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Department of Defense
OFFICE OF PREPUBLICATION AND SECURITY REVIEW

Report to Congress on FY 2022 Activities

Defense Contract Audit Agency

U.S. Department of Defense

March 31, 2023



The estimated cost of this report or study for the Department of Defense is approximately \$10,910 in Fiscal Years 2022-2023. 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 2022 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 billion in defense spending last year—significant savings that can be reinvested in our warfighters or returned to the Treasury. We reviewed nearly \$262.3 billion in contract costs, identified more than \$5.7 billion of audit exceptions across 2,560 audit reports, and supported Contracting Officers with other valuable products and services providing Contracting Officers the leverage to confidently negotiate fair and reasonable contract prices for the Department.

In May 2022, the DCAA workforce returned to their offices for a minimum of two days per pay period. As we adjusted to this new hybrid workplace, our auditors and support staff were once again able to visit contractor sites as necessary to perform audits without limitations. We also examined those practices created in response to COVID limitations and adopted those that were effective.

One focus area for the Agency in FY 2022 was business system audits. After laying the groundwork to train or refresh our auditors' knowledge we completed 288 audits by the end of FY 2022. We also conducted outreach to small businesses partnering with the Defense Acquisition University to host a series of webinars to assist small businesses which do business with the government. Finally, we again met the Congressional requirement to complete incurred cost audits within one year of adequate submission for the fourth year in a row and also contracted with Independent Public Accounting firms to perform 117 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 2022.

Respectfully,

A handwritten signature in cursive script that reads "Terri L. Dilly".

Terri L. Dilly
Director

TABLE OF CONTENTS

1. DEFENSE CONTRACT AUDIT AGENCY MISSION	1
2. ORGANIZATIONAL STRUCTURE AND STAFFING.....	2
3. TYPES OF AUDITS	4
4. FY 2022 AUDIT PERFORMANCE	5
5. FY 2022 ADVISORY SERVICES	15
6. SUMMARY OF RECOMMENDED ACTIONS OR RESOURCES TO IMPROVE THE AUDIT PROCESS.....	16
7. OUTREACH ACTIONS TOWARD INDUSTRY.....	17
8. SIGNIFICANT FY 2022 ACTIVITIES AND THEIR IMPACT	19
9. OUTLOOK	21

TABLES AND FIGURES

TABLE 1 — DCAA WORKFORCE	3
TABLE 2 — DCAA EDUCATION AND CERTIFICATIONS	3
TABLE 3 — AUDIT REPORTS COMPLETED AND DOLLARS EXAMINED.....	5
TABLE 4 — NET SAVINGS AND ROI BY AUDIT TYPE	7
TABLE 5 — SUSTENTION BY AMOUNT AND PERCENTAGE OF EXCEPTIONS	7
TABLE 6 — INCURRED COST COMPLETED AND DOLLARS EXAMINED	8
TABLE 7 — REASONS FOR APPROVED INCURRED COST WAIVERS	8
TABLE 8 — INCURRED COST PENDING LONGER THAN ONE YEAR	9
TABLE 9 — INDIRECT COSTS FOR IR&D AND B&P	14
FIGURE 1 — DCAA NET SAVINGS	6
FIGURE 2 — DCAA RETURN ON INVESTMENT.....	6
FIGURE 3 — AGREED-TO DATES MET.....	10
FIGURE 4 — FORWARD PRICING AVERAGE ELAPSED DAYS	12
FIGURE 5 — INCURRED COST AVERAGE ELAPSED DAYS.....	12
FIGURE 6 — CLAIMS AND TERMINATIONS AVERAGE ELAPSED DAYS.....	13
FIGURE 7 — SYSTEMS, CAS & TIN AVERAGE ELAPSED DAYS.....	13

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1. DEFENSE CONTRACT AUDIT AGENCY MISSION

DCAA's mission is to conduct contract audits and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. DCAA may also provide contract audit services to other federal agencies, as appropriate. DCAA only audits and provides financial information and advice on proposed or existing contracts and contractors; it has no internal audit responsibilities in DoD. 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. DCAA has no role in determining which companies are awarded defense contracts.

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

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

DCAA provides recommendations to government officials on contractor cost assertions regarding specific products and services. DCAA auditors examine contractor accounts, records, and business systems to evaluate whether contractor business practices and procedures are in compliance with the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), Cost Accounting Standards (CAS), and other applicable government laws and regulations.

Government officials draw on DCAA audit findings throughout the acquisition process to better negotiate prices and settle contracts for major weapons systems, services, and supplies. At the front end, DCAA's findings can directly impact the price the government pays for contracted work. After a contract is underway, DCAA findings may address instances where the government overpaid contractors for work, uncover potential fraud, and impact future contract prices by addressing inadequacies early on. Before the contracting officer can close out a flexibly priced contract, DCAA assesses whether the contractor's claims for final annual incurred costs during contract performance are allowable and reasonable according to applicable acquisition regulations and contract provisions. This final task in the contract audit process ensures that no excess costs were charged to the government.

2. ORGANIZATIONAL STRUCTURE AND STAFFING

A. Organizational Structure. DCAA's organizational structure consists of a Headquarters, four Corporate Audit Directorates organized by major contractors, three geographical Regions primarily focused on other large, mid-sized, and small contractors, and a Field Detachment focused on classified work. DCAA has about 230 offices located throughout the United States, Europe, and the Middle East.

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

Regional Offices and Field Detachment are located in Smyrna, Georgia (Eastern Region); Irving, Texas (Central Region); Lone Tree, Colorado (Western Region); and Reston, Virginia (Field Detachment). Each region directs and administers the DCAA audit mission at locations near contractors. With a staff of about 650 employees, each region serves 2000 to 3000 contractors. The Field Detachment has approximately 500 employees to serve 700 contractors.

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

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

The 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 4,000 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	3533	89%
Professional Support Staff	436	11%
Total Employees	3969	100%

C. Education and Professional Certifications. Roughly 93 percent of DCAA employees have a bachelor’s degree, 47 percent have a higher level degree and 19 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. The DoD modernized the implementation of DAWIA to a 21st Century talent management framework. The initiative significantly streamlines the certification framework and re-focuses training resources for the Defense Acquisition Workforce. This DAWIA modernization initiative empowers the DoD workforce to get "back-to-basics." This initiative has been implemented in the DoD, to include DCAA, which completed implementation of the new framework in FY 22.

Table 2 – DCAA Education and Professional Certifications

Type	Number	Percent
Bachelor’s Degrees	3,703	93%
Advanced Degrees	1,850	47%
Certified Public Accountants	741	19%
Other Professional Certifications	412	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 2022 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 \$262.3 billion in contract costs, identified over \$5.7 billion in audit exceptions, reported \$3 billion in net savings, and produced a return on investment of approximately \$4.6 to \$1.
- B. Audit reports completed in FY 2022.** DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit DCAA completes, whether before or after contract award, supports government officials as they negotiate prices and settle contracts for major weapons systems, services, and supplies. When conducting an audit, DCAA evaluates whether contractor business practices and procedures are in accordance with applicable government laws, regulations and contract terms.

In FY 2022, DCAA issued 2,560 audit reports identifying over \$5.7 billion in audit exceptions from \$262.3 billion total dollars examined (Table 3).

Table 3 – Audit Reports Completed and Dollars Examined

Audit Type	Reports	Dollars Examined	Audit Exceptions
Forward Pricing	486	\$48,386,726,000	\$4,166,551,000
Incurring Cost	522	\$186,101,974,000	\$1,125,545,000
Claims and Terminations	902	\$2,827,571,000	\$261,776,000
Systems, CAS & TIN	650	\$25,005,302,000	\$205,515,000
Total	2,560	\$262,321,573,000	\$5,759,387,000

- C. Net Savings and Return on Investment.** Net savings are calculated only for contracting actions taken by government contracting officials based on results of a formal DCAA audit. In FY 2022, DCAA reported net savings of \$3 billion. DCAA has consistently returned over \$3 billion in savings to the government (Figure 1).

DCAA experienced a drop in net savings and return on investment (ROI) in FY 2022 caused primarily by a low number of forward pricing audits requested by contracting officers in FY 2021(633 audits in FY 2021 vs 7-year average of 757). Forward pricing audits are by far DCAA's largest driver of questioned costs, on average 65 percent, and prior year questioned costs are the largest driver of current year net savings and ROI.

In response to the drop in requested forward pricing audits, DCAA performed other self-initiated audit types such as Business System and Cost Accounting Standard audits that provide long-term value to DoD by identifying deficiencies that, if left uncorrected, could lead to higher costs for DoD. For example, business system audits verify contractors'

systems are compliant with DFARS requirements which increases the reliability of costs produced by the system.

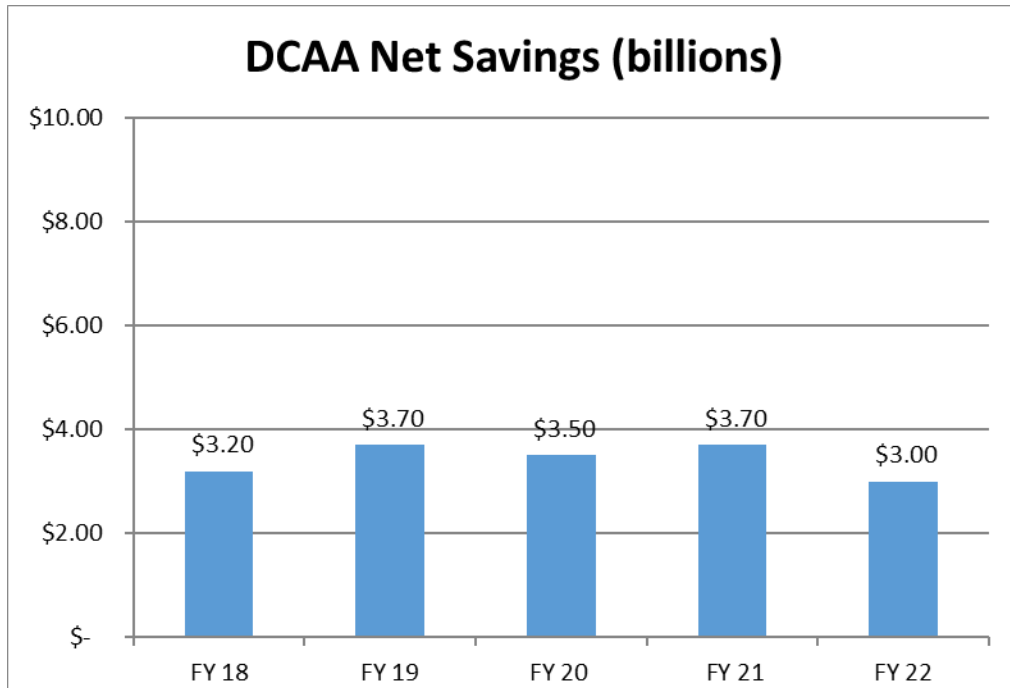


Figure 1 – DCAA Net Savings (in billions)

DCAA is conservative when reporting ROI, only reporting actual savings based on contract actions taken by government contracting officers. In FY 2022, the return on taxpayers' investment in DCAA was about \$4.60 for each dollar invested, savings DoD can reinvest in the warfighter or return to the Treasury (Figure 2).

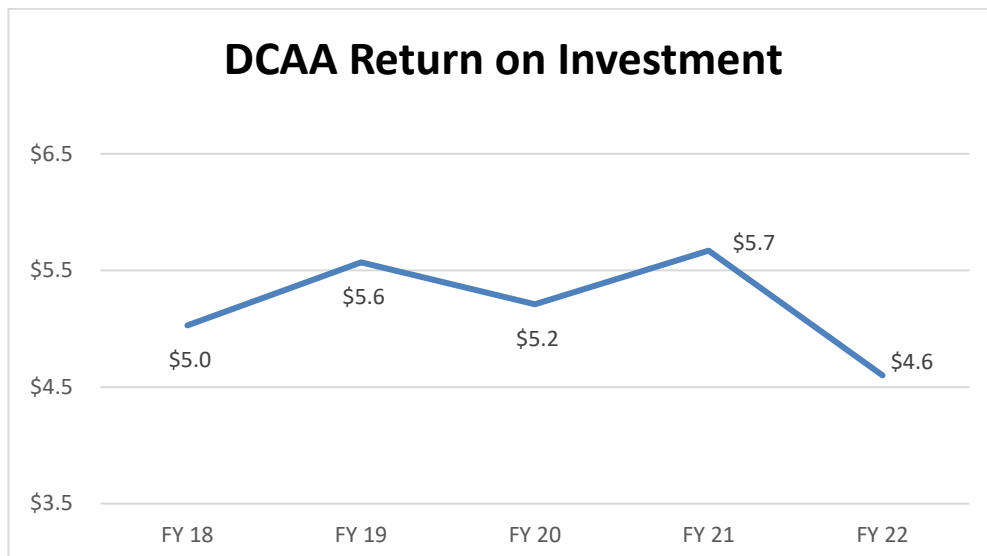


Figure 2 – DCAA Return on Investment

Table 4 shows the return on investment by audit type based on net savings and cost of performing audits. The cost of performing audits was calculated using annual funding (FY 2022 \$647.8 million) and direct audit hours by audit type. System, CAS, and TIN audits provide long-term value to the government by identifying deficiencies. For example, CAS and business systems audits determine contractor compliance with regulations, and audit findings result in contractor actions to bring their systems into compliance, thus assuring accuracy of cost data.

Table 4 –Net Savings and ROI by Audit Type

	Net Savings	Aggregate Cost of Performing Audits based on Percentage of Direct Audit Hours	Return On Investment (Net Savings /Aggregate Cost)
Forward pricing	\$2,207,300,000	\$100,107,000	\$22.05
Incurred Cost	\$483,400,000	\$197,355,000	\$2.45
Claims and Terminations	\$168,400,000	\$74,449,000	\$2.26
Systems, CAS & TIN	\$124,900,000	\$275,980,000	\$0.45

D. Audit Exceptions Sustained. DCAA identifies audit exceptions during the conduct of an audit. However, DCAA does not know if the Contracting Officer sustains the exceptions until the contracting action is complete. Complex contracting actions can take multiple years to finalize, therefore, DCAA must wait to learn which exceptions were sustained. The \$8.3 billion in audit exceptions comes primarily from audit reports issued in prior fiscal years. (Table 5)

Table 5 – Sustention by Amount and Percentage of Audit Exceptions

Audit Type	Audit Exceptions*	Exceptions Sustained	Percent Sustained
Forward Pricing	\$5,472,347,000	\$3,075,098,000	56.2%
Incurred Cost	\$2,030,737,000	\$531,537,000	26.2%
Claims and Terminations	\$379,158,000	\$171,996,000	45.4%
Systems, CAS & TIN	\$448,455,000	\$126,785,000	28.3%

*Primarily from audit reports issued in years prior to FY 2022

E. 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 2022, DCAA awarded task orders for 117 audits to be performed by IPAs, a number similar to previous years.

In FY 2022, DCAA issued 522 incurred cost reports and 2,900 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	522	\$186,101,974,000
Memos	2,900	\$47,599,851,000
Total	3,422	\$233,701,825,000

Under the 2018 NDAA guidelines, the DoD Comptroller can grant a waiver to the 12-month requirement. During FY 2022, 5 contractors were approved for waivers relating to 6 qualified incurred cost proposals. Table 7 details reasons for approved waivers.

Table 7 – Reasons for Approved Incurred Cost Waivers

Reason for Waiver	Number of Contractors	Number of Incurred Cost Proposals
Subject to Cease and Desist Orders	1	1
Limited Contractor Resources due to COVID-19	2	2
Transition of Contractor Books and Records	1	2
Other	1	1

For 6 of the waivers granted, DCAA completed two as the contractor was able to overcome the challenges in the waiver request; one with revised due date in FY 2022 and one with a revised date in FY 2023. The remaining 4 incurred cost proposals have revised due dates in FY 2023.

Incurring cost audits may not be completed in 12 months, however there are specific reasons for this, most commonly due to litigation holds. In FY 2022, there were 15 audits pending longer than 12 months (Table 8). DCAA constantly works to reduce these numbers and in FY 2022, closed 12 audits pending longer than one year.

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
2018	1	\$3,623,000
2019	1	\$67,000
2020	9	\$14,100,000,000
2021	1	\$1,800,000,000
Total	15	\$19,903,690,000

F. 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 2022, all reports were issued prior to the applicable negotiation to meet acquisition timelines. (Figure 3).

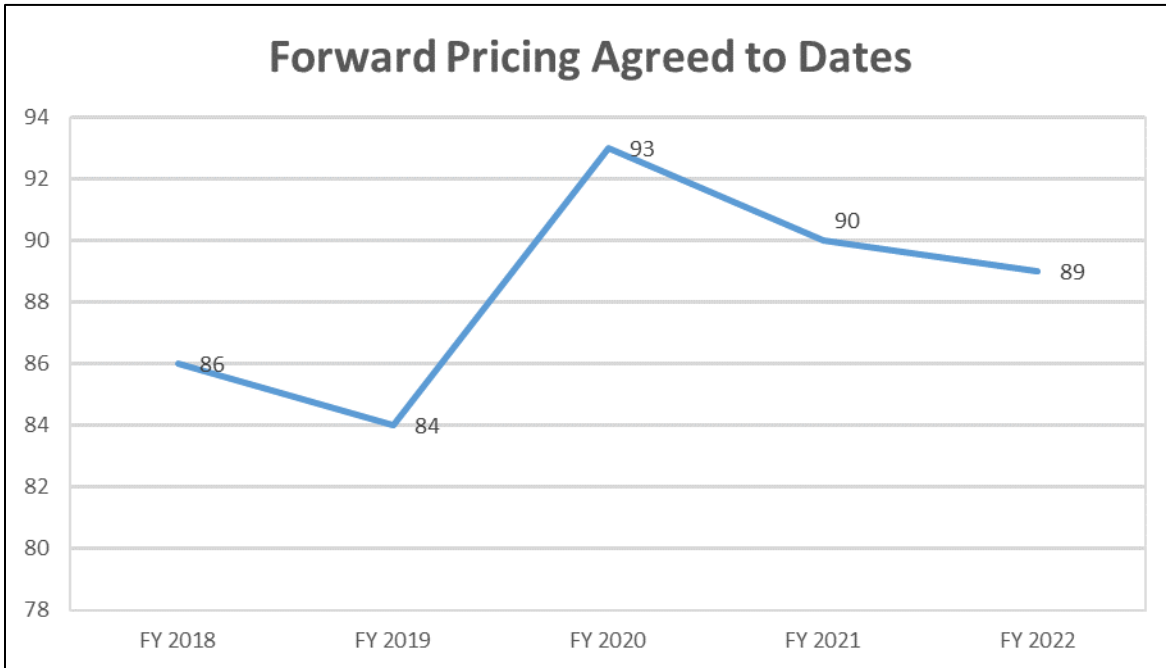


Figure 3 – Forward Pricing Agreed-to Dates Met (percentage)

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.

G. 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, eases contractor burden, encourages better compliance, and identifies issues that may impact future audits. Additionally, timely completion of incurred cost audits facilitates contract closeout.
- Forward pricing audits net the highest rate of return and are time sensitive because they must be completed before contract negotiations. We have found that proactive and ongoing engagement with contracting officers, particularly before receiving the contractor's proposal, enables us to understand audit requirements early, plan for appropriate staffing, and meet contracting needs in a timely manner. Throughout FY 2022, DCAA engaged with contracting officials at all levels, focused on the highest risk contract actions, and ensured we provided the right audit services to meet their needs.
- Claims and Terminations represent time-sensitive requests for audits of contract terminations or claims. DCAA prioritizes these audits in coordination with contracting officer needs.
- Systems, CAS & 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.

H. 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). In FY 2022, it took an average of 88 days to complete a forward pricing audit.

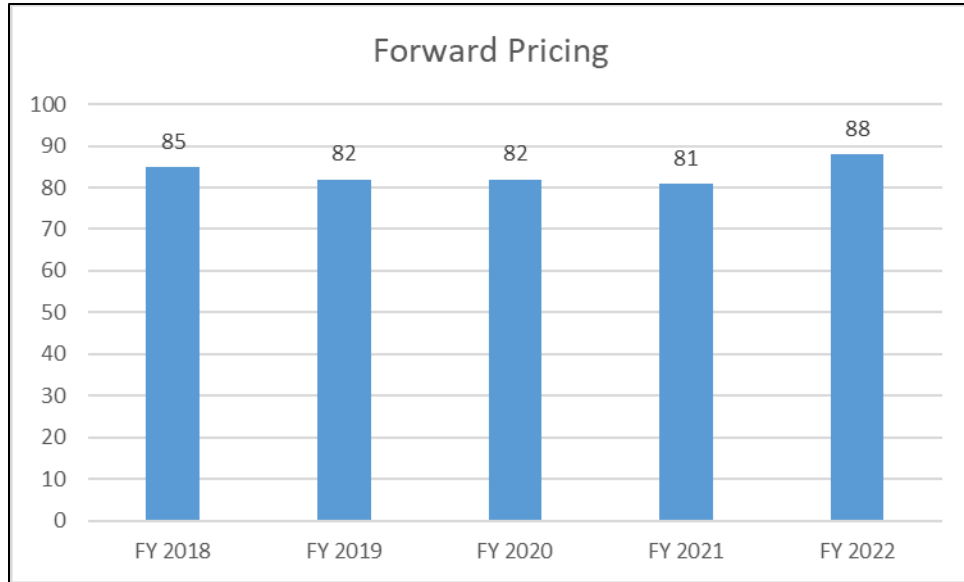


Figure 4 – Forward Pricing average elapsed days

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 has consistently been just under seven months.

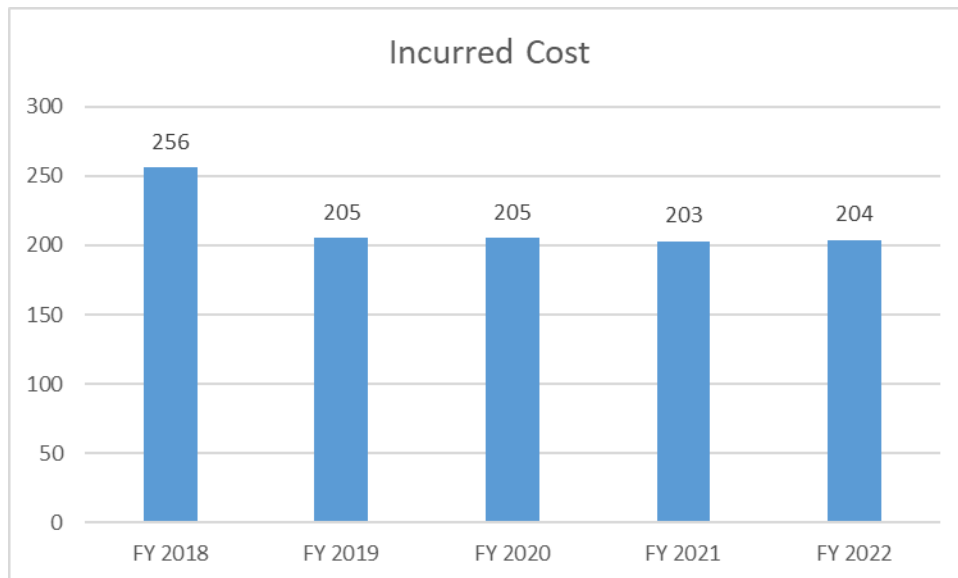


Figure 5 – Incurred Cost average elapsed days

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 2022, the time to complete these types of audits increased as we issued reports on several complex audits that took multiple years to complete.

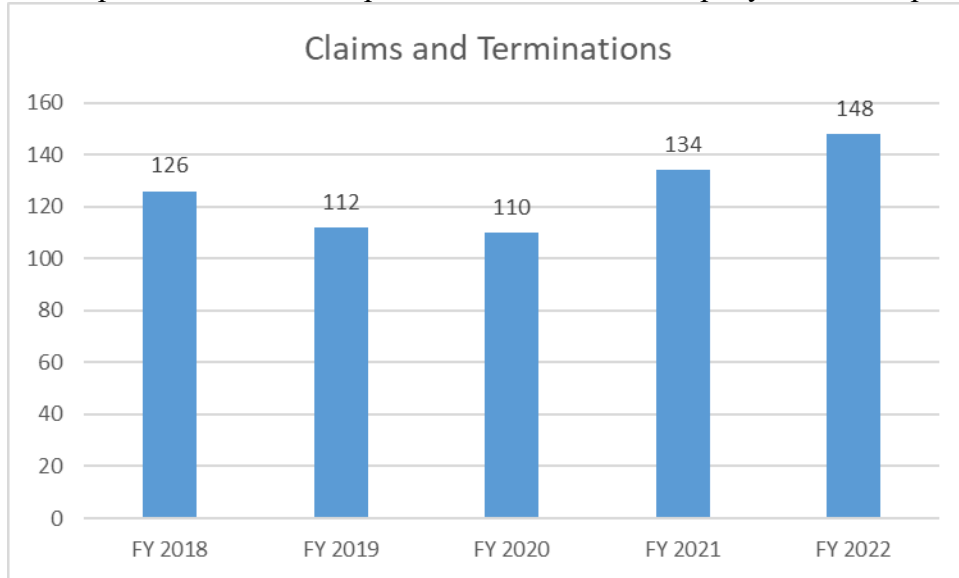


Figure 6 – Claims and Terminations average elapsed days

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.

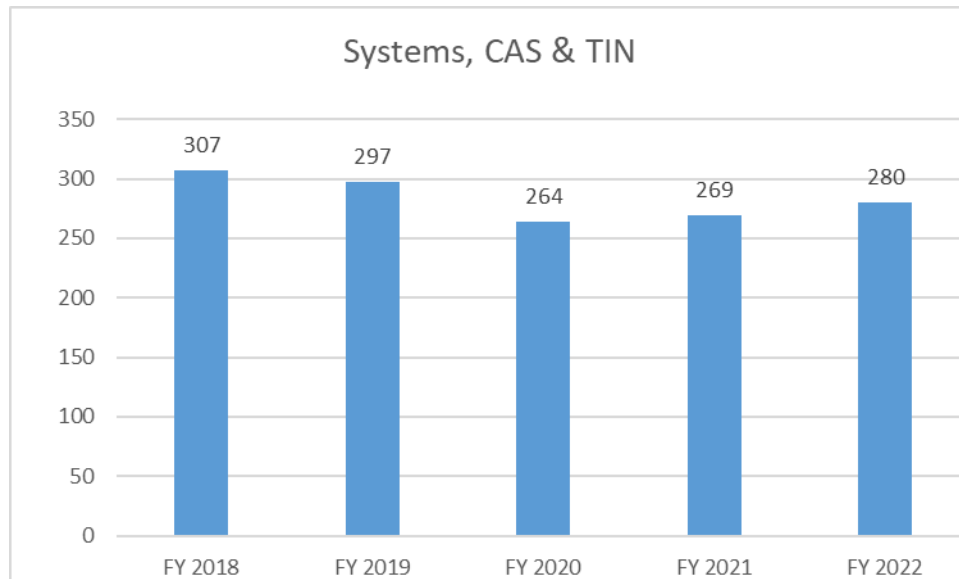


Figure 7 – Systems, CAS & TIN average elapsed days

I. 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 2021 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 2021

	Allowable Costs	Allowable Cost as Percentage of Total Indirect Costs
IR&D	\$6,965,000,000	4.7%
B&P	\$3,296,000,000	2.2%
Total IR&D and B&P	\$10,261,000,000	6.9%

5. FY 2022 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 2022, DCAA examined \$375 million and questioned \$981,000 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 2022, the team worked on 372 investigative cases and their efforts contributed to monetary recoveries of \$328 million. Additionally, 234 disclosures were received from the DoD Office of the Inspector General and disseminated to audit field offices as part of the DoD Contractor Disclosure Program.

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

DCAA looks forward to engaging with Congress to continue to be part of the legislative process by clarify our audit processes as new legislation is drafted. We look forward to many productive conversations.

For DCAA to perform its mission successfully, it needs a workforce of the right size with the necessary skills. DCAA's authorized workforce strength has been reduced by Congressional action, DoD Defense Wide Reviews, and efficiency initiatives, the effects of which have been compounded by a tight labor market. In the last three years, we have had a significant challenge in hiring new auditors. DCAA consistently requires over 400 new auditors each year and our current workforce is the lowest it has been in the last five years – a level insufficient to support the execution of all of DoD's highest priority contract audits.

In spite of these reductions, our current workforce has maintained a relatively stable level of productivity, and our average questioned costs have also remained relatively stable. We attribute this to efficiency measures such as increased use of technology, and outsourcing incurred cost audits to independent accounting firms. Even with these efforts, we estimate approximately 15 percent of identified workload is not performed due to low staffing levels.

While we would appreciate additional funding to increase staffing levels, the challenge to hire would still be present. Therefore, additional funding for research and development and purchase of technology would allow DCAA to continue exploring efficiency initiatives. We have had great success using several tools and are developing more data analytics models which can be used across the Agency. For the largest defense contractors, these tools have saved hundreds of hours on audits which is why we feel technology based initiatives are more promising than simply increasing the workforce.

As with any new technology, training is required for most effective use. We conduct much of our training at our own Defense Contract Audit Institute (DCAI) in Atlanta, Georgia. We also take 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 Defense Acquisition Workforce Development Account (DAWDA) funding. DCAA truly values the additional resources available through the DAWDA and 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 and fully adopt new tools for performing audits more efficiently.

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 2022.

A. Business System Audits. Beginning in FY 2019, DCAA prioritized business system audits to meet the goal of completing 285 by FY 2022. These audits are conducted primarily for the larger defense contractors and by FY 2022, DCAA had completed over 288 audits. In addition, DCAA completed 1,300 of this type of audit on contractors of other sizes.

Due to the significant number of these audits, outreach to the contractor community to help them understand the intent and process of these audits was also a priority. For example, DCAA conducted a 3-day business system symposium for Naval Sea Systems Command and affiliated contractors in March 2022. During the symposium, breakouts were conducted with each contractor to discuss various topics of interest and to answer questions. This symposium will be followed by a symposium in April 2023.

The success of the symposium and DCAA's ability to complete a large number of this type of audit was the culmination of several years of preparatory work. DCAA first created a business system team bringing together auditors with expert knowledge on this type of audit. The team then assisted other field audit offices as they conducted audits and also helped develop a business system audit course at the Defense Contract Audit Institute to train and maintain the skills of all DCAA's auditors. In FY 2022, the business system team stood down and the responsibility to conduct business system audits passed fully to the field audit offices.

Business systems audits verify contractors' systems are compliant with DFARS business system requirements. DCAA audits three of the six DFARS contractor business systems: accounting systems, cost estimating systems, and material management and accounting systems (MMAS). These three systems underpin the controls over contractor's contract costs so verifying the compliance of a given system increases the reliability of costs produced by the system. Finally, performance of the system audits improves the understanding of these systems and also increases the effectiveness and efficiency of other DCAA audits.

B. Small Business Outreach. DCAA conducts outreach to small business to clarify audit expectations, offer guidance and training, provide opportunities for discussion, and gather feedback on additional ways we can provide assistance. This outreach is done both by our designated Small Business Focal Point and our field audit offices.

For FY 2022, DCAA attended 87 events hosted by small business partners such as the Small Business Administration and Procurement Technical Assistance Centers. This outreach was attended by over 5,370 participants, 90 percent increase from FY 2021. Most of the events begin with a presentation followed by a question and answer session. The presentation includes an introduction to contracts with commercial organizations, overviews of DCAA and the audit process, as well as specific accounting system requirements and training to help

small businesses design an adequate accounting system that meets criteria under the Defense Federal Acquisition Regulation Supplement.

In addition to the above outreach, DCAA partnered with the Defense Acquisition University for a summer Small Business Pricing Series. The series had seven webinar events between May and August 2022. This series covered several pricing, subcontracting, and auditing topics germane to small business. It proved very popular with over 1,900 attendees for the entire series. Additionally, Ms. Janice Muskopf, Defense Pricing and Contracting (DPC), and Ms. Debra Caw, DCAA, recorded a podcast titled “All things Small Business” with the aim of demystifying the roles of DPC and DCAA as they relate to small businesses.

Finally, the small business pages on the DCAA public website were redone to provide answers to the most frequently asked questions received by the Small Business Focal Point.

8. SIGNIFICANT FY 2022 ACTIVITIES AND THEIR IMPACT

DCAA had many organizational accomplishments in FY 2022. Some of these are summarized below.

- A. **Post Pandemic – DCAA’s New Posture.** After about two years of near 100 percent telework, DCAA’s workforce returned to their offices in May 2022. There were a fair number of employees in the office periodically throughout the pandemic, but starting in May, all employees were required to be in the office two days per pay period. Reentering the office also renewed opportunities for Regional and Corporate Audit Directors to bring together their management teams in person.

DCAA’s educational center, the Defense Contract Audit Institute, slowly returned to teaching live classes. The institute had some starts and stops as the COVID levels in the surrounding community rose and fell, but by the start of the new Fiscal Year, they were essentially back to pre-COVID operations. One of the first in-person classes was new hire onboarding. Of all the students at DCAI, new hires benefit the most from in-person as it allows them to interact with other students and develop relationships with coworkers they can turn to whenever they need assistance. The institute continues to offer virtual classes to increase the availability of course offerings and to lower travel costs.

Currently, DCAA’s workforce has a hybrid posture. Individuals are in the office at least two days per pay period and telework the other days. We are examining our office footprint to determine how much space we require. Currently, our workspaces are a combination of leased, government owned, and contractor provided. Our goal is to reduce the cost and if possible, consolidate smaller offices with others.

- B. **Operations Business Enterprise and Data Intelligence Division.** In FY 2022, DCAA established the Operations Business Enterprise and Data Intelligence Division (OBD) with the goal of developing innovative solutions to complex data challenges by leveraging emerging technologies. The office is composed of Data and Technology-focused positions, such as Data Scientists, Operations Research Analysts, and Database Administrators.

The division integrates and transforms data generated by DCAA, contractor, or other Federal or DoD agencies to enhance audit processes and managerial decision-making. OBD also works with our information technology staff to keep our mission support systems relevant for today and the future through data pipelines, improvements to system architecture, and artificial intelligence (AI) integration. The division also seeks to integrate DCAA’s data environment into DoD’s and ensure it aligns with DoD’s goal to become a data-centric DoD.

Currently, OBD is involved in DCAA’s procurement of a replacement management information system. Once the purchase is complete in mid FY 2023, the division will be integral to designing the data architecture and overall design of the system ensuring interfaces with existing DCAA and DoD systems. Another focus area is making improvements to the Contractor Submission Portal to integrate DCMA. Finally, OBD is developing an audit lifecycle portal to further integrate DCAA processes with customer and contractor touchpoints creating a cohesive environment and ensuring better data integrity, accountability, and timeliness.

In the future, the division will work with contractors to enhance the audit process. As contractors' datasets get ever more complex, DCAAs subject matter experts in specific business systems software will lead knowledge-sharing to enable audit teams to transform data making it more consistent and useable in audit services. Finally, the division is working with DCMA to explore collaborative data sharing initiatives, with a focus on greatly reducing duplication and redundancy, while increasing data integrity and process efficiencies.

- C. **External Peer Review.** DCAA is required to pass an external peer review every three years. The latest peer review was conducted by an independent accounting firm and was completed in July, 2022. Three opinions are possible for a peer review; pass, pass with deficiencies, and fail. DCAA received a rating of pass.

The review was conducted in accordance with Government Auditing Standards and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General. The peer review team examined selected audit work performed by DCAA during fiscal year 2021. The team also examined DCAA's internal policies and procedures, training programs, and conducted interviews with DCAA personnel.

An external peer review determines whether DCAA's internal quality control review system is in place and operating effectively. A system of quality control encompasses DCAA's organizational structure, the policies adopted, and procedures established to provide it with reasonable assurance of conforming in all material respects with GAGAS, and applicable legal and regulatory requirements.

9. OUTLOOK

In FY 2022, the DCAA workforce demonstrated resiliency as they returned to the office and adjusted to a hybrid environment. While there were no major disruptions, we did and continue to adjust to the changes in contractor posture as they adjust the percent of their workforce in the office. We had a very successful year and fully adopted techniques learned during the pandemic which brought efficiency and were effective.

Looking to FY 2023, we have several new initiatives on the horizon, which when fully implemented will make a positive change. The first is to link our Contractor Submission Portal (CSP) to the systems at the Defense Contract Management Agency (DCMA). Currently, when a contractor submits an incurred cost proposal into the CSP, they must also send it to DCMA. Once our systems are connected, one submission will automatically go to each agency. Our second initiative is to replace our antiquated management information system with commercial off the shelf software. We are in the final stages of contracting and once configured, anticipate a revolution in our ability to use data to manage our workload and track productivity.

In addition to looking to technology to improve our services and productivity, we are focused on our people. We are conducting a review of numerous personnel policies in light of our hybrid work environment and will make changes if necessary. Our goal is to make DCAA the employer of choice and attract and retain our employees.

The DCAA workforce is professional, dedicated and performs vital work for DoD, our warfighters and taxpayers. We will continue our focus on meeting customer needs and look forward to a productive FY 2023.

ACRONYMS

CAD	Corporate Audit Directorate
CAS	Cost Accounting Standards
CDFM	Certified Defense Financial Manager
CFE	Certified Fraud Examiner
CISA	Certified Information System Auditor
CPA	Certified Public Accountant
CSP	Contractor Submission Portal
DAWDA	Defense Acquisition Workforce Development Account
DCAA	Defense Contract Audit Agency
DCAI	Defense Contract Audit Institute
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
FAQ	Frequently Asked Questions
FAR	Federal Acquisition Regulation
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
ROI	Return on Investment
TIN	Truth in Negotiations



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