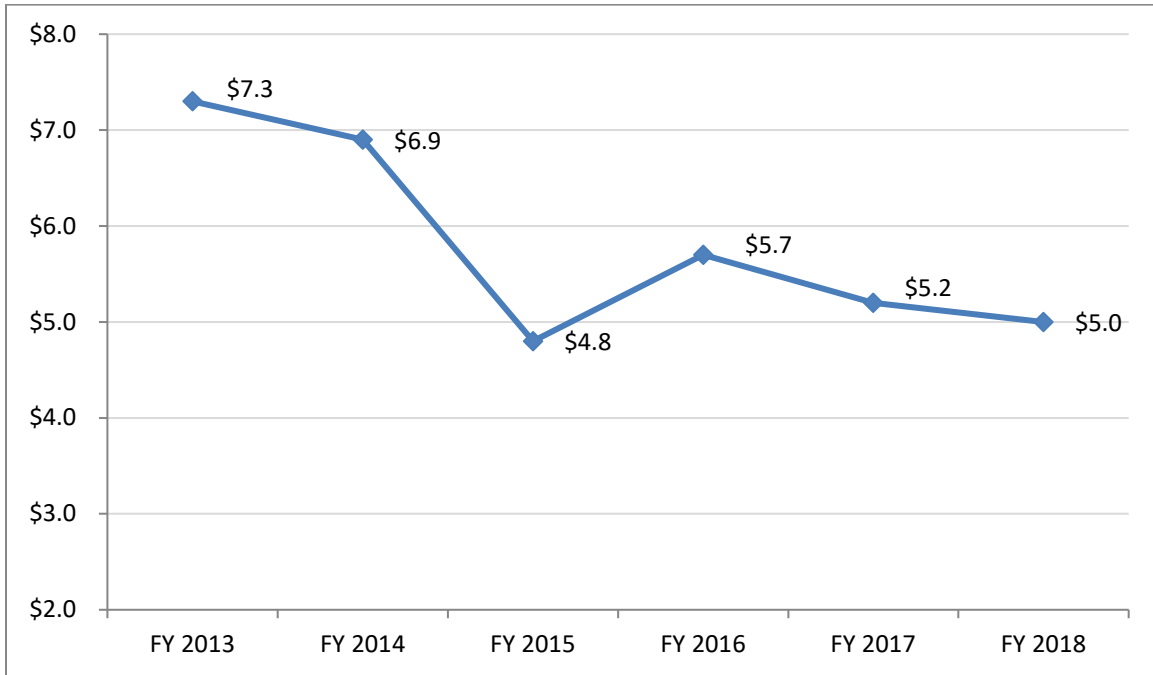
**A. Overview.** DCAA uses a risk-based approach to target its limited resources on the work that provides the most value. Using this approach, DCAA examined \$409 billion in contract costs, identified over \$9.6 billion in audit exceptions, reported \$3.2 billion in net savings, and produced a return on investment of about \$5 to \$1. In addition to eliminating the incurred cost backlog, the Agency also continued to conduct other audits to help contracting officers establish fair and reasonable prices and reduce the risk of contractor overpayments.

**(1) Net Savings.** In FY 2018, DCAA reported net savings of \$3.2 billion, marking the eighth consecutive year that the Agency returned over \$3 billion in savings to the government (Figure 1).



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

(2) **Return on Investment.** DCAA is conservative when reporting savings and return on investment (ROI), foregoing projections of potential or future savings and only reporting actual savings based on contract actions taken by government contracting officers. In FY 2018, the return on taxpayers’ investment in DCAA was about \$5 for each dollar invested, savings that DoD can reinvest in the warfighter or return to the Treasury (Figure 2).



**Figure 2 – DCAA Return on Investment**

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

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

<b>Audit Type</b>	<b>Aggregate Annual Cost</b>
Forward pricing	\$106,391
Incurred Cost	\$332,070
Special Audits	\$30,950
Other Audits	\$175,384
Total	\$644,795

**B. Questioned Cost Sustained.** DCAA sustained \$4.0 billion of \$7.9 billion in questioned costs for contract actions contracting officers negotiated and provided data on during FY 2018. Table 3 shows audit exceptions and sustention data. These data are calculated based on contracting officer negotiation decisions, not estimates or savings projections. Table 4 shows the return on investment by audit type based on sustention and cost of audit.

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

<b>Audit Type</b>	<b>Audit Exceptions</b>	<b>Exceptions Sustained</b>	<b>Percent Sustained</b>
Forward Pricing	5,233,964	3,223,403	61.6%
Incurred Cost	2,101,587	507,103	24.1%
Special Audits	338,338	231,020	68.3%
Other Audits	297,302	134,353	45.2%
Total	7,971,191	4,095,879	51.4%

**Table 4 – Ratio of Sustained Questioned Costs (Net Savings) to the Cost of Audits by Type (in thousands)**

<b>Audit Type</b>	<b>Aggregate Annual Cost</b>	<b>Net Savings</b>	<b>Return on Investment*</b>
Forward Pricing	\$106,391	2,355,116	\$22.10
Incurred Cost	332,070	499,822	\$1.50
Special Audits	30,950	225,627	\$7.20
Other Audits	175,384	162,559	\$0.90

\* In our FY 2017 Report to Congress we used a simple average to calculate return on investment (ROI). This year, we used a weighted average because it more accurately reflects ROI by type of audit.

**C. Audit reports completed in FY 2018.** DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit that DCAA completes, whether before or after contract award, supports government officials who negotiate prices and settle contracts for major weapons systems, services, and supplies. When conducting an audit, DCAA evaluates whether contractor business practices and procedures are in accordance with the FAR, DFARS, Cost Accounting Standards (CAS), and other applicable government laws and regulations. In FY 2018, DCAA issued 3,717 audit reports with over \$9.6 billion in audit exceptions from \$409 billion total dollars examined. (Table 5).

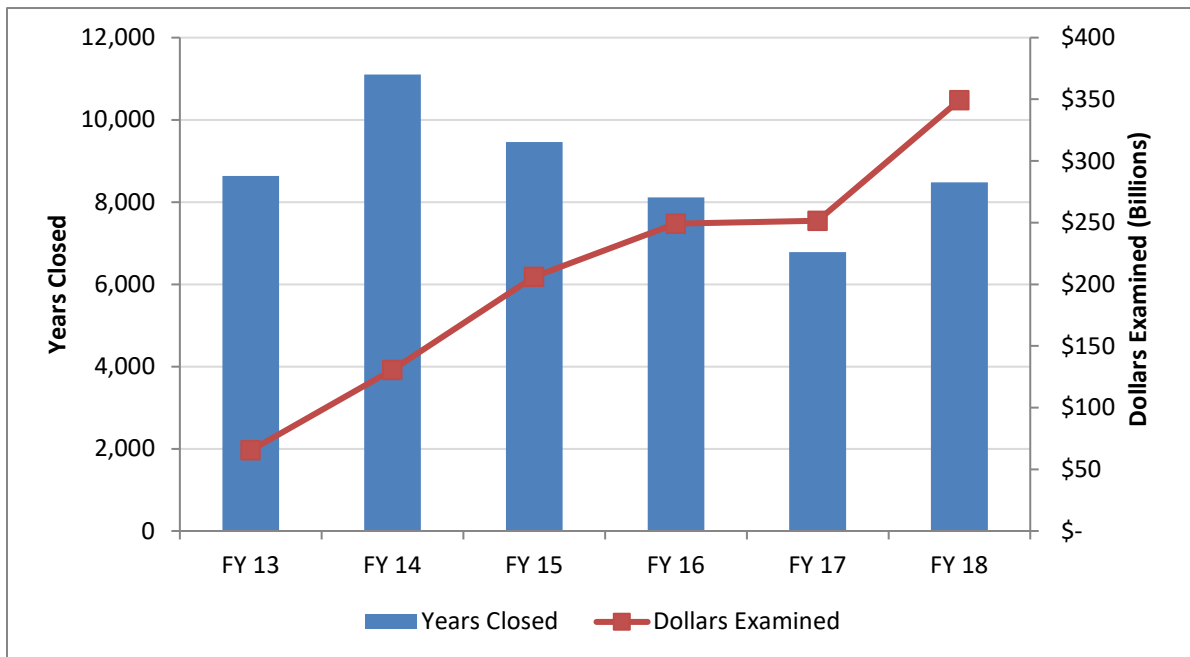
DCAA also supports contracting officers with advisory services that do not result in an audit; for example, negotiation support, independent financial opinion on specific elements of a contract, and assessment of compliance with specific acquisition regulations or contract terms.

**Table 5 – FY 2018 Audit Reports Completed and Dollars (in billions) Examined**

<b>Audit Type</b>	<b>Reports</b>	<b>Dollars Examined</b>
Forward Pricing	766	\$58.7
Incurred Cost	651	\$349.0
Special Audits	2,027	\$1.4
Other Audits	273	\$0.1
Total	3,717	\$409.0

**D. Incurred Cost.** A contractor is required to submit a certified incurred cost submission of its costs for each year of contract performance under flexibly-priced contracts. After receiving an annual incurred cost submission, DCAA auditors review it to determine if the submission and supporting data are adequate and in accordance with the FAR. If the submission is not adequate, it is returned to the contractor for correction and resubmission. When a submission is adequate, it becomes part of DCAA’s inventory of incurred cost audits. For inventory purposes, the date is determined by date of adequate submission, not date costs were incurred.

In FY 2018, DCAA closed 8,482 incurred cost years with a total dollar value of \$392.2 billion (Figure 3). Major contractors made up the majority of incurred cost work last year, an audit mix that resulted in significantly more dollars examined over fewer incurred cost years.



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

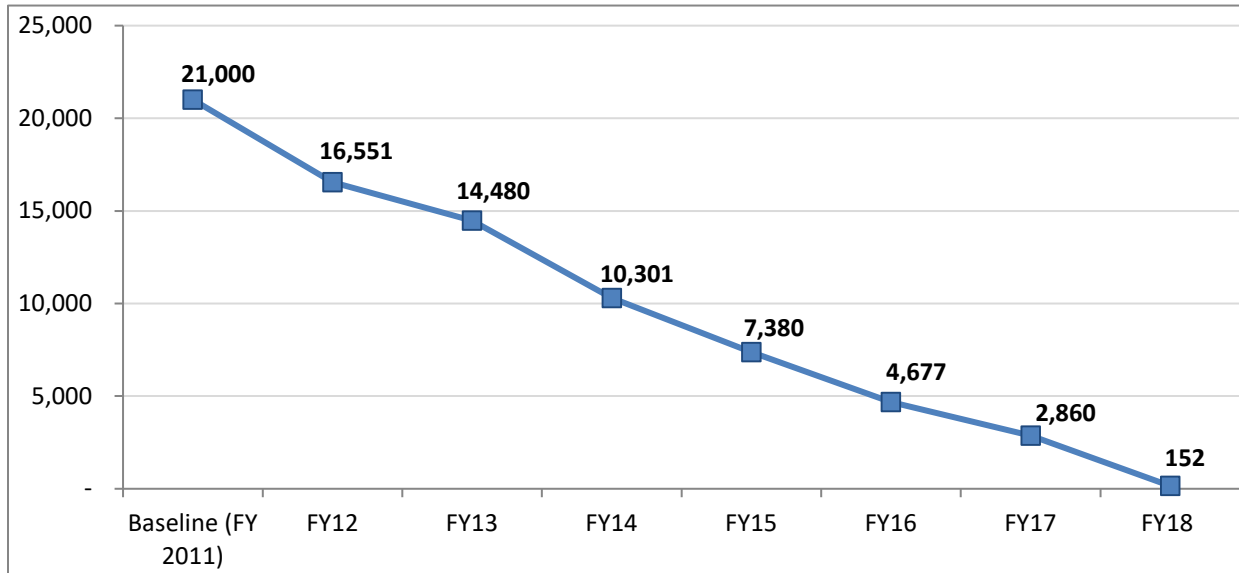
In our risk-based approach, we close incurred cost years in several ways. We conduct audits on high risk submissions and a sample of low risk submissions. For other low risk submissions, we provide valuable assistance to contracting officers by issuing low risk memos. Because DCAA has the authority to establish final indirect rates, contracting officers can avoid negotiations and go straight to closing out contracts using the rates established in these memos. Incurred cost assignments can be closed for a variety of other reasons as well. In some cases, a formal audit report or memo is unnecessary when, for example, a contractor has gone out of business or doesn’t have any flexibly priced contracts.

In FY 2018, DCAA issued 2,027 reports, 4,512 low risk memos, and closed 1,943 assignments for other reasons (Table 6).

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

Incurred Cost Years Closed	Number	Dollar Value
Reports	2,027	\$349.2
Memos	4,512	\$43.0
Closed for Other Reasons	1,943	\$0
Total	8,482	\$392.2

Prior to the 2018 National Defense Authorization Act (NDAA), DCAA had considered the last two fiscal years of incurred cost as “regular inventory,” while audits older than two fiscal years were considered “backlogged.” At the end of FY 2018, DCAA had reduced its backlog by 99.3%, from 21,000 years (FY 2011) to 152 years (FY 2018) (Figure 4).



**Figure 4 – Incurred Cost Backlog FY 2011 - FY 2018**

The majority of the 152 that remain are for reasons beyond DCAA’s control; for example, litigation holds, contractor action on inadequate proposals, and funding delays on reimbursable assignments. The rest have been delayed for other reasons; for example, DCAA may hold assignments to time phase them with the completion of corporate audits or prior contractor fiscal years.

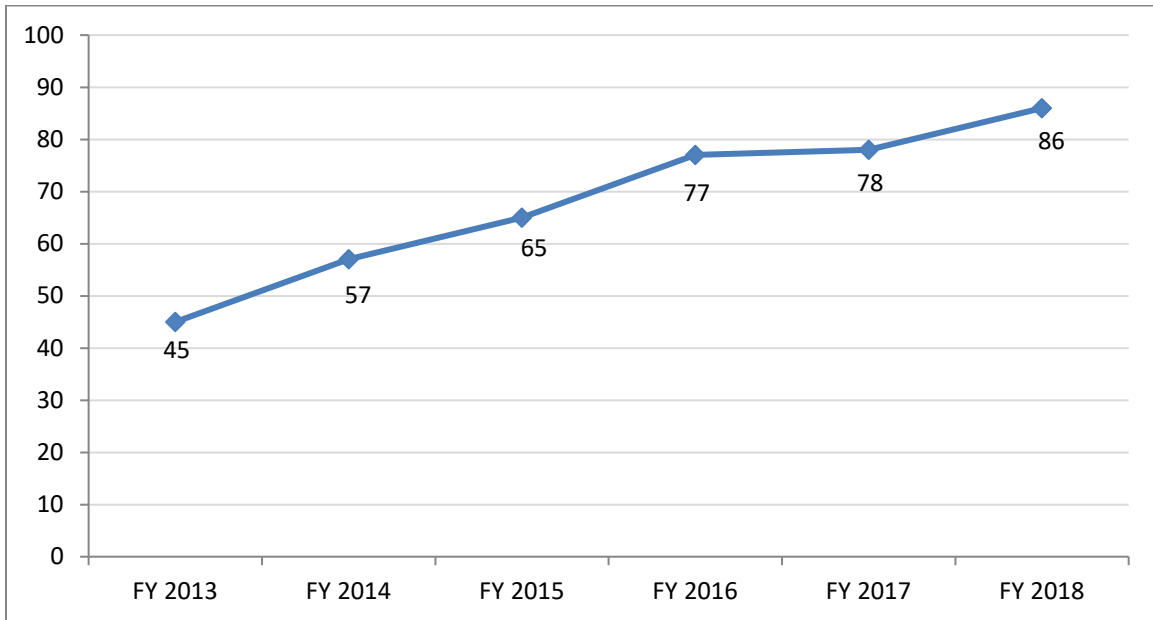
DCAA is now required to complete all incurred cost audits received after December 12, 2017, within 12 months of receiving the contractor’s adequate proposal. We are continuing to dedicate the audit resources necessary to meet the NDAA requirements in FY 2019.

Sometimes the start of an audit can be delayed based on overall audit priorities, resources, workload, and other circumstances. The chart below depicts incurred cost assignments pending longer than one year from the date of adequate submission (Table 7). As with those left in our backlog, many of the older years (2012-2015) remain pending for external reasons. We are successfully working through all of our pending audits and seeing significant results. For example, at the close of FY 2017, we had 4,358 assignments pending for over one year. By the end of FY 2018, we had reduced that number by 60% to 1,844. We expect to be in compliance with the one-year requirement in FY 2019.

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

<b>Year Proposal Received</b>	<b>Number of Assignments</b>	<b>Estimated Dollar Value</b>
2012	1	\$ 1,600,000
2013	4	\$ 2,349,000
2014	4	\$ 2,427,011
2015	12	\$ 2,381,257
2016	52	\$ 6,661,964
2017	1771	\$ 85,303,820
<b>Total</b>	<b>1,844</b>	<b>\$100,723,052</b>

**E. Improvement in Meeting Agreed-to Dates.** Since FY 2013, DCAA has steadily improved its record for meeting agreed-to dates, finishing FY 2018 with an 86 percent success rate (Figure 5). Our goal in FY 2018 was to meet our agreed-to dates in 80 percent of our audits. Striving for 100 percent is an unrealistic goal because scope changes occur once the mutually determined agreed-to date has been locked in. For example, the contacting officer may adjust the scope of an audit, or we may discover significant noncompliances that require us to make scope adjustments.



**Figure 5 – 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. When 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 one-government team.

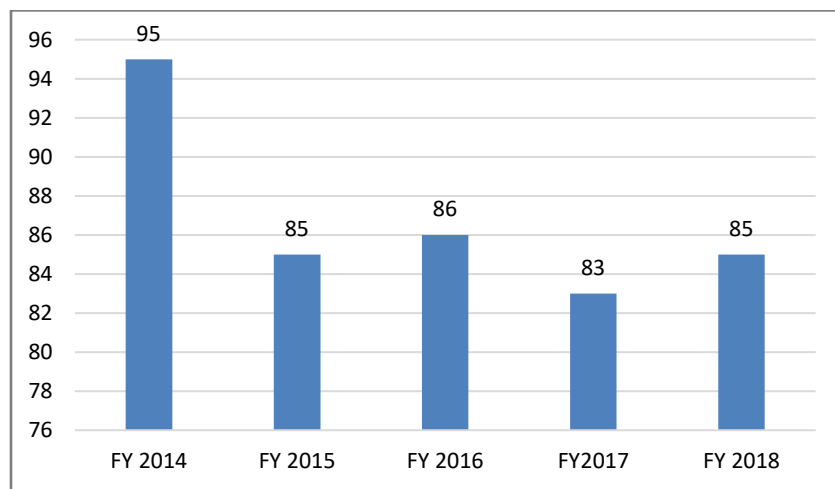


**F. Prioritization of Audits.** DCAA’s risk-based planning process helps ensure that audit resources are focused on the highest-payback areas to DoD, the warfighter, and the taxpayer. DCAA prioritizes the audits that pose greatest risk to the government, assessing the risk for different types of audit,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

- Incurred Cost audits continue to be a priority to facilitate contract closeout. Getting current on incurred cost means that we can conduct these audits closer to the year the costs were actually incurred, which will improve our ability to retrieve relevant records, ease contractor burden, encourage better compliance, and identify issues that may impact future audits.
- Forward pricing audits net the highest rate of return and are time sensitive—to be of value, they must be completed before contract negotiations. We have found that proactive and ongoing engagement with contracting officers, particularly before receiving the contractor’s proposal, enables us to understand audit requirements early, plan for appropriate staffing, and meet contracting needs in a timely manner. Throughout FY 2018, 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.
- Special audits represent time-sensitive requests for contract terminations or claims as well as pre-award accounting surveys for new contractors. DCAA prioritizes these audits in coordination with contracting officer needs.
- Other audits are a high priority when DCAA or the contracting officer identifies a high risk area such as inadequate business systems. DCAA assigns priority to additional audits based on individual contract and audit risks to the government. This category includes post-award audits of compliance with the Truth in Negotiations (TIN) and CAS Disclosure statement audits. This also includes high-risk, time-sensitive labor and material reviews; contractor billings; provisional billing rates; pre- and post-payment reviews; and high risk Accounting Systems and Material Management and Accounting Systems (MMAS) audits.

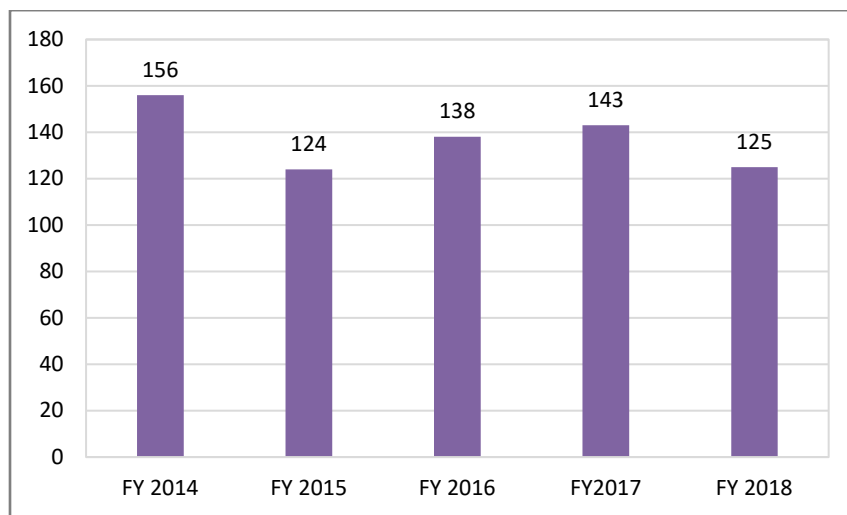
**G. Length of time to complete audits.** The timeline for an audit is based on audit type, dollars involved, level of risk, and needs of the requester. As a result, DCAA does not have specific or mandatory time requirements for audit completion; instead, we assess what is necessary to conduct an audit 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.

**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 6).



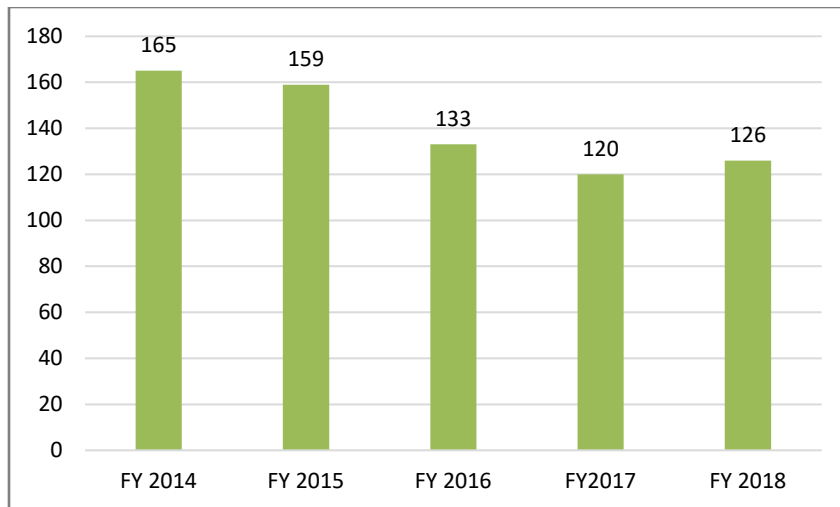
**Figure 6 – Forward Pricing average elapsed days**

**Incurred Cost.** The time to complete an incurred cost audit is measured from the date of the entrance conference to report issuance. Last year, DCAA’s prioritization of incurred cost audits reduced elapsed days to 125 (Figure 7).



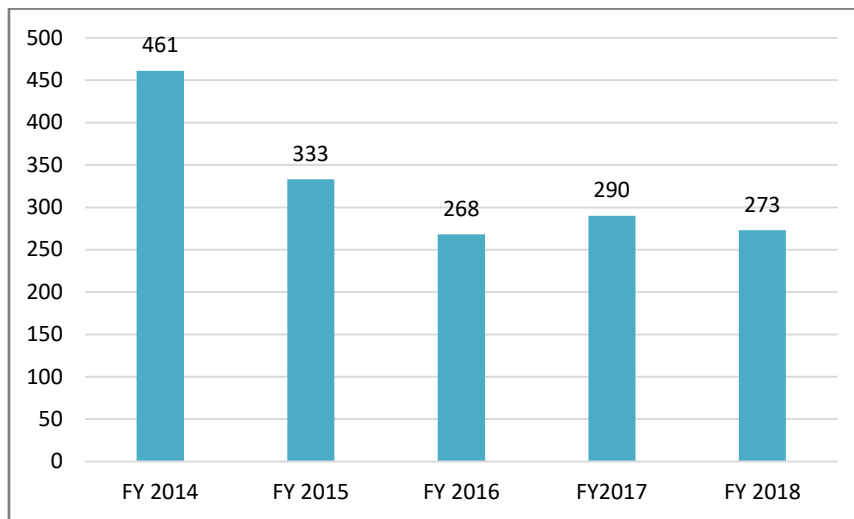
**Figure 7 – Incurred Cost average elapsed days**

**Special Audits.** The time to complete a special audit is measured from the date DCAA receives the audit request to the date we issue the audit report (Figure 8).



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

**Other Audits.** The time to complete other audits is generally measured from the time audit work began to the date of the audit report issuance (Figure 9).



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

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

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

- A. DCAA Engagement on Congressional Proposals.** DCAA appreciates our strong working relationship with Congress and looks forward to continued dialog. Our participation during the 2018 legislative cycle demonstrated the benefits of early engagement as we were able to assist Congress in meeting its goals related to acquisition reform. This early engagement is critical to ensure Congress has the information it needs and to share the status of DCAA's operational plans that may address desired outcomes. We look forward to continuing this level of engagement as we execute new initiatives in FY 2019, including the use of IPAs and recommendations from the Section 809 panel. As we implement these initiatives, we would welcome further engagement with Congress as we offer refinements or recommend additional actions to help achieve Congressional objectives and capitalize on progress made.
  
- B. Defense Acquisition Workforce Development Fund (DAWDF).** The defense acquisition workforce is critical to DoD's success in delivering and sustaining capabilities the warfighters need, and DCAA continues to use these funds to recruit and develop a high quality, high-performing, agile workforce.

Last year, DCAA attended 130 recruiting and outreach events, including those exclusively for veterans and wounded warriors. We also held three Expedited Hiring events and successfully made on-the-spot job offers to 150 qualified individuals. These efforts, along with others, resulted in hiring 481 auditors last fiscal year.

DCAA also uses DAWDF funding for workforce development and leadership training. Our Defense Contract Audit Institute (DCAI) provides centralized training to our new hires, taking a raw talent pool and shaping it into a competent and capable workforce. DCAI's audit and leadership academies develop new and revise current courses to strengthen our workforce's technical and leadership skills. DAWDF funding contributed to 237 advanced degree or professional certification courses or tests, 1,439 career field training seats, and 453 other degree and certification requirements. Finally, DAWDF funding was used in the development and conduct of the Director's Development Program in Leadership, an 18-month executive-level program that helps senior-level career employees prepare for critical positions in the federal government.

We ask that Congress maintain DAWDF funds, which are critical to recruiting and developing our workforce.

## 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. Engagement with Industry Organizations.** DCAA gains insight from industry groups through both recurring and as-requested venues. DCAA is focused on increasing dialogue with industry at all Agency levels, encouraging Agency consideration of industry issues, and improving the Agency's ability to address industry concerns.

While DCAA has existing relationships and communications with various industry groups, a review by one of our Strategic Action Teams revealed new avenues to improve these relationships and promote even greater understanding between DCAA and the contracting community. Additionally, the team recommended ways to improve these relationships from the ground up, not just at the executive level. Through our efforts in 2018, DCAA established a process for regular engagement with two industry groups—the Aerospace Industry Association (AIA) and the Professional Services Council (PSC)—and recommended engagement with several others.

As a result of this new approach, DCAA's policy directorate is working with AIA on incurred cost audit issues. Additionally, DCAA is now a regular participant in AIA's meetings, an important venue for proactively identifying and discussing industry concerns. Even though DCAA and industry may not agree on all issues, we're finding that regular dialogue is a great opportunity to clarify rationales, increase understanding, and identify how we can work together to make improvements or changes when possible. We are confident that our renewed focus on these recurring meetings, now and in the future, will lead to better communication and cooperation throughout the acquisition process.

- B. Engagement with 809 Panel.** DCAA participated in a collaborative process with the congressionally mandated Section 809 Panel working group to inform and assist their efforts to streamline the defense acquisition process. Our efforts were focused on the Panel's recommendations set forth in the Panel reports.

The working group spent significant effort establishing a Professional Practice Guide (PPG), which includes discussion of risk and materiality. This guide will provide consistency in the way DCAA and Independent Professional Accounting Firms consider risk and materiality. The guide will be important to IPAs when they perform select incurred cost audits for contractors previously audited by DCAA. Internal to DCAA, we plan to use the PPG to meet Congressional requirements to establish, codify, and implement these new materiality thresholds.

## 7. SIGNIFICANT FY 2018 ACTIVITIES AND THEIR IMPACT

DCAA had many organizational accomplishments in FY 2018. Some of these are summarized below.

- A. Director's Development Program in Leadership.** In keeping with DCAA's ongoing commitment to preparing future leaders, the Agency executed a new leadership development program for senior managers in FY 2018.

The Director's Development Program in Leadership (DDPL) is an 18-month, executive-level program that helps senior-level, career employees prepare for critical leadership positions in the federal government. The inaugural session of DDPL began in December, 2017 with 22, GS13-15 students from DCAA, the Defense Threat Reduction Agency (DTRA), and Army Audit Agency (AAA). This first DDPL cohort graduated in February 2019.

DCAA's Defense Contract Audit Institute (DCAI) designed DDPL based on ten specific competencies in the DoD Civilian Leadership Development Continuum. In this unique program, students travel to premier universities and military commands for seminars on each of the leadership competencies, a course of study that strengthens students' leadership skills and ability to lead organizations, programs, and people. Students also engage in two capstone events putting leadership concepts to work in the complex environment of a major command.

The leadership lessons these students learned and the networks they built over their course of study will serve them well as they advance into positions of greater responsibility.

- B. Customer Outreach.** Customer engagement is a priority at DCAA. We develop and foster relationships with our customers through constant communication at all levels of leadership throughout the audit cycle. This engagement is not just about ongoing audits—we also provide education, offer advice, and listen to concerns. An audit is only one part of the acquisition process, but its results can positively or negatively impact the entire process. For this reason, we strongly believe customer engagement is essential to an efficient and effective acquisition cycle.

DCAA engages with its customers on several levels; Military Services at the Senior Executive (SES) level, Buying command Program Executive Offices (PEO), and individual contracting officers. This tiered system provides multiple touchpoints at different levels of management to advise and assist on all aspects of DCAA support and services.

At the Service level, our Regional Directors focus their efforts on engaging with senior service acquisition officials who have oversight of several procurement offices. This high level engagement provides a system-wide view of the entire procurement cycle with multiple, ongoing contract actions. Engagement at this level allows our Regional

Directors to hear ongoing challenges and provide assistance with solutions at a DCAA-wide level.

At the mid-level, our Financial Liaison Advisors' engagement at the buying command/PEO is focused on ongoing audit support and upcoming contracts and proposal. The FLA is there to advise the buying command, answer questions on audits and services, and inform audit offices on upcoming procurement actions. Additionally, because the FLAs support several DCAA offices, they are available to coordinate across Regional and Corporate Audit Directorate boundaries to provide a "One Agency" approach.

Finally, at the field audit office level, engagement with customers is continuous. Early engagement is focused on identification of potential risk areas and advice on writing contract documents to avoid issues. Once an audit is requested, audit teams communicate regularly with the contracting officer to discuss findings and challenges that arise during the audit, which enables the contracting officer to address issues promptly with the contractor and still meet deadlines. This engagement doesn't end until negotiations are complete.

Our tiered levels of engagement are reinforced by constant communication across DCAA. Feedback from customers is useful for standardizing audit programs and developing best practices, which leads to more efficient and effective acquisition process for all involved.

**C. DCAA improves process efficiency to help close contracts with cancelling funds.**

Open contracts with canceling funds are a priority for contract closeout because, once the funds are cancelled, any remaining costs incurred must be paid with current year budgets. DCAA provided significant support to Defense Contract Management Agency (DCMA) on a dedicated effort to close contracts with cancelling funds before the end of the fiscal year. A key contributor to their success was an automated system developed by DCAA's information systems specialists in coordination with Defense Pricing and Contracting, Defense Logistics Agency, DCMA, and Defense Finance and Accounting Service. This system greatly increased the efficiency of matching open audits in DCAA's information management system with DCMA's list of incurred cost contracts with canceling funds. Automating what was previously a time-consuming, manual process saved hundreds of hours, freeing up our audit teams to more quickly finish the audits.

## **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. We completed over 99 percent of the incurred cost backlog in FY 2018 and, in FY 2019, we expect to be in full compliance with the NDAA 2018 requirements to complete incurred cost audits within 12 months of receiving a contractor's adequate proposal. With the backlog behind us, we will be returning to a more balanced mix of audits across our whole portfolio, including business systems, Truth in Negotiations, Cost Accounting standards, pre-award surveys, claims, and terminations.

Throughout FY 2019, DCAA will continue to implement the Strategic Workload Resource Initiative (SWRI), a three-year planning model that allows us to do long-term strategic planning and forecasting of workload and resources. Despite the fluidity of the acquisition cycle, we must strive to create accurate workload forecasts to the greatest extent possible. The SWRI process is showing significant potential to conduct longer term planning, increase coordination and resource planning at all levels across the agency, and make geographically-based workload assessments that put resources where they are needed most.

We remain committed to building strong relationships with customers and industry to identify needs and concerns, ensure mutual understanding, facilitate cooperation, and deliver outstanding service. Additionally, our collaborative work with the 809 panel has provided an effective opportunity to evaluate our processes, make improvements, and identify new ways to maximize our value within the acquisition community.

I am proud of the DCAA workforce and the tremendous work they did to achieve significant milestones this past year. The outlook for the agency is strong, and I look forward to a very productive FY 2019 and a renewed engagement with our full spectrum of audits and services.



## ACRONYMS

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



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