



# **Report to Congress on FY 2016 Activities Defense Contract Audit Agency**

**U.S. Department of Defense**

**March 31, 2017**





## DEFENSE CONTRACT AUDIT AGENCY

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Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's Fiscal Year 2016 annual Report to Congress, as required by 10 U.S.C. §2313a. This report highlights DCAA's audit performance, recommendations to improve the audit process, industry outreach activities, and key accomplishments.

As a result of DCAA audits, contract officials saved \$3.6 billion in defense spending last year—significant savings that could be reinvested in our warfighters. We examined nearly \$287 billion in defense contractor costs, issued over 4,200 audit reports, and identified over \$9.9 billion of audit exceptions. Additionally, we continued to improve communication and coordination with our acquisition partners to respond to their needs with quality, on-time audits and services to safeguard taxpayers' dollars while ensuring that warfighters get what they need.

In FY 2016, DCAA finalized preparations for realigning its organizational structure to streamline operations and better respond to the needs of the acquisition community. Effective in FY 2017, our new structure has four Corporate Audit Directorates focused on major defense contractors, three Regional Directorates focused on mid-sized and small contractors, and a Field Detachment responsible for our classified work. We feel this structure will allow us to develop expertise and innovative audit processes to increase the efficiency of our audit programs.

Incurred cost audits continued to be a top priority last year, and our workforce did an outstanding job using multi-year audits. This method reduces our audit time by 40 percent over single-year auditing and benefits contractors because less time is required supporting the audits. Consequently, even with the shortfalls in staffing, we were able to reduce our backlog to an average age of 17.6 months. Until the recent 2017 hiring freeze, I was confident that we would meet our target of eliminating the backlog by the close of FY18. However, we are currently reassessing our projections to determine how the new hiring freeze will impact our ability to meet our target date.

Our workforce has continued to marshal their considerable expertise and hard work to make DCAA's vision a reality: *Every audit or service we deliver is on time, on point, and highly valued.* I look forward to working with Congress to capitalize on DCAA's valuable contributions and improve the acquisition process. I am proud of our workforce and our ability to deliver outstanding audit products and services to the Department in FY 2017.

Respectfully,

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

Anita F. Bales  
Director

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## **1. DEFENSE CONTRACT AUDIT AGENCY MISSION**

DCAA provides audit and financial advisory services to DoD and other federal entities responsible for acquisition and contract administration. DCAA's role in the financial oversight of government contracts is critical to ensure DoD gets the best value for every dollar spent on defense contracting. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. Its work benefits our men and women in uniform and the American taxpayer.

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

DCAA audits only contractors; it has no internal audit responsibilities in DoD. 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. DCAA has no direct role in determining which companies are awarded defense contracts; rather, it provides recommendations to government officials on contractor cost assertions regarding specific products and services.

Government officials draw on DCAA audit findings throughout the acquisition process. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. At the front end, DCAA's findings can directly impact the price that the government pays for contracted work. Even after a contract is underway, DCAA findings may address instances where the government overpaid contractors for work, uncover potential fraud or misuse of funds, and impact future contract prices by addressing inadequacies early on. Before officially closing out a flexibly price 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 assumed contract audit responsibility from the individual services for all DoD entities in 1965. Since its inception, the Agency has traditionally been organized by geographical regions. While geographical regions enabled us to be close to the contractors we were auditing, the major defense contractors have steadily decentralized operations over time and increased their office locations throughout the country and overseas. As a result, several regions often have jurisdiction over different audits for a single contractor, which can lead to multiple points of DCAA contact at the executive level, duplication of effort at different DCAA offices, and other inefficiencies in operations and communication.

In 2010, we began a pilot at Raytheon to consolidate these geographically disbursed audit teams under one organization led by a single Regional Director. Through this pilot, we discovered that the contractor-based structure reduced redundancies, encouraged greater collaboration, and sparked innovative thinking that might not have occurred otherwise. For example, auditors were able to perform a complex, corporate-wide accounting system review that provided significant insight into Raytheon's business and accounting practices. This collaborative effort included audit staff from each Raytheon business segment, and it became very clear that the common focal point positively impacted team dynamics, innovation, and problem solving.

Following the success at Raytheon, we soon began a second pilot at Northrup Grumman and experienced similar gains in efficiency, effective communication, information sharing, and customer service. As a result, effective October 2016, we decided to extend the model and realign our organization into four Corporate Audit Directorates organized by major contractors, three geographical regions primarily focused on small and mid-sized contractors, and a field detachment focused on classified work (Figure 1, next page). Throughout FY 2016, we took the necessary actions to prepare the agency for transitioning our roughly 300 offices—located throughout the United States, Europe, the Middle East, Asia, and the Pacific—to the new organizational structure.

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

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

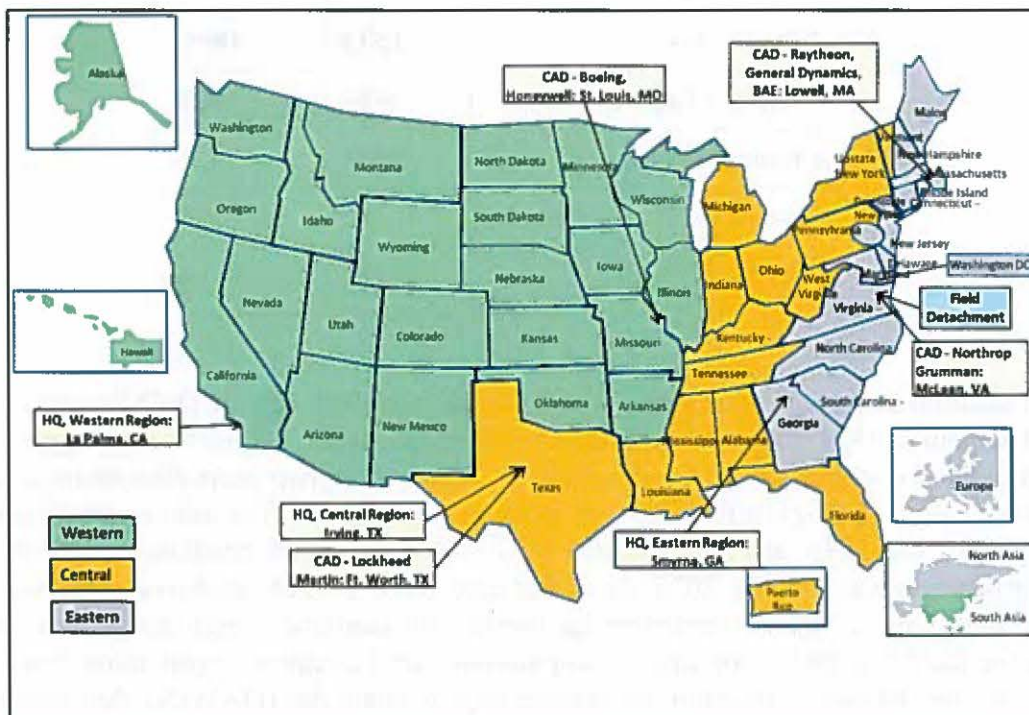
**Corporate Audit Directorates (CAD)** will be located in Lowell, Massachusetts; McLean, Virginia; St. Louis, Missouri; and Fort Worth, Texas. Each CAD directs and administers the DCAA mission at select major defense contractors.



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

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

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



**Figure 1 –DCAA Organization**

In addition to the plans for reorganization, DCAA centralized internal support functions in FY 2016 to improve efficiency, effectiveness, reduce redundancy, and improve customer service. Previously, each of our regions had its own support staff who reported to the respective regional director. In centralizing support functions, we brought the human resource, administrative, financial management, equal employment opportunity, security, and information technology staff directly under Headquarters. These actions allow our Regional and Corporate Directors to focus on the audit mission while enabling the centralized teams to better distribute workload, streamline processes, and use technology more efficiently.

**B. Staffing.** Our dedicated employees work at over 300 locations across the United States, Europe, the Middle East, Asia, and the Pacific. DCAA has a professional workforce of about 4,500 employees. Roughly 92 percent of these employees have a bachelor’s degree, 40 percent have a higher level degree, and 26 percent have a professional certification such as a Certified Public Accountant (CPA) or Certified Fraud Examiner (CFE). About 89 percent of DCAA employees are auditors, and 11 percent are professional support staff in various fields including administrative support, budget, human resources, information technology, and legal (Table 1).

**Table 1 – DCAA Workforce**

Auditors	4,023	89%
Professional Support Staff	490	11%
<b>Total Employees</b>	<b>4,513</b>	<b>100%</b>
Bachelor’s Degrees	4184	92%
Advanced Degrees	1,883	42%
Certified Public Accountants	1,182	26%
Other Professional Certificates	425	9%

In addition to formal education and professional certifications, the DoD Financial Management (FM) program requires accounting (including auditors) and budget employees to complete FM Certification Training within two years after taking a relevant assignment or being notified that they need the certification. The initial year of formal reporting was 2016, and for a majority of DCAA auditors, the deadline to complete FM certification was June 30, 2016. As of that date, 3,442 DCAA employees achieved FM Certification – a 100% completion rate for the June deadline. Additionally, as members of the DoD acquisition community, our auditors must complete certification requirements under the Defense Acquisition Workforce Improvement Act (DAWIA). Approximately 94 percent of our staff are DAWIA certified.

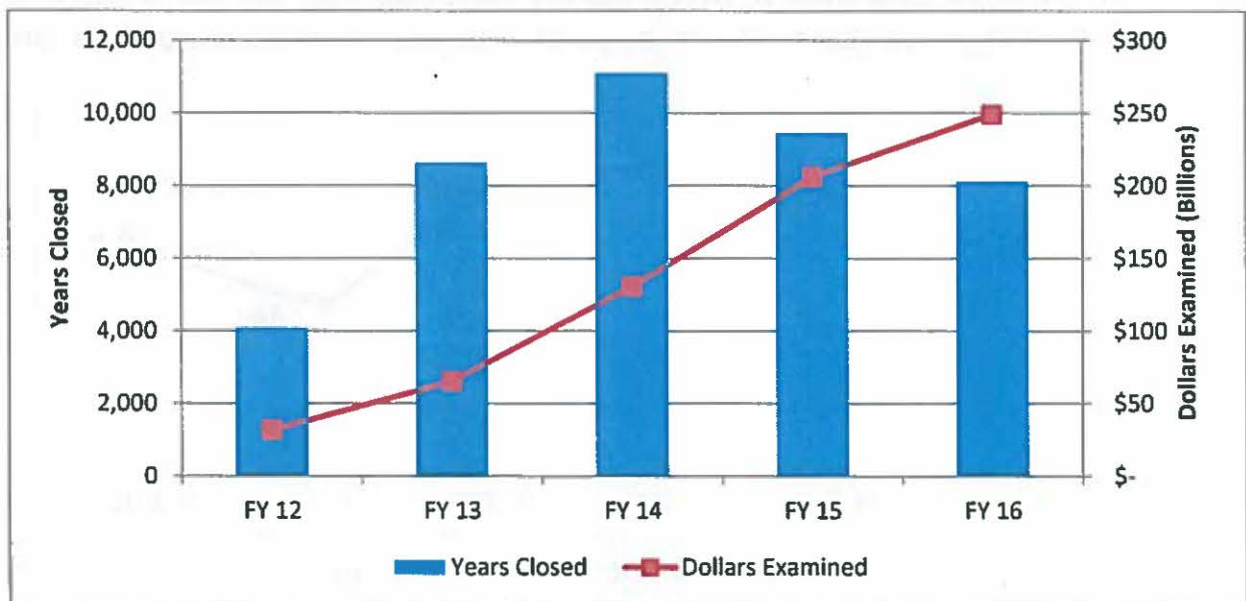


### 3. FY 2016 AUDIT PERFORMANCE

**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 \$286.7 billion in contract costs, issued 4,269 audit reports, identified over \$9.9 billion in audit exceptions, reported \$3.6 billion in net savings, and produced a return on investment of about \$5.70 to \$1. In addition to making steady progress on the incurred cost backlog, the Agency also continued to conduct other audits to help contracting officers establish fair and reasonable prices and reduce the risk of contractor overpayments.

**(1) Incurred Cost.** DCAA has focused on reducing the incurred cost backlog for the last few years. This effort began by establishing dedicated incurred cost audit teams in FY 2012 and later developing innovative techniques for more efficient audits, including multi-year vs. single-year incurred cost audits and sampling low risk audits based on materiality thresholds. The 2016 National Defense Authorization Act (NDAA) required DCAA to stop audits at non-DoD entities until the incurred cost backlog was less than 18 months. On September 14, 2016, the USD(C) certified that DCAA had succeeded by reaching an average age of 17.6 months at the time of certification.

Major contractors made up a significant proportion of the mix of the years examined, and we finished the year with 8,100 incurred cost years closed—a notable number given that a single incurred cost year for a major contractor contains many contracts, higher dollars, and increased complexities (Figure 2). Because of our staffing shortages and increased work to close each major contractor incurred cost year, we completed fewer years than in FY 2015. However, we increased the dollars examined by 20 percent, going from \$206 billion in FY 2015 to \$249 billion in FY 2016. We were able to facilitate the closure of thousands of contracts, making FY 2016 a highly productive year for reducing the incurred cost backlog.



**Figure 2 – Incurred Cost Years Closed and Dollars Examined**

(2) **Net Savings.** In FY 2016, DCAA reported net savings of \$3.6 billion, which represents an increase of \$500 million in reported net savings from last year (Figure 3). FY 2016 marks the sixth consecutive year that the Agency returned over \$3 billion in savings to the Government.



Figure 3 – DCAA Net Savings (billions)

(3) **Return on Investment.** DCAA is conservative when reporting savings and return on investment (ROI), foregoing projections of potential or future savings and only reporting actual savings based on contract actions taken by Government contracting officers. In FY 2016, the return on taxpayers’ investment in DCAA was about \$5.70 for each dollar invested, savings that DoD can return to the Treasury or reinvest in the warfighter (Figure 4). The FY 2016 ROI represents a \$0.90 increase from FY 2015.

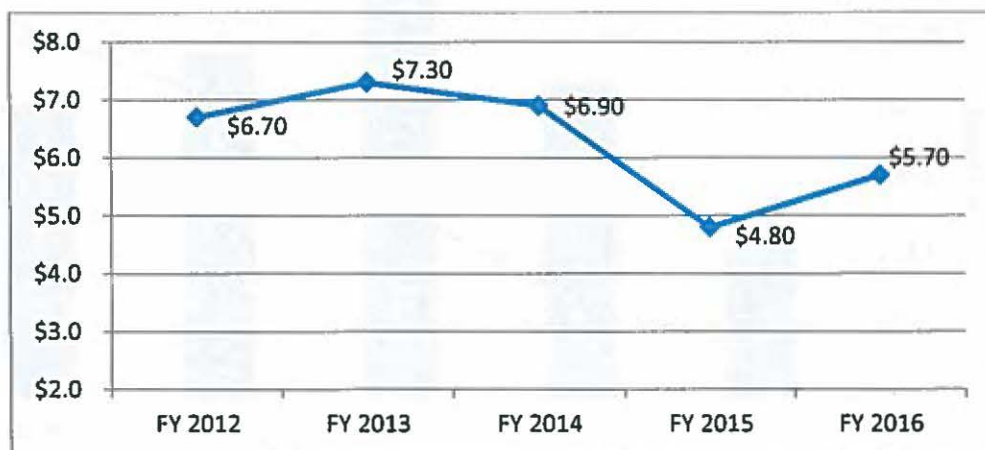


Figure 4 – DCAA Return on Investment

Net savings drive ROI and several factors contributed to the increase in FY 2016, including greater sustention rates in forward pricing proposal audits and the higher dollars associated with these audits.

- B. Questioned Cost Sustained.** In FY 2016, DCAA dispositioned contract actions based on contract negotiation data from contracting officials, which showed a sustention of \$4.7 billion of \$9.0 billion of questioned costs. Table 2 compares questioned costs and sustention data for FYs 2012-2016.

**Table 2 – Questioned Cost Sustained (billions)**

	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Questioned Costs	\$ 8.5	\$ 9.6	\$ 12.3	\$11.7	\$ 9.0
Questioned Costs Sustained	\$ 4.5	\$ 5.1	\$5.7	\$5.9	\$ 4.7
Percent Sustained	52.2%	52.8%	46.4%	50.6%	52.5%

DCAA attributes the increase in savings and sustention rates over the past two years to the success of its initiatives to better engage contracting officers before, during, and after the audit. Continually engaging with contracting officers allows DCAA to provide timely, relevant, audit expertise throughout the audit, which assists the contracting officer during all phases of the procurement cycle, including negotiations.

- C. Audit reports completed in FY 2016.** DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit that DCAA completes, whether before or after contract award, supports government officials who negotiate prices and settle contracts for major weapons systems, services, and supplies. When conducting an audit, DCAA evaluates whether contractor business practices and procedures are in accordance with the FAR, DFARS, Cost Accounting Standards (CAS) and other applicable government laws and regulations. Contracting officers may also request certain specific information such as an independent financial opinion on specific elements of a contract or an assessment of compliance with specific acquisition regulations or contract terms. In FY 2016, DCAA identified over \$9.9 billion of audit exceptions as a result of the 4,269 audits performed.

**Table 3 – FY 2016 Audit Reports Completed**

Forward Pricing	873
Special Audits	981
Other Audits	312
Incurred Cost	2,103
Total	4,269



(1) **Forward Pricing.** Forward pricing audits are generally completed *before* contract award where DCAA evaluates a contractor's estimate of how much it will cost the contractor to provide goods or services to the Government. Accurate contract prices are the starting point for fair and reasonable prices throughout the acquisition process because subsequent costs are often based on the initial estimated contract costs.

(2) **Special Audits.** Special audits can be conducted *before or after* contract award. Most of the reports in this category are issued in response to requests from contracting officers who need an independent financial opinion on specific elements of a contract or on a contractor's accounting business system in order for the contract work to proceed. Special audits are conducted *after* contract award primarily to address circumstances where contracts are adjusted for changes or are partially or fully terminated before completion. These circumstances represent complex and high-risk audits where DCAA must carefully evaluate the cost of original contract work from the changed scope of work.

(3) **Other Audits.** Other audits primarily consist of audits performed *after* contract award and can be requested by a contracting officer or initiated by DCAA. DCAA typically initiates this type of audit when there is potential for a high risk for misallocation or mischarging of costs. The majority of the audit effort in this category focuses on adequacy of the contractor's Cost Accounting Standards Disclosure Statement, compliance with cost accounting standards, assessment of contractor Cost Impact Statements for noncompliances, review of contractor business systems, and contractor compliance with the Truth in Negotiation Act (TINA). Other audits also include real-time testing of labor and material costs (i.e., verification of current actual cost and price data that cannot be confirmed in the following year), which enables DCAA to immediately notify the contracting officer of any deficiency.

(4) **Incurred Cost.** Incurred cost audits determine the accuracy of 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.

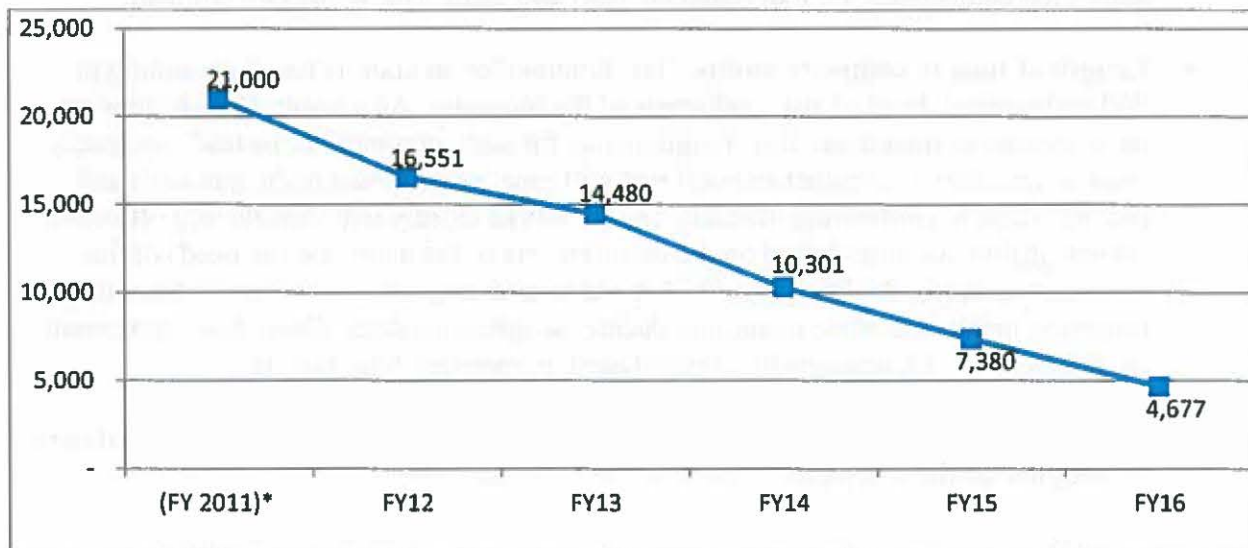
**D. Pending Audits.** DCAA's management information system does not formally separate audits into a "pending" category. A contractor is required to submit a certified incurred cost submission of its costs incurred for each year of contract performance when the contract price is not fixed at time of contract award. Incurred cost submissions received but not started are part of DCAA's incurred cost inventory and could be considered as pending.

Incurred cost submissions may be provided to DCAA at any time and can cover a range of prior fiscal years. After receiving an annual incurred cost submission, DCAA auditors will review it to determine if the submission and supporting data are adequate and in

accordance with the FAR. If the submission is not adequate, it is returned to the contractor for correction and resubmission. When a submission is determined to be adequate, it becomes part of DCAA's inventory of incurred cost audits.

For inventory purposes, the date is determined by date of submission, not date costs were incurred. Audits for the past two fiscal years are considered part of the "regular inventory," while audits older than two fiscal years are considered "backlogged." There are several reasons for maintaining two years of incurred cost as current inventory. First, by auditing two years together, we are 40 percent more efficient than doing each year individually. Conducting these multi-year audits is one of our key efficiency initiatives that reduced the time to complete backlogged incurred cost years. Because of our success, we can now apply the same method to our current inventory and use our resources more effectively. In addition, we believe that multi-year audits also reduce the burden on contractors and the time they spend responding to requests for data.

At the end of FY 2016, DCAA had 4,677 submissions in backlog inventory (Figure 5). Until the recent 2017 hiring freeze, DCAA was planning to meet its target of eliminating the backlog by the close of FY 2018. However, we are currently reassessing our projections to determine how the new hiring freeze will impact our ability to meet our target date.



\* Baseline

Figure 5 – Incurred Cost Backlog FY 2011 - FY 2016

**E. 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 (forward pricing, special audit, other audit or incurred cost), as well as the risk factors within individual audits, regardless of type. Contracts considered "high-risk" typically involve significant costs, poor contractor performance in the past, or circumstances that reduce the incentive to control costs, such as those inherent in cost-type contracts. In FY 2016, the highest priority audits were those related to forward pricing and incurred cost.



Forward pricing audits net the highest rate of return, and they are also time sensitive and need to be completed before contract negotiations occur to be of value. We have found that proactive and ongoing engagement with contracting officers increases our effectiveness. Throughout FY 2016, DCAA continued to build on successful initiatives to engage with contracting officials at all levels, confirm that we are focusing on the highest risk contract actions, and ensure that we are providing the right audit services to meet their needs. In addition, proactively engaging with the contracting officer and contractor prior to receiving the contractor's proposal has been highly successful, enabling us to understand audit requirements early, plan for appropriate staffing, and meet contracting needs in a timely manner.

Incurred cost audits continue to be a priority, both to facilitate the contract closeout process and to reduce the incurred cost backlog. Getting current on incurred cost means that we can conduct these audits closer to the year the costs were actually incurred, which will improve our ability to retrieve relevant records, ease contractor burden, encourage better compliance, and identify issues that may impact future audits.

As stated above, other audits are a high priority when DCAA or the contracting officer identifies a high risk area such as inadequate business systems. DCAA assigns priority to additional audits based on individual contract and audit risks to the Government.

- F. Length of time to complete audits.** The timeline for an audit is based on audit type, dollars involved, level of risk, and needs of the requester. As a result, DCAA does not have specific or mandatory time requirements for audit completion; instead, we assess what is necessary to conduct an audit that will meet professional audit standards and provide value 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. Once these agreements are reached, DCAA assesses timeliness based on meeting those targets.

In FY 2016, we continued to reduce or remained consistent on the average elapsed days to complete audits compared to the prior year (Figures 6-9).

(1) **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. We have reduced elapsed days for forward pricing by 20 percent since FY 2012 (Figure 6).



Figure 6 – Forward Pricing average elapsed days

(2) **Special Audits.** The time to complete a special audit is measured from the date we receive the audit request to the date we issue the audit report. We have reduced our elapsed days for special audits by 39 percent since FY 2012 (Figure 7).

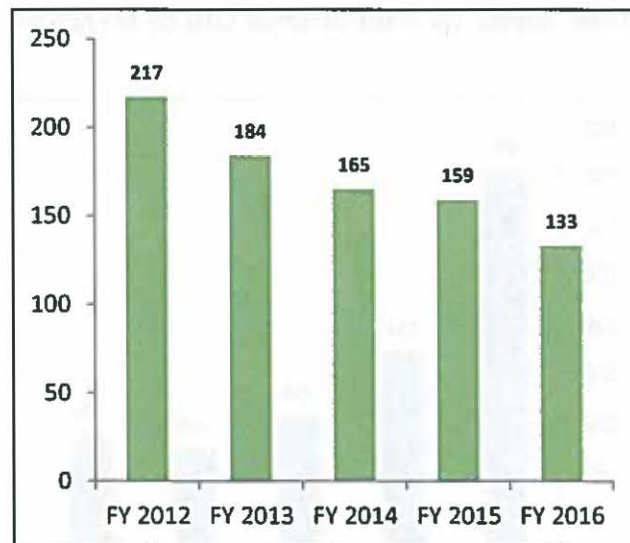
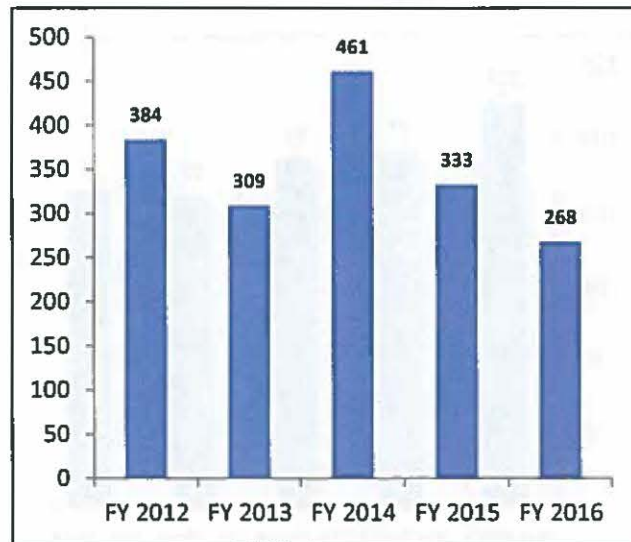


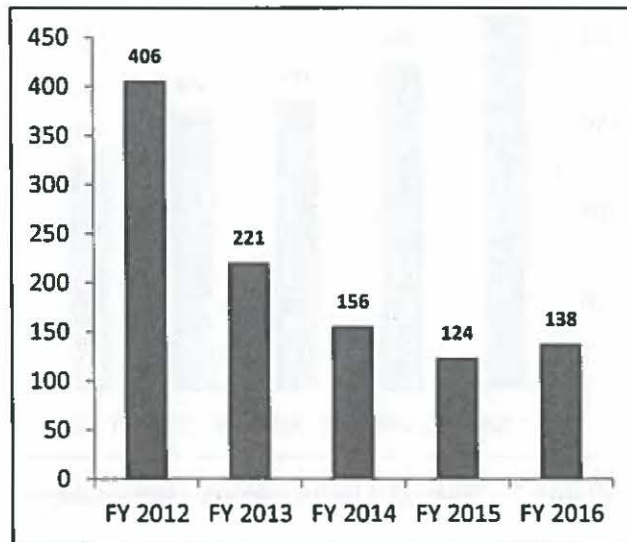
Figure 7 – Special Audits average elapsed days

(3) **Other Audits.** The time to complete other audits is generally measured from the time audit work began to the date of the audit report issuance. In FY 2016, we reduced our elapsed days for other audits by 30 percent compared to FY 2012 (Figure 8).



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

(4) **Incurred Cost.** The time to complete an incurred cost audit is the time between the entrance conference date and report issuance. Historically in the Report to Congress, elapsed days have been measured as the time between receipt date of an adequate incurred cost proposal and report issuance. A more precise indicator of active engagement is elapsed days between the entrance conference and report issuance. In FY 2016, we reduced our elapsed days for incurred cost by 66 percent compared to FY 2012 (Figure 9)\*.



**Figure 9 – Incurred Cost average elapsed days**

\* Note: Had we maintained our previous measure to calculate elapsed days based on receipt day, our elapsed time would still reflect a 25 percent reduction from FY 2012 to FY 2016 (FY 2012: 1184 days, FY 2016: 885 days).



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

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

- A. Early DCAA Engagement on Congressional Proposals.** To ensure that DCAA is well positioned to help Congress meet its goals through acquisition reform, DCAA must be engaged early in the legislative proposal process to share the status of operational plans already underway that may address desired outcomes. The effects of some recent congressional actions have alerted us to the importance of working with Congress as they develop these proposals to ensure they have the information critical for their decisions. We support improvements to the acquisition process and believe that by working with Congress to understand the overall objectives from the outset, we can more effectively help them accomplish those objectives, capitalize on progress already made, and prevent potential disruptions to audit process efficiencies.
  
- B. Assistance in Maintaining a Steady Level of Staffing.** DCAA's inability to maintain a steady level of staffing has presented a major barrier and hindered our ability to successfully accomplish our mission. To perform and sustain the full complement of contract audits that pose the greatest risk to the government, DCAA needs to have a steady workforce of approximately 5,100 employees. However, sequestration, furloughs, hiring freezes, and other funding limitations have prevented the Agency from hiring to this staffing level for several years. These circumstances, in turn, impact subsequent Agency budgets through Congressional marks that are largely based on DCAA's under execution of authorized funding levels. We repeatedly find that these staffing upheavals negatively affect workload projections, hinder training plans, and disrupt the professional development pipeline critical for meeting the high risk needs of our customers. We request the help of Congress to ensure that we can hire to our full staffing level of 5,100 necessary to execute the audits vital for protecting the government's interests. Since reaching its target in 2012, DCAA has seen significant staffing fluctuations (Figure 10).

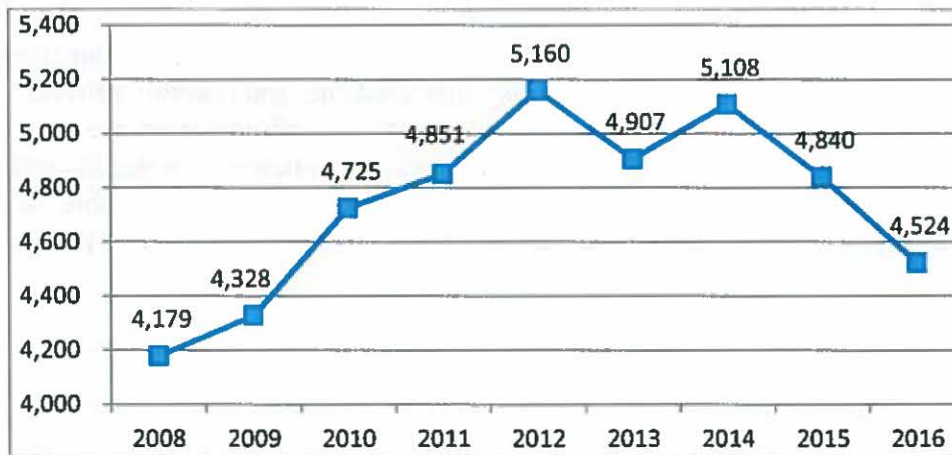
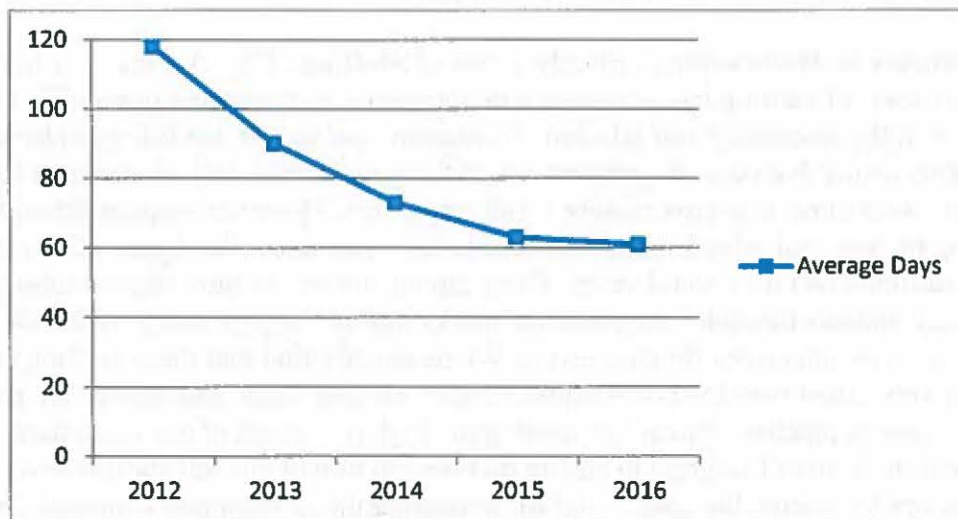


Figure 10 – DCAA Staffing Levels

## 5. OUTREACH ACTIONS TOWARD INDUSTRY

DCAA continued to proactively engage with industry to clarify audit requirements, understand and address contractor concerns, and improve acquisition and audit processes. Following is a summary of those outreach actions.

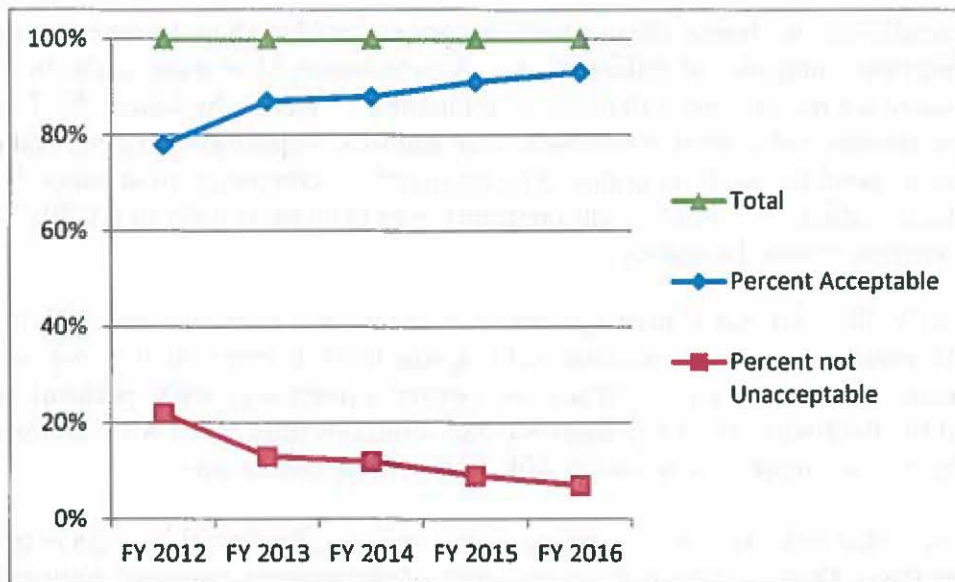
- A. Pre-Award Audits.** Pre-award audits determine whether the design of a contractor's accounting system is acceptable, which is a necessary condition for awarding cost type contracts. To better meet the needs of buying commands, DCAA prioritized these audits and developed tools to assist both contractors and auditors. As a result, DCAA has reduced the number of days to complete pre-award audits going from approximately 120 days in FY 2012 to about 60 days in FY 2016. Those measures, combined with effective communication between audit staff, contracting officers, and contractors, has allowed us to more quickly identify system deficiencies, provide workable solutions, and reduce the time between solicitation to award. Additionally, a part of our outreach to small businesses focuses on the necessary components of an acceptable accounting system, which we feel also contributed to this success.



**Figure 11 – Average Days to Complete Pre-Award Audits**

- B. Small Business Outreach.** DCAA continued its outreach to our small business community to clarify audit expectations, offer guidance and training, provide opportunities for discussion, and gather feedback on additional ways we can provide assistance. Our outreach has assisted small business contractors in significantly improving the rate at which their accounting systems are found acceptable, from about 78 percent in FY 2012 to just over 90 percent in FY 2016 (Figure 12, next page).





**Figure 12 – Pre-Award Accounting Systems Percent Acceptable vs Not Acceptable**

Other DCAA efforts included the following:

- Conducting 64 small business seminars that offered training and guidance
- Holding semi-annual meetings with National Defense Industrial Association (NDIA) and Small Business Technology Council (SBTC) representatives to discuss and find solutions for small business concerns
- Working closely with DoD Office of Small Business Programs (OSBP), Small Business Administration National Ombudsman's Office, and Procurement Technical Assistance Centers (PTAC) to ensure effective outreach and consistent communication with small businesses
- Proactively monitoring and resolving systemic issues related to small businesses
- Developing a Small Business section on DCAA's public web site to help small businesses find helpful information and contacts

At the completion of many seminars, the attendees express increased interest in pursuing opportunities to work with the government thereby expanding the base of suppliers in the federal marketplace.

**C. Business System Initiatives.** DCAA is responsible for auditing three types of Business Systems; Accounting systems, Estimating systems, and Material Management and Accounting Systems (MMAS). Through these audits, DCAA gains an in-depth system understanding, which increases efficiencies and reduces some of testing and sampling necessary during the audit.

In recent years, DCAA has focused its limited resources primarily on high-risk forward pricing and incurred cost audits and, as a result, we performed few business system audits. However, in FYs 2015-2016, DCAA began an initiative for auditing high-risk MMAS and Estimating Systems. Using dedicated resources to ensure timely audit

completion, we tested existing audit programs for MMAS and estimating systems in multiple companies of different sizes. We conducted 21 of these audits in FY 2016, issued six reports, and will issue the remaining 15 reports by March 2017. Based on what we learned and extensive feedback from auditors, acquisition partners, and contractors, we updated the audit programs to be applicable to companies of all sizes. We published the modified, fully tested audit programs to field auditors early in FY 2017 to extend this expertise across the agency.

In FY 2017, DCAA is investigating ways to leverage internal audit work performed by the contractor without violating auditing standards. In one initiative, we will conduct an audit at Textron Corporation and use Textron's internal group to perform certain portions of the fieldwork. The knowledge we gain from this joint effort will help expand this practice in future system audits with other willing contractors.

In another initiative, we are asking contractors to submit working papers from the Sarbanes-Oxley testing performed as part of its financial statement audit and other internal accounting system audits. This initiative will allow us to explore ways that we can use this existing work in contract audits and gain further efficiencies.

## 6. SIGNIFICANT FY 2016 ACTIVITIES AND THEIR IMPACT

In addition to core audit actions, DCAA had numerous significant organizational accomplishments in FY 2016. Some of these accomplishments are summarized below.

**A. Improvement in Meeting Agreed-to Dates.** In FY 2016, DCAA continued its steady improvement in meeting agreed to dates and finished the fiscal year with a success rating of 79 percent (Figure 13). DCAA's ability to meet agreed to dates is essential to help the acquisition community keep the contract award process on track, and we constantly seek out new ways to improve internal processes, communication, and timeliness of audits without compromising audit quality. Fueling our progress is our commitment to meeting early with buying commands and DCMA to reduce duplication of effort, clarify roles and responsibilities, and establish realistic timelines. Forward pricing proposal reviews, for example, require the collaborative efforts of DCAA auditors and technical specialists, DCMA price/cost analysts, military service price analysts, and others. Through close, early coordination, DCAA helps to ensure that we have the right people doing the right work without duplicating efforts. DCAA's focus has been to steadily improve its responsiveness and has set a goal at approximately 80 percent. There is no expectation for this metric to reach 100 percent because circumstances out of DCAA's control may occur during the audit that prevent DCAA from meeting the original agreed-to date. For example, auditors are often asked by the contacting officer to delay the issuance of a report pending receipt of additional information or adjust its scope based on new information. DCAA continues to assess the root causes for missing agreed-to dates to further improve responsiveness.

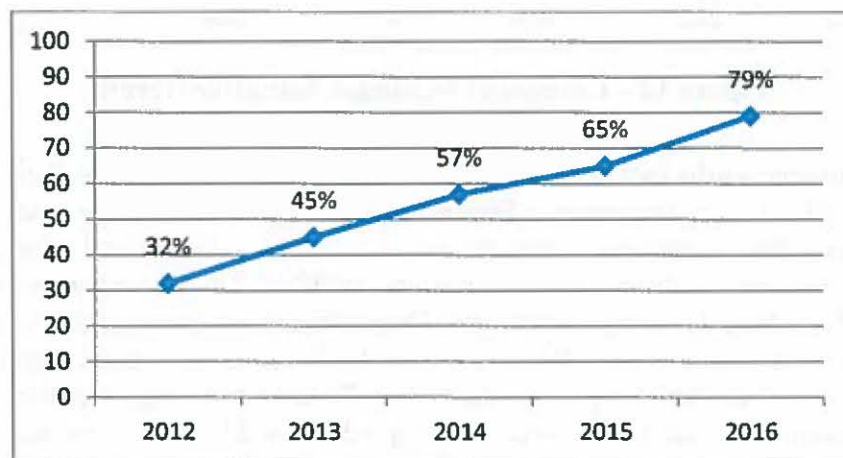


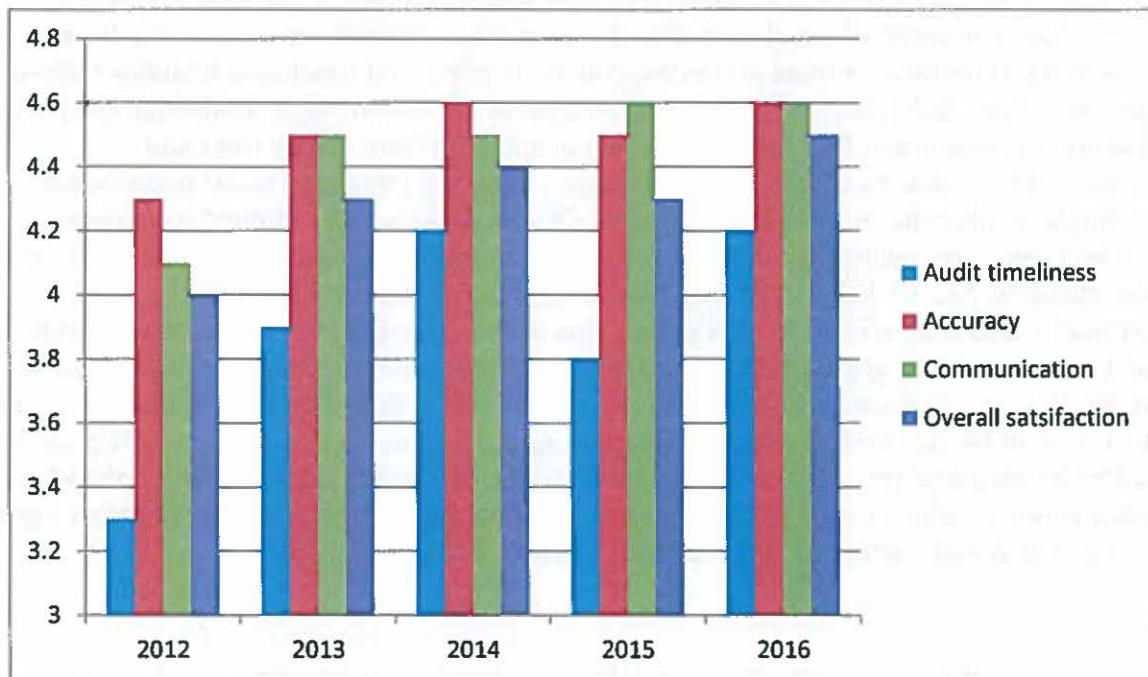
Figure 13 – Agreed to Dates Met

**B. Command Feedback Initiative.** DCAA developed the Command Feedback Initiative (CFI) to focus our efforts to improve the audit process and better meet customers' needs. We use a five-point scale in our survey and have seen steady increases in customer satisfaction since we set our baseline in 2012. We administer the CFI primarily through in-person interviews for customer feedback on audit timeliness, accuracy, communication, and overall satisfaction. Quarterly, we share the results with the responsible field offices and executive



leadership to recognize excellent work, take corrective action, and make other improvements in a timely manner.

From 2012 to 2016, the CFI results indicate improvements in all areas (Figure 14). On average, we perform approximately 200 surveys per year for both DoD and Non-DoD customers. These improvements are the result of our steadfast commitment to effective customer communication before, during, and following the audit.



**Figure 14 – Command Feedback Initiative Results**

- C. Defense Contract Audit Institute.** DCAA’s Defense Contract Audit Institute (DCAI) received the 2016 Under Secretary of Defense (Acquisition, Technology, and Logistics) Defense Acquisition Workforce Development Award for its New Hire Training Continuum. The first step in a new auditor’s career is training at DCAI. Our new employees benefit from a revamped New Hire Training Continuum. The continuum consists of multiple courses including New Hire Onboarding, Basic Contract Audit Skills, and Audit Applications. Between these courses, new employees have specific tasks to complete at their office in an on-the-job-training format. Our efforts are designed to quickly make new auditors successful on the job and confident in handling more complex audits.
- D. Federal Employees Viewpoint Survey.** The results of the 2016 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 six major categories: work experience, work unit, agency, supervisor, leadership, and overall satisfaction. About 4,200 DCAA employees received the survey and over 3,200 responded, a 75 percent response rate. This rate is significantly higher than both the DoD and government wide response rate, an indicator that DCAA employees believe their leadership will take action in response to survey findings.

All DCAA scores were higher in 2016 than in 2015 with improvements ranging from 1 percent to 8 percent. Our consistently high scores are a result of continued employee engagement, improvements in communication, and a focus on employee development.

DCAA's position in the Best Places to Work ranking of Federal Government organizations have continued to be very positive compared to several years ago. DCAA's rank in 2016 was 109<sup>th</sup> out of 305. DCAA's average positive response rates over the last years have remained steady and significantly above the median for all categories.

- E. Task Force 2010.** DCAA is part of a unique mission supporting contingency operations called "Task Force 2010, Vendor Vetting." DCAA auditors team up with other investigative specialists to prevent taxpayer dollars from flowing to terrorists and other bad actors. The Vendor Vetting mission is "No Contracting with the Enemy," and this Kuwait-based team prevents anyone who would harm the US and our deployed troops from receiving US contracts or gaining access to US installations. DCAA auditors use their contracting and analytical skills to identify open contracts and links between nefarious actors and other contractors. DCAA's detailed audit report, together with expert analysis and intelligence information provided by other specialists on the team, provides the basis for determining the status of suspicious contractors.

During FY 2016, Task Force 2010 vetted 1,890 vendors in Afghanistan, Iraq, Jordan and Syria. Based on 683 Contractor Assessment Reports, the team identified \$4.5 billion dollars of open contracts that warrant further investigation and additional contracting determinations.



## 7. OUTLOOK

DCAA is an important member of the acquisition community with a unique and valuable mission. Our new organizational structure will increase communication and coordination with major defense contractors while allowing our regional directors to focus on small and mid-sized contractors. We will continue to develop innovative ways to improve the audit process and make our services more responsive to the needs of acquisition community. We are ready for the challenges of the future and look forward to continuing to serve the warfighter and taxpayer.

## ACRONYMS

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



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