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OFFICE OF PREPUBLICATION AND SECURITY REVIEW

Report to Congress on FY 2024 Activities Defense Contract Audit Agency U.S. Department of Defense

March 31, 2025



The estimated cost of this report or study for the Department of Defense is approximately \$22,010 in Fiscal Years 2024-2025. This includes \$10 in expenses and \$22,000 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 (DCAA) Fiscal Year (FY) 2024 annual Report to Congress, as required by 10 U.S.C. §3847. This report highlights DCAA's audit performance, recommendations to improve the audit process, industry outreach activities and key accomplishments.

In FY 2024, DCAA's audits resulted in contracting officials' saving \$5.1 billion in defense spending. DCAA reviewed \$599.8 billion in contract costs and issued 2,465 audit reports and 7,629 memos. DCAA also provided advisory services examining over \$49 billion in costs. These efforts resulted in a return on investment of \$7.2 to \$1. These figures include the monetization of audit effort related to certain audit types that verify compliance vice costs, such as business systems. DCAA's audits and advisory services support contracting officers and provide them the leverage to confidently negotiate and maximize DoD's buying power.

DCAA's notable achievements include revising the incurred cost audit program by reducing or streamlining audit steps, improvements that will result in substantial efficiencies going forward. DCAA also assessed its product lines and customers' needs in light of changes in the acquisition environment and contracting vehicles to identify gaps in products and services. This effort helped DCAA both gain new customers and retain existing customers, increasing our oversight of DoD contractors.

DCAA also contributed to DoD's Financial Improvement and Audit Readiness efforts by assisting the Air Force inventory of government furnished equipment maintained by contractors. DCAA published its 2024-2030 Strategic Plan, which will guide the Agency's efforts to continuously improve. The plan's four goals focus on customer service, workforce development, technology and outreach. Finally, DCAA received its 24th consecutive unmodified audit opinion on its financial statements.

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

Respectfully,

A handwritten signature in black ink that reads "Jennifer Desautel". The signature is fluid and cursive.

Jennifer Desautel
Director

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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 audits and provides financial information and advice on proposed or existing contracts and contractors; it has no internal audit responsibilities in DoD nor does it have a role in determining which companies are awarded contracts. DCAA's role in the financial oversight of 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's work supports the President's clear mission to achieve Peace through Strength and the Secretary of Defense's priorities to revive the warrior ethos, rebuild the military, and reestablish deterrence. DCAA's audits and financial advisory services enable contracting officials to make necessary investments to ensure the U.S. military remains the strongest and most lethal force in the world. DCAA's outreach to defense contractors of all sizes helps to revive the industrial base and field emerging technology by enhancing contractors' understanding of contract requirements. Through industry outreach, we strive to learn contractors' challenges and, when possible, ease the burden of defense contracting.

DCAA's contract audits are independent, professional reviews of financial representations made by defense contractors and the systems contractors use to make those representations. DCAA audits are conducted 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 (FAR) 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 FAR, the Defense Federal Acquisition Regulation Supplement (DFARS), Cost Accounting Standards (CAS) and other applicable government laws and regulations.

DCAA also provides advisory services to ensure the DoD gets the best value for its dollar. Examples of advisory services include negotiation support, advice on specific cost elements of a contract, or assistance with Other Transaction Authority terms. These services may result in lower costs or assist the contracting officer by providing assurance.

DCAA audits have a deterrent effect and may uncover potential fraud, waste, and abuse. Indicators of fraud, waste and abuse uncovered during an audit are reported, which may result in an investigation or a Truthful Cost or Pricing Data Statute audit (formerly Truth in Negotiations Act or TINA) thereby bringing accountability to the contracting process.

2. ORGANIZATIONAL STRUCTURE AND STAFFING

A. Organizational Structure. DCAA's current organizational structure consists of a Headquarters, four Corporate Audit Directorates (CAD) 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 220 offices located throughout the United States, Europe and the Middle East. Of these offices, approximately 130 are collocated with contractors, 70 are in leased spaces, and 15 are at government or military sites.

DCAA's current organizational structure is untenable due to costs for leases, equipment, utilities and other expenses. We are in the initial planning phase of consolidating our offices where possible and flattening our headquarters to remove layers of management. We will complete the restructuring of headquarters and most consolidation by the end of FY 2025 and will continue to shape as leases expire.

DCAA current organizational structure is below.

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

Regional Offices and Field Detachment are 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 600 employees, each region serves 1,200 to 1,800 contractors. The Field Detachment has approximately 475 employees to serve 600 contractors.

Corporate Audit Directorates (CAD) are in Lowell, Massachusetts (General Dynamics/RTX); 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 contract audit services within their assigned geographical areas. Branch offices often have smaller suboffices to ensure adequate audit coverage. Moving forward, we seek to balance coverage with cost of leased spaces and inefficiencies from a disparate geographical footprint.

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 others throughout DoD, including the acquisition community that supports DCAA.

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	3469	89%
Professional Support Staff	487	11%
Total Employees	3956	100%

C. Education and Professional Certifications. Roughly 91 percent of DCAA employees have a bachelor’s degree, 44 percent have a higher-level degree and 16 percent are Certified Public Accountants (CPA). Some employees have one or more professional certifications such as a Certified Fraud Examiner (CFE), Certified Information System Auditor (CISA), or Certified Defense Financial Manager (CDFM) (Table 2).

Table 2 – DCAA Education and Professional Certifications

Type	Number	Percent
Bachelor’s Degrees	3,635	91%
Advanced Degrees	1,759	44%
Certified Public Accountants	622	16%
Other Professional Certifications	364	9%

3. TYPES OF ENGAGEMENTS

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 government customer responsible for procurement. 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 submitted after the costs were incurred. When a contract price is not fixed, DCAA conducts an incurred cost audit after contract award to determine the accuracy of the contractor's cost representations. DCAA expresses an opinion as to whether such costs are allowable, reasonable, and allocable to the contract, based on government accounting standards and acquisition provisions. These audits prevent excess payments by allowing the contracting officer to recover the questioned costs before the contract is officially closed out.

C. Claims and Terminations. These audits are largely conducted during or after contract performance. 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. Business Systems, Cost Accounting Standards (CAS), Truthful Cost or Pricing Data Statute. 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 CAS Disclosure Statement, compliance with cost accounting standards and contractor compliance with the Truthful Cost or Pricing Data Statute (10 U.S.C. §§ 3701-3708; 41 U.S.C. §§ 3501-3508), commonly referred to by its historical name, the Truth in Negotiations Act or TINA. TINA will primarily be used throughout this document.

E. Government Furnished Equipment Managed by Contractors. This type of engagement is a new area for DCAA. The effort in this area is focused on assisting DoD's efforts in Financial Improvement and Audit Readiness posture. Actions include determining asset values, locations, and inventory accuracy.

4. FY 2024 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 \$599.8 billion in contract costs, identified over \$15.9 billion in audit exceptions, reported \$5.1 billion in net savings and produced a return on investment of approximately \$7.2 to \$1. DCAA also examined \$49 billion in advisory services to support contracting officers. Further details are in Section 5. Every audit and advisory service brings value and helps the contracting officer complete vital contracting actions for the DoD.

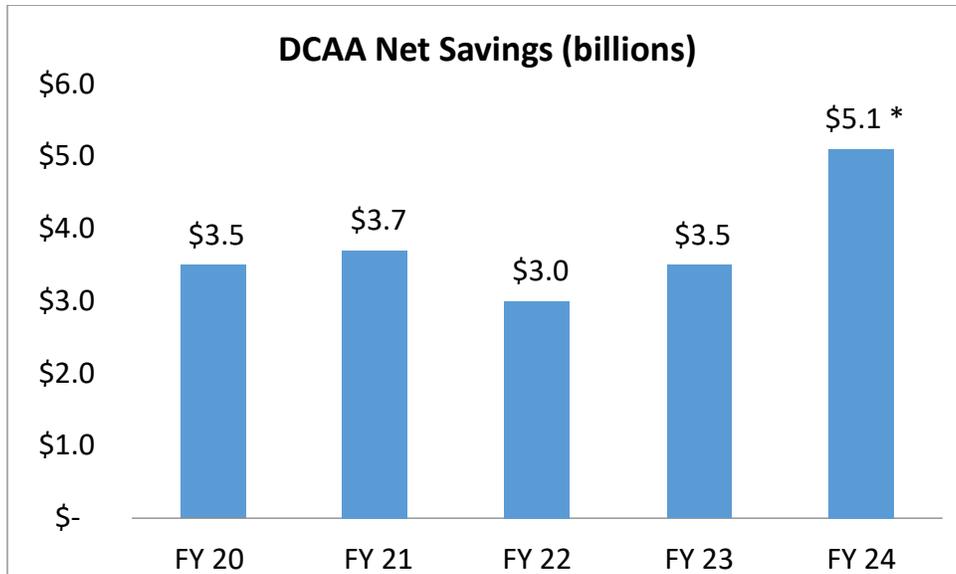
B. Audit reports and memos completed in FY 2024. DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit DCAA completes, whether before or after contract award, supports government officials as they negotiate prices and settle contracts 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 2024, DCAA issued 2,465 audit reports and 7,629 memos, examined \$599.8 billion and identified over \$15.9 billion in audit exceptions (Table 3). This year’s figures include estimates for the impact of Business System and CAS audits (\$133 billion estimated dollars examined and \$3.3 billion estimated audit exceptions in FY 2024).

Table 3 – FY 2024 Audit Reports and Memos Completed and Dollars Examined

Audit Type	Reports	Memos	Dollars Examined	Audit Exceptions
Incurring Cost	530	3,058	\$255,706,681,000	\$760,104,000
Forward Pricing	649	94	125,444,457,000	9,327,081,000
Systems, CAS & TINA	515	3,490	161,524,881,000	3,547,199,000
Claims & Terminations	771	987	57,167,830,000	2,290,640,000
Total	2,465	7,629	\$599,843,849,000	\$15,925,025,000

C. Net Savings and Return on Investment. Net savings are calculated for contracting actions taken by government contracting officials based on results of a formal DCAA audit or memo, and through the monetization estimate for Business System and CAS audits discussed above. Net savings generally reflect the effort in prior fiscal years as DCAA does not record the audit results until receipt of contracting officer action. In FY 2024, DCAA reported net savings of \$5.1 billion (Figure 1).

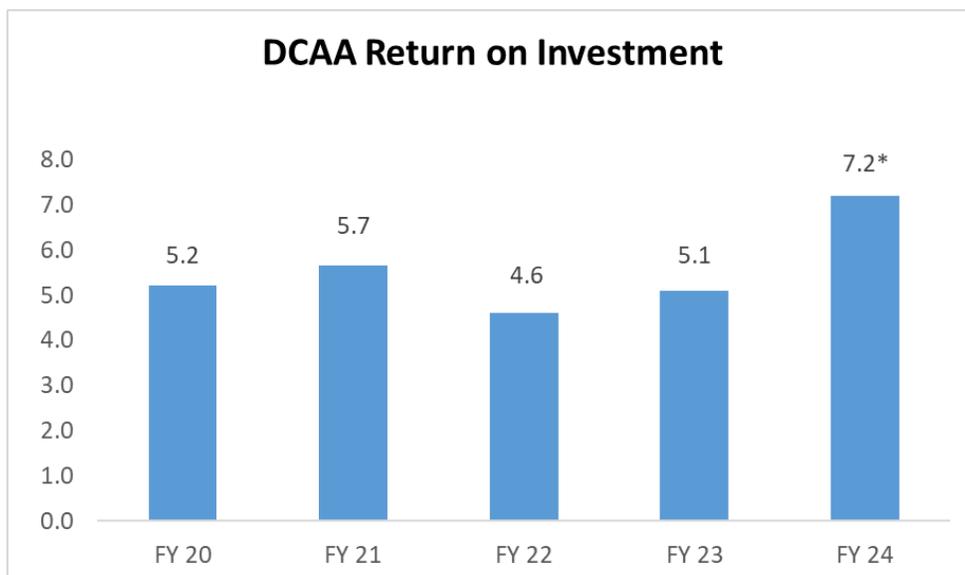
Figure 1 – Net Saving



*Includes monetized estimates for Business System and CAS audits (\$1.7 billion in FY 2024).

In FY 2024, the return on taxpayers' investment in DCAA (including return on investment associated with the estimated impact of Business System and CAS audits) was about \$7.20 for each dollar invested.

Figure 2 – Return on Investment



*Includes monetized estimates for the impact of Business System and CAS audits (\$1.7 billion in FY 2024).

Table 4 shows the return on investment by audit category based on net savings and includes the estimated net savings for Business Systems and CAS audits and the cost of performing audits. The cost of performing audits was calculated using FY 2024’s \$709.3 million in annual funding and direct audit hours by audit type. Audits such as Business Systems, CAS and TINA provide long-term value to the government by identifying deficiencies. For example, CAS and Business Systems audits determine contractor compliance with regulations. Audit findings result in contractor actions to bring their systems into compliance, thus assuring accurate cost data.

DCAA’s audits have the greatest impact when performed early in the audit cycle before the contract cost is finalized. Forward pricing audits have the greatest impact on lowering overall contract cost and have the highest return on investment for the audit hours needed. In FY 2024 DCAA completed significantly more forward pricing audits, however the net savings will not be realized until the contracting officer action is complete. Conversely, incurred cost audits are performed after the contract is finalized and have the lower return on investment. Because of the crucial impact, DCAA prioritizes forward pricing audits when requested by a customer.

Table 4 – Net Savings and ROI by Audit Category

Audit Category	Net Savings	Aggregate Cost of Performing Audits based on Percentage of Direct Audit Hours	Return On Investment (Net Savings /Aggregate Cost)
Incurring Cost	\$853,200,000	\$241,165,000	3.5
Forward Pricing	1,990,900,000	170,234,000	11.7
Systems, CAS & TINA	2,003,900,000	177,327,000	11.3
Claims & Terminations	247,000,000	120,582,000	2.0
Total	\$5,095,000,000	\$709,309,000	7.2

D. Exceptions Sustained. DCAA identifies exceptions, such as costs that are not compliant with relevant law, regulation or contract terms, during the conduct of an audit or advisory service, and provides this information in the audit report or memo to the contracting officer. 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 \$12 billion in 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	Exceptions	Exceptions Sustained	Percent Sustained
Incurring Cost	\$3,041,595,000	\$955,220,000	31.4%
Forward Pricing	4,391,193,000	2,542,783,000	57.9
Systems, CAS & TINA*	3,773,911,000	2,009,070,000	53.2
Claims & Terminations	814,160,000	369,806,000	45.4
Total	\$12,020,859,000	\$5,876,879,000	48.9%

*Includes monetized estimates for the impact of Business System and CAS audits. \$3.3 billion estimated audit exceptions and \$1.7 billion estimated exceptions sustained.

E. Incurred Cost. For cost reimbursable contracts, a contractor is required to submit a certified incurred cost submission with detailed contract costs and performance information. DCAA uses a risk-based approach and conducts audits on high-risk submissions and on a sample of low-risk submissions. The Agency provides valuable assistance to contracting officers for low-risk submissions that are not audited by following the established procedures for low-risk reviews and issuing low-risk memos. Because DCAA has the authority to establish final indirect rates under the circumstances identified in FAR 42.705-2, contracting officers may be able to avoid negotiations and go straight to contract close out using the rates established in these memos.

In FY 2024, DCAA issued 530 incurred cost audit reports and 3,058 memos (Table 6).

Table 6 –Incurred Cost Completed and Dollars Examined

Type	Number	Dollars Examined
Reports	530	\$193,092,135,000
Memos	3,058	62,614,546,000
Total	3,554	\$255,706,681,000

1) Independent Public Accountants. DCAA continues to use IPAs in accordance with 10 USC §3842 to conduct incurred cost audits. In FY 2024, DCAA awarded task orders for 121 audits to be performed by IPAs, a similar number to previous years.

2) Voluntary Deletions. Incurred cost audits can have a deterrent effect. The data in the table does not include costs voluntarily deleted by the contractor from their initial submission. Voluntary deletions occur two ways. One is when a contractor realizes a cost is unallowable by statute and/or regulation and because an audit will take place, does not risk billing the government. The second is when an auditor questions a cost and the contractor agrees it was an error and deletes the cost from their incurred cost submission. In FY 2024, 1,229 submissions had voluntary deletions totaling \$4.2 billion, demonstrating the deterrence aspect of DCAA’s audits.

3) Audits Pending over One Year. Pursuant to 10 U.S.C. §3842, DCAA auditors have 60 days to review contractors’ annual incurred cost submissions and 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 receiving an adequate submission, DCAA has one year from an adequate submission to complete the audit.

In FY 2024, DCAA had 19 audits pending longer than one year (Table 7). The audits in the years from 2012-2022 are all from the same contractor and are over the one year requirement due to litigation. The cease and desist order is now lifted and DCAA is actively working to complete these audits.

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

Year Submission Received	Number of Assignments	Estimated Dollar Value
2012	2	\$2,000,000,000
2013	1	2,000,000,000
2020	7	14,500,000,000
2021	1	150,603,000
2022	4	868,255,000
2023	8	5,949,314,000
Total	19	\$23,449,314,000

4) Waivers. The statute permits the Under Secretary of Defense (Comptroller) to waive the one year requirement. During FY 2024, four contractors were approved for waivers relating to 11 qualified incurred cost proposals. Notably, the DoD Comptroller granted one waiver extension initiated by a contractor. Table 8 details reasons for approved waivers. Of the 11 qualified incurred cost proposals that received waivers, DCAA completed work on two of them during FY 2024. The remaining nine proposals are expected to be completed in FY 2025.

Table 8 – Reasons for Approved Incurred Cost Waivers

Reason for Waiver	Number of Contractors	Number of Incurred Cost Proposals
Subject to Cease and Desist Orders	1	8
Limited Contractor Resources due to small business concerns	3	3
Total	4	11

F. Prioritization of Audits. DCAA’s risk-based planning process helps ensure audit resources are focused on maximizing DoD’s buying power. DCAA prioritizes audits required by law or regulation, such as incurred cost audits. Other high priority audits are those requested to support contracting officers, principally forward pricing audits, but these can also be other audit types such as TINA. Audits may also be prioritized based on risk and planned contractor actions, such as a merger or acquisition or the adoption of a new business system.

While this is the audit priority for planning purposes, contracting officers can always request audits based on their requirements and assessment of contractor risks such as significant costs or previous significant audit findings. DCAA considers contracting officer requested audits as high priority work. DCAA will perform advisory services, such as reviewing specific costs or providing contract term examinations, to assist the contracting officer finalize a contract. DCAA works with the contracting officer to determine the correct product, whether advisory or audit, to meet their needs.

G. Length of Time to Complete Audits. The length of time to complete an audit is generally measured starting from receipt of request, adequate proposal, or start date if self-initiated, to the audit report issuance. Pursuant to 10 U.S.C. §3842, incurred cost audits have statutory time limits – 60 days to complete the adequacy review and one year for audit completion. No other audits have specific or mandatory time limits; instead, we assess what is necessary to conduct an audit that will meet professional audit standards and provide timely and valuable advice to contracting officials. Average length of time to complete an audit varies based on complexity of contractor’s government sales volume, size and organizational structure, indirect rate structure, contract type mix, and the quality of information systems. The type of audit also impacts completion as some types are more complex and involve more cost factors. The length of time to complete audits by audit type in FY 2024 is below (Table 9).

Table 9 – Average Elapsed Days by Audit Type

Audit Type	Elapsed Days
Incurred Cost	204
Forward Pricing	96
System, CAS and TINA	291
Claims and Terminations	175

H. Indirect Costs Incurred for Bid and Proposal and Research and Development. The following table summarizes the amount of incurred contractor Independent Research and Development (IR&D) and Bid and Proposal (B&P) costs computed as a percentage of total contractor indirect costs (Table 10). This data only includes contractors who detailed their IR&D and B&P costs on their FY 2023 incurred cost submission and does not represent indirect costs for all DoD contractors.

Table 10 – Total Indirect Costs for IR&D and B&P Incurred by Contractors in FY 2023

	Allowable Costs	Allowable Cost as Percentage of Total Indirect Costs
IR&D	\$7,867,832,346	5.4%
B&P	4,110,034,872	2.8
Total	\$11,977,867,218	8.2%

5. FY 2024 ADVISORY SERVICES

A. Overview. There are multiple pathways to ensuring the DoD maximizes its buying power in defense contracting. DCAA supports contracting officers as they use the Adaptive Acquisition Framework and tailor the best approach for their acquisition. DCAA performs advisory services that are tailored to the selected acquisition vehicle to reduce costs. DCAA is now capturing both the monetary and non-monetary benefits of many advisory services in its audit management software.

B. Financial Advisory Services. DCAA supports contracting officers with advisory services that are not considered audits. In FY 2024, \$49 billion in costs were examined in advisory services. Advisory services bring value, can be tailor to meet specific needs, and help the contracting officer. Examples include contract negotiation support, independent financial analysis, contract pricing, 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 2024, \$557.4 million was examined related to agreements using Other Transaction Authority.

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. Below are three cases that highlight DCAA's impact.

1. DCAA contributed to a case that resulted in \$107 million in restitution and 21 years of prison related to a \$65 million fraud case involving TRICARE. The defendants plead guilty to charges of bilking TRICARE, receiving kickbacks and fraud.
2. DCAA contributed to a case that resulted in \$70 million in restitution in support of Navy Criminal Investigative Services. The defendant agreed to pay to resolve claims the company overcharged the Navy for spare parts and material needed to repair aircraft and knowingly entered into an improper cost-plus-percentage-of-cost subcontract.
3. DCAA contributed to a case that resulted in \$25 million in restitution in support of the Department of Justice. The fraud case involved a contractor who knowingly supplied valves that did not meet military specifications, an accounting fraud scheme, and obstruction of a federal audit.

During FY 2024, the DCAA investigative support team worked on 421 investigative cases and their efforts contributed to monetary recoveries of \$227.3 million. Additionally, 258 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 working with the DoD and Congress on acquisition reform. As DoD, the Office of Federal Procurement Policy, and Congress continue shaping defense acquisition reform efforts, DCAA is uniquely positioned to share knowledge of contracting requirements, regulations, guidance and audit processes to contribute to meaningful and lasting reform. Last year, DCAA met with congressional staffers to discuss acquisition processes. We look forward to continuing this type of engagement.

We also look forward to continued engagement with industry groups. Leaders from across the Agency conduct regular engagements with the National Defense Industrial Association, the Aerospace Industries Association and others. During these engagements, DCAA learns of industry's concerns and perspectives on potential audit policy changes. These conversations allow DCAA and industry to work toward mutually agreeable outcomes and lower barriers to entry into defense contracting.

DCAA uses these engagements and to increase the efficiency of our audit process. This year, DCAA issued new internal guidance, streamlining the incurred cost audit program. On average, this change reduced the time to complete an incurred cost audit by 30 percent or approximately 2 months for those audits in the pilot. We also changed the frequency of some audit types from mandatory posture to risk-based after reviewing audit findings. These changes free DCAA resources for other high priority audits and reduce the administrative burden on the contractors. DCAA will review additional audit types in FY 2025.

DCAA continues to leverage technology for efficiency. We are actively creating and sharing tools for both internal and external use, such as the contractor submission portal and the Incurred Cost Electronically (ICE) model for incurred cost audits; both tools automate submissions and provide status. We are now partnering with the Defense Contract Management Agency and Defense Logistics Agency (DLA) to develop a new portal that will provide status of contracting actions across the acquisition cycle. Additionally, we decommissioned our legacy audit management system and replaced it with a modern, configurable system that went live on October 1, 2024. We also replaced our legacy learning management system and joined an existing system already in use within DoD rather than create our own.

DCAA continues assisting the internal DoD Financial Improvement and Audit Readiness (FIAR) efforts. DCAA recently participated in an inventory of Government furnished equipment (GFE) maintained by contractors at contractor locations. Leveraging DCAA's existing access to some defense contractors' business systems and facilities made DCAA an essential asset to this inventory. We are building on our lessons learned and will conduct a second inventory of GFE DoD-wide by the end of FY 2025 at select contractors. The goal for this effort is to complete inventories of all GFE by FY 2026. Accuracy of these assets is essential to DoD's ability to earn a clean audit opinion.

These efficiencies would not be possible without the DCAA workforce. Training is a necessity to successfully adopt and leverage new technology. Training is also required to expand the level of

audit knowledge in the workforce. Contract auditing requires specialized skills that rely on thorough understanding of particular professional standards. We have conducted much of this training virtually but have found complex courses are often more effective with in person training.

DCAA stands ready to assist in transformational acquisition reform to eliminate costly burdens and barriers that prevent DoD from accessing the best sellers and market solutions. DCAA views these initiatives as essential to match threats to capabilities to achieve Peace through Strength and remain the strongest and most lethal force in the world.

7. OUTREACH ACTIONS TOWARD INDUSTRY

DCAA proactively engages at industry association meetings as well as more formal engagement with the major defense contractors, several of whom have quarterly engagements. These engagements provide opportunity to clarify audit requirements, understand and address contractor concerns, and improve acquisition and audit processes. The paragraphs below highlight the major initiatives in FY 2024.

A. Changes and Impact of Incurred Cost Audits. DCAA made significant revisions to the incurred cost audit programs for both large and small contractors in alignment with DCAA's FY 2024 goal of enhancing audit efficiency. This work resulted in a 25 percent reduction in audit program steps and created substantial time and resource efficiencies. DCAA's external stakeholders benefit from these efficiencies. By focusing transaction testing on high-risk areas, audits are now more targeted and impactful, leading to faster resolutions and more relevant findings, which highlights DCAA's ability to provide streamlined, effective audit support. This initiative underscores DCAA's commitment to finding innovative ways to simplify audit steps and efficiently deliver meaningful results for our stakeholders; ultimately strengthening DCAA's overall value.

B. Leveraging Technology to Increase Efficiency. DCAA continues advancing DoD's data analytics and artificial intelligence (AI) adoption strategy. This year, DCAA established a solid foundation to improve data quality, improve collaborative efforts, optimize customer experiences and centralize customer data, while receiving recognition for timely and successful system transitions.

DCAA successfully replaced the 25-year-old legacy DCAA Management Information System with the Enterprise Performance Information Center (EPIC), a software as a service (SaaS) cloud-based management information system. EPIC improves DCAA's data quality alignment, streamlines workflows and provides deeper insights into new data points, empowering data driven decision making across the agency. EPIC was one of the initial systems to implement Identity, Credential and Access Management (ICAM) and successfully transitioned approximately 4,000 employees in less than two months, an achievement noted by the Defense Information Systems Agency. EPIC's dashboards allow auditors and supervisors to effectively track audit progress, easily reassign work, and increase individual auditor contributions to mission.

DCAA also developed the Audit Request Issuance Engagement Status (ARIES) Portal and the Contractor Submission Portal (CSP) to centralize customer data and to improve the customer experience. The ongoing development and optimizing of tools like ARIES and CSP centralized previously inaccessible data from our customers, which should increase interoperability for enterprise-wide systems such as the Procurement Integrated Enterprise Environment (PIEE). DCAA also leverages knowledge and lessons learned by both industry and DoD to effectively audit new technology and systems.

C. Small Business Outreach. DCAA remains committed to advancing the Secretary of Defense's priorities to rebuild our military and revive the defense industrial base. DCAA

diligently worked throughout FY 2024 to develop and expand DCAA's Small Business Program, which provides education to small businesses to lower barriers to entry in the DoD contracting space.

The DCAA Small Business Program oversees activities that include building and enhancing working relationships with DCAA's external partners. The small business program expanded partnership with other associations such as the Small Business Administration (SBA), National Contract Management Association (NCMA), National Defense Industrial Association (NDIA) and other Federal Agencies such as the Department of the Navy Office of Small Business Programs and DLA. DCAA also partners with large prime contractors at their request, such as Northrup Grumman and Lockheed Martin, who host training events for their small business suppliers.

Perhaps most importantly is DCAA's program of active and ongoing small business seminars and workshops that are conducted with small business partners and sponsors. During FY 2024, DCAA conducted 124 seminars and workshops with over 12,000 overall small business attendees. The small business liaison added presentations for "Breaking Into GovCon," and "Audits Under SBIR/STTR Program," as a direct result of feedback from small business partners and attendees. The team has grown small business events over 170 percent from FY 2023.

The small business pages on the DCAA website are another avenue for small businesses to learn about doing business with DoD. DCAA recently updated our small business webpage to expand transparency and improve customer outreach. The DCAA small business section was consolidated to provide all relevant information including training material and resources such as finding cognizant DCAA offices and other tools, like a Frequently Asked Questions section, to better serve the small business community. The website also includes a list of upcoming small business seminars and workshops to better assist contractors with finding training events in their area and promotes external awareness of the DCAA's small business activities with the public. Since 2023, the Small Business Seminar webpage has increased viewership by 186 percent.

Going forward, the DCAA is continuing to expand our outreach efforts including a series of podcasts focused on small businesses' most often requested training topics.

8. SIGNIFICANT FY 2024 ACTIVITIES AND THEIR IMPACT

DCAA's focus each year is improving internal processes to improve the skills of the workforce along with gaining efficiencies across the agency. Several significant activities are summarized below.

A. Assisting DoD's Financial Improvement and Audit Readiness Posture. DCAA continued assisting DoD's efforts to improve financial reporting and property accountability on the \$1.7 trillion F-35 aircraft program consistent with the FIAR methodology. DCAA's team assisted the F-35 Joint Program Office, the Office for the Under Secretary of Defense for Acquisition and Sustainment, and the Comptroller's Office in resolving numerous audit findings in various Government Accountability Office (GAO) and DoD-Inspector General (DoD-IG) reports. DCAA's initial effort concentrated on determining correct asset values for millions of Government owned spare parts located in warehouses and main and forward operating bases worldwide.

DCAA is expanding efforts related to FIAR and is now assisting with DoD's implementation of the strategy to ensure all Government Property in Possession of Contractors is properly controlled, accounted for, and appropriately reported on financial statements of the respective military services and the DLA. DCAA completed an initial inventory of property related to 30 contracts located in 93 locations finding records were 70 percent accurate. The lessons learned from this inventory will be leveraged as DoD further develops their strategy.

B. Focus on Efficiencies. DCAA realized several notable achievements that will lead to increased efficiency going forward. In FY 2024 DCAA retired the 25-year-old legacy audit management information system. The new system, EPIC, improves data quality alignment, streamlines workflows, and provides data driven decision making across the agency. EPIC supports DCAA's 4,000 employees meeting both the agency's business needs and DoD cybersecurity requirements. EPIC gives DCAA the capability to perform resource planning at a more granular level, leading to more optimized use of our workforce and reduced downtime. It streamlines our workload planning by centralizing the process resulting in less administrative burden for drafting and sharing resource plans and provides the capability to more efficiently create and edit engagement records. EPIC also interfaces with external data from multiple authoritative sources to ensure integration of the most current and reliable data leading to greater accuracy. While the use of EPIC began on October 1, 2024, the reports and increased data is already leading to increased efficiency as management has visibility to better assign and reallocate workload.

C. Strategic Plan. In the second quarter of FY 2024, DCAA published a new Strategic Plan to ensure its continued value to defense contracting. This plan emphasizes DCAA's support and commitment to the DoD mission of defending the Nation. DCAA's new vision focuses on becoming the premier leader in DoD contract audit and advisory services, delivering unparalleled value, agile solutions and data driven insights in support of our nation's defense needs. To realize this vision, DCAA has implemented programs, policies and new ideas, emphasizing four strategic priorities: 1) Optimize Value and Customer Service, 2) Cultivate a

Premier and Multi-talented Workforce, 3) Capitalize on Technological Innovations, and 4) Influence the Business Environment.

This year, DCAA enhanced its role in the defense acquisition process by refining audit practices, actively engaging with customers and delivering reliable, efficient services. In addition to increasing the DCAA Small Business Association outreach and creating new sessions to help new or interested government contractors, DCAA streamlined audit processes for mandatory annual audit requirements and incurred cost audits. DCAA also improved collaboration with others in the industry and opened the door to conversations and transparency by increasing attendance at industry and association events and other opportunities as they present themselves.

DCAA aggressively pursues its role as a trusted advocate and technical resource with policy makers, defense acquisition and financial management partners, and industry leaders to influence the business environment. DCAA successfully contributed to existing and new partnerships by participating in pilot programs that assist other federal agencies and working to enhance the efficiency and effectiveness of defense acquisitions. This was achieved throughout FY 2024 in various projects and activities such as supporting the DoD's FIAR effort.

D. Federal Employee Viewpoint Survey. The results of the 2024 Federal Employees Viewpoint survey indicate DCAA employees continue to have a high level of satisfaction. The Office of Personnel Management conducts this survey to measure employee views in four major indices: employee engagement, global satisfaction, performance confidence, and employee experience. DCAA had a 60 percent response rate, a rate higher than both DoD and the federal government, and its score across the board for each index were also higher. Likewise, DCAA's score in the Best Places to Work in the Federal Government for FY 2023 rose 25 places, landing DCAA in the top 25 percent of small agencies. After two years of decline, DCAA's focus on the workforce is producing results.

Each year, all levels of DCAA leadership analyzes the survey results and develops action plans for improvement, often with employee input. These plans are briefed up the chain of command as a means of capturing best practices and identifying areas for synergy across the Agency. We feel our high scores are a result of leadership focus, employee engagement and targeted action plans.

9. OUTLOOK

DCAA is looking forward to another successful year focused on ensuring DoD gets the best value for every dollar spent on defense contracts.

As DoD focuses on reforming the acquisition process, we look forward to leveraging our knowledge of contracting, defense contractors, and the acquisition cycle to contribute to these efforts. DCAA engages with defense contractors, industry representatives and organizations, and other DoD agencies involved in acquisition, including the service buying commands. As we strive to meet their needs by tailoring our products and services, we hear their challenges. DCAA also works closely with the Department of Justice (DOJ) and Military Investigative Services to identify suspected fraud, waste, and abuse.

DCAA also looks to continue our efforts supporting DoD's FIAR effort. We recently completed an inventory for the Air Force of Government Furnished Equipment maintained by contractors in 90 locations. We are taking the lessons learned from this effort and will perform an expanded inventory of items and contractors for all services in FY 2025. These efforts in determining inventory accuracy and asset value are essential to DoD passing an audit.

Internally, there are other large-scale efforts for FY 2025 including updating our audit quality management system to meet the requirements of the 2024 Government Accountability Office Government Auditing Standards, or yellow book. The new system of quality management requires implementation by Dec. 15, 2025. We are now doing the work to define roles and responsibilities and write guidance documents and checklists.

Other major efforts include determining the optimal organizational construct for the agency. The current structure of 220 locations is untenable and must be reduced as must management structures. Reduction in one area may enable the creation of surge capacity or specialized audit focus on priority work. Divesting of offices to reduce footprint, eliminating management to repurpose those resources and developing a force to focus on DoD's top priority acquisitions will better serve the DoD.

We welcome the challenge and look forward to bringing our skills and talents to bear as achieve the President's vision of achieving Peace through Strength.

ACRONYMS

AI	Artificial Intelligence
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
DLA	Defense Logistics Agency
DoD	Department of Defense
FAQ	Frequently Asked Questions
FAR	Federal Acquisition Regulation
FIAR	Financial Improvement and Audit Readiness
FLA	Financial Liaison Auditor
GAGAS	Generally Accepted Government Auditing Standards
IPA	Independent Public Accountant
MAAR	Mandatory Annual Audit Requirement
ML	Machine Learning
MMAS	Material Management and Accounting System
NDAA	National Defense Authorization Act
OTA	Other Transaction Authority
ROI	Return on Investment
TINA	Truth in Negotiations Act, now called the Truthful Cost or Pricing Data Statute



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