

Fiscal Year (FY) 2012 Budget Estimates

Defense Contract Audit Agency (DCAA)



February 2011

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DEFENSE CONTRACT AUDIT AGENCY
Operation and Maintenance, Defense-Wide
Fiscal Year (FY) 2012 Budget Estimates

Operation and Maintenance, Defense-Wide Summary (\$ in thousands)

Budget Activity (BA) #: Administrative and Service-wide Activities

	<u>FY 2010</u> <u>Actuals</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2011</u> <u>Estimate</u>	<u>Price</u> <u>Change</u>	<u>Program</u> <u>Change</u>	<u>FY 2012</u> <u>Estimate</u>
DCAA	479,860	3,112	3,171	486,143	266	22,413	508,822

* The FY 2010 Actual column includes \$15,008 thousand of FY 2010 OCO Appropriations funding (PL 111-118); and includes \$8,800 thousand of FY 2010 Supplemental Appropriations Act funding (PL 111-212).

* The FY 2011 Estimate column excludes \$27,000 thousand requested in the FY 2011 Defense-Wide Overseas Contingency Operations Budget Request.

* The FY 2011 Estimate column reflects the FY 2011 President's Budget Request.

* The FY 2012 Estimate column excludes \$23,478 thousand requested in the FY 2012 Defense-Wide Overseas Contingency Operations Budget Request.

I. Description of Operations Financed: www.dcaa.mil The Defense Contract Audit Agency (DCAA) is responsible for providing audit services and financial advice to all Department of Defense (DoD) acquisition officials to assist them in achieving fair and reasonable contract prices and assuring compliance with contractual terms and conditions. The DCAA responds to specific acquisition official requests for services across the entire spectrum of contract financial and business matters as well as fulfilling recurring audit work required to monitor cost performance and approve contract payments. The DCAA provides contract audit support to all DoD components as part of the military operations and reconstruction effort in Iraq and Afghanistan. The DCAA also supports the Iraq and Afghanistan effort of other Federal Agencies such as the State Department and U.S. Agency for International Development on a reimbursable basis.

Significant changes between FY 2011 and FY 2012 include additional workyears for auditors to ensure that DCAA conducts the Department's audits to the highest auditing standards.

The DCAA continues to return savings to the Government that exceeded the cost of its operations. In FY 2010, the Agency audited \$34 billion of costs incurred on contracts and reviewed 5,689 forward pricing proposals amounting to \$185 billion. Approximately

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\$2.9 billion in net savings were reported because of the audit findings. **The return on taxpayers' investment was approximately \$5.14 for each dollar invested** (\$560 million in FY 2010, including reimbursables).

Projected staffing requirements correspond to planned changes in DoD procurement levels and required effort to complete audits of prior year contract expenditures. The DCAA workload is divided into the major functional categories described in the following table:

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<u>Execution of Workyears</u>	(1) <u>FY 2010</u>	(2) <u>FY 2011</u>	(3) <u>FY 2012</u>
1. Forward Pricing	1,307	1,073	1,009
2. Incurred Cost Effort:			
Regular Incurred Cost	1,072	1,514	1,542
CAS Compliance Audits	65	120	80
Total Incurred Cost	1,137	1,634	1,622
3. Operations Audits	22	35	40
4. Special Audits	606	558	480
5. Post-award Audits	33	117	102
6. Cost Accounting Standards: Disclosure Statements, Cost Impact Audits, Etc.	160	150	188
7. Other Direct Audit Effort:			
Procurement Support	214	251	223
Audit Support & Planning	455	362	430
Total Other Direct	669	613	653
8. Field Support:			
Regional Offices	269	300	321
Field Support	124	133	135
Total Field Support	393	433	456
9. Headquarters	144	144	161
Total Workyears	4,471	4,757	4,711

(1) Actual WYs including overtime plus Defense Acquisition Workforce Development Fund (DAWDF (438)).

(2) Includes O&M WYs of 4,183 plus DAWDF (574).

(3) Includes O&M WYs of 4,269 plus DAWDF (442).

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1. **Forward Pricing Effort.** The Federal Acquisition Regulations (FAR) and Public Law 100-679, Cost Accounting Standards (CAS), require DoD procurement officials to comply with various administrative procedures before entering into contracts. These procedures include obtaining pertinent accounting and financial advice before making decisions related to prospective contract prices. The ultimate goal of forward pricing audit effort is to assist contracting officers in determining and negotiating fair and reasonable prices for negotiated Government contracts. The DCAA furnishes pre-award services to contracting officers including:

a. Price Proposal Audits. The DCAA performs these examinations to determine the reasonableness of contractors' price proposals submitted in anticipation of negotiating Government contracts. Contracting officers request these audits, which must be accomplished within a short period to avoid delaying the procurement process. The DCAA has no control over the number or timing of price proposal audits and must respond to each audit request as top priority. The number of price proposal audits is expected to decline in FY 2011 and 2012 due to DoD guidance that raises the thresholds for when contracting officers should obtain DCAA audit assistance.

b. Forward Pricing Rate Reviews. The DCAA performs these examinations to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. Normally a contracting officer negotiates these rates separately; the contractor then uses the rates in subsequent price proposals.

c. Audits of Parts of Proposals and Agreed Upon Procedures. Audits of parts of proposals are audits of only specific cost elements within a proposal (e.g., only proposed material or labor costs, or overhead rates). Applications of agreed-upon procedures include cost realism reviews and all reviews of information other than cost or

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pricing data submitted in support of a price proposal. The DCAA provides these services to meet the specific needs of contracting officers.

d. Estimating System Surveys. The DCAA performs these examinations to determine the reliability of contractors' estimating methods and procedures used to prepare price proposals, and whether they provide a basis for negotiating fair and reasonable prices. Systems surveys may be either a joint team review combining experience and capabilities of the auditor and technical specialist, or comprehensive reviews performed solely by auditors. DCAA also recommends corrective actions on conditions causing deficiencies disclosed in price proposal evaluations or other audit areas which require immediate reporting and resolution. This category also includes the effort required to determine the status of corrective actions taken by contractors on previously disclosed deficiencies.

e. Responses to Requests for Specific Cost Information. This effort includes providing specific cost information to procurement officials on labor rates, overhead rates, and similar factors for smaller procurements when information is readily available within DCAA's files.

2. **Incurred Cost Effort.** The FAR requires DCAA to perform audits of claimed costs incurred and submitted by contractors for reimbursement under cost reimbursable, fixed price incentive, and other types of flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, FAR, and CAS rules and regulations, if applicable. The scheduling of incurred cost audits and CAS compliance audits is more flexible than customer requested audits; nonetheless, these audits must be accomplished for the Government to make final payment to the contractor. The incurred cost effort includes reviews of direct labor and material costs and indirect expenses. It also includes reviews of contractor accounting and management systems and related internal

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controls. Although the primary purpose of incurred cost audits is to express an opinion on the acceptability of costs claimed under Government contracts, knowledge of contractors' accounting and other internal control systems gained during these audits is invaluable to the evaluation of contractors' price proposals.

3. **Operations Audits.** The DCAA also performs a variety of economy and efficiency audits of contractor operations. The DCAA operations audits are systematic reviews of contractor organizational units and functions to evaluate the reasonableness of methods and practices employed on Government contracts.

4. **Special Audits.** The contracting officer normally requests these audits that include examinations of termination claims, progress payment requests, and equitable adjustment claims. They must be accomplished within a short period to avoid adverse effects such as additional claims for interest on amounts due. The DCAA has little control over the number or timing of these audits and must respond to all such requests as a priority. The special audits category also includes examinations of contractor earned value management systems which DCAA performs as part of a team lead by the Defense Contract Management Agency.

5. **Post-award Audits.** The Truth in Negotiations Act (TINA) (10 USC §2306a) requires contracting officers to obtain cost or pricing data from contractors before awarding a contract unless an exception applies. Under TINA the Government has the right to examine these records to ensure that cost or pricing data is accurate, current and complete. The DCAA is responsible for performing these audits, which assist in determining whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete, or current cost or pricing information in negotiating a contract.

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6. **Cost Accounting Standards (CAS).** Contracts and subcontracts that do not qualify for an exemption are subject to CAS coverage as a condition of Government contracting. The FAR assigns DCAA responsibility for examining contractors' implementation and compliance with the CAS rules and regulations.

7. **Other Direct Audit Effort.** The other audit-related activities include providing on-site assistance to procurement and contract administration offices, contract audit coordinator programs, and negotiation support. This activity also includes effort related to Congressional, Government Accountability Office (GAO), DoD Inspector General (DoD IG), and other external requests, surveys, and reports. The major functions are:

a. **Financial Liaison.** The DCAA maintains liaison advisors, as appropriate, at major procuring and contract administration offices. The primary functions of financial liaison advisors are to: (i) facilitate effective communication and coordination between procurement officers and auditors; (ii) provide DCAA management with information regarding specific awards, trends in type and volume of awards, and other data impacting on immediate or long range DCAA responsibilities; and (iii) provide DCAA management with information on the adequacy, responsiveness and timeliness of audit services rendered to procurement and contract administration offices.

b. **Contract Audit Coordinator (CAC) Program.** The DCAA established a CAC program at the largest DoD contractors whose accounting functions, operations, and contract performance occur at multiple locations under the audit cognizance of multiple DCAA field offices. The program maintains effective communications and audit coordination at these contractor locations. The CAC program includes effort to: (i) disseminate information; (ii) monitor problem areas to assure uniform resolution; and (iii) coordinate with other DCAA personnel, contractor representatives, and cognizant procurement officials on issues affecting multiple locations.

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c. Negotiation Conferences. A fundamental requirement of DCAA's mission is to provide contract audit services and to be the principal accounting and financial advisor to contracting officials. Many times, audit results involve complex accounting issues and/or quantitative analyses that dispute contractors' cost estimates or representations. On these occasions, the best interests of the Government are served by having auditors present at negotiations to further explain the audit position, perform analyses of additional contractor data presented at the negotiation table, and provide any other accounting and/or financial assistance the contracting officer may require during the negotiation process.

d. External Audit Interface. The DCAA develops information and comments on reports from the GAO, DoD IG, and other government inspector general offices. This activity also includes effort related to discussions and conferences, and any interface involving any other government audit organization.

e. Suspected Irregular Conduct (SIC). This activity represents effort expended related to SIC referrals, and responses to requests from investigative agencies or the Department of Justice regarding fraud or other irregular practices. The DCAA also develops evidence for presentation to an U.S. attorney or a grand jury, and/or for use at a trial.

f. Audit Support and Planning. The DCAA field offices prepare annual audit program plans for the upcoming year and work on projects and studies requested by the regions or Headquarters. The projects normally relate to new and/or innovative ways of performing DCAA's audit mission, and often add to the body of knowledge needed to enhance Agency mission accomplishment through the development and application of improved audit and/or audit management technology and techniques.

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8. **Field Support.** This category includes support personnel in the six regional offices, the Information Technology Division, Technical Audit Services Division, and Defense Legal Services.

a. Regional Offices. These offices provide technical audit management and supervision, and logistical support in the form of personnel services, financial management, and administrative services to field office personnel.

b. Defense Contract Audit Institute (DCAI). The DCAI develops and delivers training for approximately 4,000 contract auditors and is an affiliated member of the Defense Acquisition University. The DCAI directs and controls the development and delivery of classroom courses, seminars, computer based self-study courses, and internet-based, instructor-led courses. The DCAI has program management responsibility for training and career development in the DCAA. It assures that programs of instruction, courses, and training materials meet DoD standards, Generally Accepted Government Auditing Standards (GAGAS), and National Association of State Boards of Accountancy (NASBA) standards. The DCAI provides policy guidance to the regional offices and field audit offices, where appropriate, regarding training and education, and provides overall monitoring and evaluation of Agency training not conducted by the Institute. The DCAI ensures training materials are up-to-date and develops new courses when required by the changing audit environment. The DCAI, located on the south campus of the University of Memphis, also serves as a meeting center for various Agency groups. The Institute is co-located with the DCAA Information Technology Division and Technical Audit Services Center in Memphis, Tennessee.

c. Information Technology Division (OIT). OIT is responsible for the design, development, and maintenance of Agency-specific automated information systems (AIS), web applications and audit software. It employs a computer hardware acquisition

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strategy/plan to ensure that AIS and personal computing needs are satisfied. It is also responsible for operating the Agency-wide communications infrastructure, monitoring network performance, and managing DCAA's information assurance program.

d. Technical Audit Services Division (OTS). OTS conducts research and distributes information to the field on operations audits, quantitative audit techniques, computer assisted audit techniques, and other auditing topics that have Agency-wide application. OTS also provides technical assistance to auditors in planning reviews of contractor's electronic data processing systems and engineering operations; and supports the field offices in implementation of DoD electronic commerce initiatives.

e. Field Administrative Support. Field administrative support personnel provide administrative and resource management services to the Field Detachment, the Defense Contract Audit Institute, and the Defense Legal Services staff assigned to DCAA.

f. Defense Legal Service. This category includes personnel from the Defense Legal Service assigned to DCAA.

9. **Headquarters**. The DCAA Headquarters performs the work normally associated with the central office of a professional organization. It develops policy and promulgates instructions and operating directives needed to perform the Agency mission. It performs oversight reviews of regional and field office operations and audit quality, and advises regional offices on resource management matters, including recruitment and financial management. Headquarters personnel also interface with other DoD components and other Government agencies and Congressional committees on contract audit matters.

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II. Force Structure Summary: Not Applicable.

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III. Financial Summary (\$ in thousands)

	FY 2011						FY 2012 Estimate
	FY 2010 Actuals	Budget Request	Congressional Action			Current Estimate	
			Amount	Percent	Appropriated		
A. <u>BA Subactivities (BA) 4</u>							
1. Defense Contract Audit Agency	479,860	486,143				486,143	508,822
DCAA Operations	448,365	460,879				460,879	471,120
DCAA Communications	4,293	4,930				4,930	6,036
DCAA Major Headquarters	27,202	20,334				20,334	31,666
Memo: Audit Institute	8,023	7,065				7,065	8,107
DCAA Operations	8,011	7,053				7,053	8,095
DCAA Communications	12	12				12	12
DCAA Major Headquarters	-	-				-	-
Memo: Audit Operations	471,837	479,078				479,078	500,715
DCAA Operations	440,354	453,826				453,826	463,025
DCAA Communications	4,281	4,918				4,918	6,024
DCAA Major Headquarters	27,202	20,334				20,334	31,666

Total

* The FY 2010 Actual column includes \$15,008 thousand of FY 2010 OCO Appropriations funding (PL 111-118); and includes \$8,800 thousand of FY 2010 Supplemental Appropriations Act funding (PL 111-118).

* The FY 2011 Estimate column excludes \$27,000 thousand requested in the FY 2011 Defense-Wide Overseas Contingency Operations Budget Request.

* The FY 2011 Estimate column reflects the FY 2011 President's Budget request.

* The FY 2012 Estimate column excludes \$23,478 thousand requested in the FY 2012 Defense-Wide Overseas Contingency Operations Budget Request.

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<u>B. Reconciliation Summary</u>	<u>Change</u> <u>FY 2011/FY 2011</u>	<u>Change</u> <u>FY 2011/FY 2012</u>
Baseline Funding	486,143	486,143
Congressional Adjustments (Distributed)		
Congressional Adjustments (Undistributed)		
Adjustments to Meet Congressional Intent		
Congressional Adjustments (General Provisions)		
Subtotal Appropriated Amount	486,143	
Fact-of-Life Changes (CY to CY Only)		
Subtotal Baseline Funding	486,143	
Anticipated Supplemental	27,000	
Reprogrammings		
Price Changes		266
Functional Transfers		
Program Changes		22,413
Current Estimate	513,143	508,822
Less: Wartime Supplemental	-27,000	
Normalized Current Estimate	486,143	

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	Amount	Totals
C. Reconciliation of Increases and Decreases		
FY 2011 President's Budget Request (Amended, if applicable)		486,143
1. Congressional Adjustments		
a. Distributed Adjustments		
b. Undistributed Adjustments		
c. Adjustments to meet Congressional Intent		
d. General Provisions		
FY 2011 Appropriated Amount		486,143
2. War-Related and Disaster Supplemental Appropriations		27,000
a. FY 2011 Defense-Wide Overseas Operations Budget Request	27,000	
3. Fact of Life Changes		
FY 2011 Baseline Funding		513,143
4. Reprogrammings (requiring 1415 Actions)		
Revised FY 2011 Estimate		513,143
5. Less: Item 2, War-Related and Disaster Supplemental Appropriations and Item 4, Reprogrammings	-27,000	-27,000
FY 2011 Normalized Current Estimate		486,143
6. Price Change		266
7. Functional Transfers		
8. Program Increases		58,910
a. Annualization of New FY 2011 Program		
b. One-Time FY 2012 Increases		
c. Program Growth in FY 2012		

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C. Reconciliation of Increases and Decreases

Amount Totals

NOTE: By EOY FY 2011, DCAA will have hired 700 auditors via the Defense Acquisition Workforce Development Fund (DAWDF) - (508 hired through FY 2010 and additional 192 planned through FY 2011). In FY 2012, the full complement of 700 will be on-board and increases in support costs addressed below relate in part to these new hires; as only their pay, benefits and training travel can be paid with DAWDF. Supervisory management costs and all other support costs are paid for with baseline funding. Increases at the Defense Contract Audit Institute (DCAI) are associated with staffing growth including the impact of the DAWDF hires.

- | | |
|---|--------|
| 1) Resulting from the GAO reports on improved adherence to Generally Accepted Government Auditing Standards (GAGAS), the increase funds the pay and benefits of 125 direct workyears to ensure that DCAA conducts the Department's audits to the highest auditing standards. The FY 2012 request incorporates the following two outside review recommendations: that audit staff in regional offices be re-aligned at Headquarters in the new Quality Assurance Directorate. This group is aligned with the Agency Director / Deputy Director rather than the Regional Directors / Deputy Regional Directors thereby enabling greater independence. The second recommendation involves an expanded Internal Review Team to perform critical functions, such as serving as an Ombudsman between staff and DCAA management and addressing hotline complaints. (FY 2011 Base \$408,735K, +125 FTEs). | 16,814 |
| 2) Disability Compensation increased bill costs as of FY 2012 (FY 2011 Base \$1,233K). | 1,098 |
| 3) Permanent Change of Station (PCS) associated with realignment from Executive, General and Special Schedules. | 4,525 |

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C. Reconciliation of Increases and Decreases	Amount	Totals
4) Mission/training travel to support additional workyears (FY 2011 Base \$17,412K).	1,827	
5) DFAS program increase associated with staffing growth (including DAWDF) (FY 2011 Base \$4,032K).	714	
6) GSA rental payments associated with staff growth (FY 2011 Base \$12,780K).	345	
7) Equipment & supply cost associated with additional workyears including DAWDF (FY 2011 Base \$9,981K).	1,423	
8) Printing and reproduction costs associated with additional staffing (FY 2011 Base \$136K).	92	
9) Enhanced communications capabilities CONUS & OCONUS (i.e. VTC teleconferencing associated costs) (FY 2011 Base \$4,932K).	1,030	
10) Facilities maintenance costs associated with staffing increases/new offices and growth of \$377K (FY 2011 Base \$136K from Other Services).	513	
11) Furniture & equipment associated with staff growth/offices & enhanced communication capabilities (i.e. VTC teleconferencing) (FY 2011 Base \$4,111K).	2,052	
12) Baseline I.T. contracts (moving from Other Services to IT Contract Support Services).	7,619	
13) I.T. support contracts related to additional workyears and improving Help Desk support capabilities (FY 2011 Base \$7,619K).	1,100	
14) Secure network costs due to I.T. services required for re-accreditation purposes (FY 2011 Base \$7,619K).	3,900	
15) Other Intra-governmental purchases and program growth of \$463K associated with increased staffing (such as the OPM support agreement for recruiting assistance \$175K; DCAI Guard Services \$73K; and the State Department for Iran Claims Litigation for \$80K) (FY 2011 Base \$10,616K from Other Services and Other Costs).	11,084	

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C. Reconciliation of Increases and Decreases	Amount	Totals
16) Equipment Maintenance by Contract Realignment from Other Services of \$4,619K and program growth of \$159K associated with increased staffing / I.T. software maintenance (FY 2011 Base \$220K).	4,774	
9. Program Decreases		-36,497
a. Annualization of FY 2011 Program Decreases		
b. One-Time FY 2011 Increases		
c. Program Decreases in FY 2012		
1) One less paid day	-1,691	
2) Efficiencies: Fourth Estate Baseline Review identified a reduction of 39 Admin positions to streamline overhead costs (FY 2011 Base \$408,735K, -39 FTEs).	-5,000	
3) Efficiencies: Fourth Estate Baseline Review identified a reduced requirement for overtime (FY 2011 Base \$4,744K).	-600	
4) Efficiencies: Fourth Estate Baseline Review identified reduced requirements for Permanent Change of Station (PCS) costs (FY 2011 Base \$4,525K).	-1,700	
5) Efficiency decrease in travel requirements to implement more cost effective management of travel resources (FY 2011 Base \$17,412K).	-5,395	
6) Efficiencies: Fourth Estate Baseline Review identified decreased requirements for DFAS support costs associated with DFAS eliminating positions (efficiencies) (FY 2011 Base \$4,032K).	-153	
7) Efficiencies: Fourth Estate Baseline Review identified decreased requirements for DFAS support costs associated with increased DCAA usage of electronic leave and earnings statements versus mailed hard copies (FY 2011 Base \$4,032K).	-20	
8) Decrease in transportation of things associated with PCS reductions (FY 2011 Base \$1,362K).	-166	

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C. Reconciliation of Increases and Decreases	Amount	Totals
9) Decrease in other rents associated with office moving from Corps of Engineers space to GSA space (FY 2011 Base \$780K).	-123	
10) Decrease in utilities associated with office space requirements (FY 2011 Base \$38K).	-34	
11) Realignment from Other Costs to Other Intra-government Purchases.	-1,309	
12) Realignments from Other Services to Other Services, Equipment Maintenance - Contract, Other Intra-government Services, Facility Maintenance - Contract, and IT Contract Support Services (FY 2011 Base \$23,029K).	-20,301	
13) Efficiencies: Reduced reliance on Service Support Contractors (FY 2011 Base \$23,029K).	-5	
 FY 2012 Budget Request		 508,822

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IV. Performance Criteria and Evaluation Summary

DCAA's goal is to provide quality audit services performed in accordance with Generally Accepted Government Auditing Standards. The DCAA has developed audit performance measures which assess the quality of the audits, the timeliness of the audit services, and the efficient and effective use of budgetary resources.

Performance Based Measures

Overview. As a single mission organization, DCAA is chartered with the responsibility of providing a wide range of audit and financial advisory services supporting the negotiation, administration, and settlement of contracts for Government contracting officers. By virtue of this mission, DCAA must retain a cadre of trained, highly competent and professional employees. In a typical year, labor and related fringe benefits account for approximately 85 percent of DCAA's budget. Statutory and regulatory requirements, designed to ensure that the Government meets its fiduciary responsibilities to the public, drive the majority of DCAA's workload. In this capacity, DCAA supports the oversight and internal control responsibilities of the Office of the Secretary of Defense, the DoD Inspector General, the Government Accountability Office, and the Congress.

The DCAA performs audits primarily for contracting officers in the Departments of the Army, the Navy, and the Air Force, and the Defense Contract Management Agency. Audit services provided by DCAA are key to making contract decisions; they help contracting officers ensure that DoD components obtain the best value from the goods and services they purchase. The DCAA also performs - on a reimbursable basis - the majority of contract audit services for all other federal agencies.

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IV. Performance Criteria and Evaluation Summary

DCAA's Strategic Plan. DCAA issued a new Strategic Plan in November 2010. The Strategic Plan is founded on a new Mission Statement, followed by a Vision Statement, Values and Goals. To address key challenges and fulfill its mission, DCAA has developed a strategic planning approach which aims to achieve DCAA's Vision through its pursuit of several goals to be accomplished within a 5-year time frame.

DCAA Strategic Plan Goals

Goal 1: "One Agency" with a culture of teamwork, excellence, accountability, mutual respect, integrity, and trust.

Goal 2: High-quality audits and other financial advisory services.

Goal 3: Highly skilled and motivated professionals dedicated to excellence in accomplishing our mission.

Goal 4: Effective working relationships with DCAA external stakeholders.

Goal 5: The workforce has the right space, the right equipment, and the right technology at the right time to successfully deliver on the mission.

Alignment between the Performance Measures and DCAA's Planning, Programming, Budgeting, and Execution System (PPBES) Process. DCAA's Performance Measures support decisions on budget requests and are meaningful for assessing the Agency's performance. The costs per direct audit hour and timeliness measures are used to identify the costs of performance and assess the impact of fiscal constraints. The DCAA executives receive information monthly regarding the results of the audit performance measures. The DCAA executives consider possible influencing factors, such as cost-benefit analysis and process improvements, which could impact the outcome of the previously developed goals.

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IV. Performance Criteria and Evaluation Summary

Summary of Performance Based Measures. The chart below summarizes our Audit Performance Measures. As stated, DCAA recently issued an entirely new Strategic Plan. However, performance measures that align with the new goals have not yet been established. As a result, the audit performance measures discussed below may change for FY 2011 and 2012. Detailed descriptions are provided for each of the existing measures.

<u>Notes</u>	<u>Audit Performance Measures</u>	<u>FY 2010 Actual</u>	<u>FY 2011 Objective (Est.)</u>	<u>FY 2012 Objective (Est.)</u>
	<u>Quality Related Measures:</u>			
1	DoD IG Opinion on Council of Inspectors General on Integrity and Efficiency (CIGIE) Review	No Current Opinion	Unqualified Opinion	Unqualified Opinion
2	DCAA Internal CIGIE Reviews	73%	TBD	TBD
3	Quantitative Methods Usage	23%	TBD	TBD
4	CPE Requirements	98%	100%	100%
	<u>Timeliness Measures:</u>			
5	Forward Pricing Audits Issued by Due Date	75%	TBD	TBD
6	Corporate Incurred Cost Completed in 12 Months	10%	TBD	TBD
7	Major Incurred Cost Completed in 15 Months	48%	TBD	TBD
8	Nonmajor Incurred Cost Completed in 24 Months	44%	TBD	TBD
	<u>Efficiency Measure:</u>			
9	Cost per Direct Audit Hour	\$132.80	TBD	TBD

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IV. Performance Criteria and Evaluation Summary

Description of Performance Measures:

1. Opinion received from the Department of Defense Inspector General (DoDIG) on the Council of Inspectors General on Integrity and Efficiency (CIGIE) reviews. The Government Auditing Standards, as promulgated by the Government Accountability Office, requires each audit organization that conducts audits in accordance with these standards have an internal quality control system in place and undergo an external quality control review. The internal quality control system established by each audit organization should provide reasonable assurance that it has (1) adopted, and is following, applicable auditing standards and (2) established, and is following, adequate audit policies and procedures. Organizations conducting audits in accordance with these standards should have an external quality control review at least once every three years by an organization not affiliated with the organization being reviewed. These external quality control reviews are conducted based on guidelines established by the CIGIE. The DCAA's external reviewer is the DoDIG. An unqualified opinion represents full compliance with auditing standards with no reportable deficiencies.

2. DCAA Internal CIGIE Results. The DCAA uses this measure to validate the quality of audits completed. DCAA's Quality Assurance organization performs these reviews. The FY 2011 and 2012 goals for this measure have not yet been established.

3. Quantitative Methods Usage. The DCAA uses this measure to monitor the extent to which advanced level audit techniques such as statistical sampling, improvement curves, and regression analysis are used. The goal is set at a level to encourage use when applicable, but not so high as to promote the use of quantitative techniques when they

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are not appropriate. The FY 2011 and 2012 goals for this measure have not yet been established.

4. Continuing Professional Education Requirements. All DCAA audit staff members must complete 80 hours of continuing professional education (CPE) over a two year period in accordance with the GAGAS published by the GAO. The CPE requirement is consistent with DCAA's Strategic Plan goals for professional competence. The DCAA goal is for 100 percent of auditors to complete the minimum Continuing Professional Education requirements.

5. Percent of forward-pricing proposal audit reports issued by the agreed-to due date. Contracting officers in the process of negotiating prices for new contracts request audit advice on the reasonableness of the contractor's proposed prices from DCAA. DCAA's ability to provide these audit services in a timely manner is critical to the timely awarding of contracts. The DCAA measures the percent of forward pricing proposal audit reports issued by the due date agreed to between the auditor and requester. The FY 2011 and FY 2012 goals have not yet been established.

6. Percent of corporate contractor incurred cost audits issued within required timeframes. Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting officers and an important initiative for the Department of Defense. For corporate contractors, the FY 2011 and 2012 goals have not yet been established.

7. Percent of major contractor incurred cost audits issued within required timeframes. Timely annual audits of costs incurred on contracts by Defense Contract Audit Agency (DCAA) are an important part of timely contract closeout for Government contracting

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officers and an important initiative for the Department of Defense. For major contractors (contractors with over \$100 million of auditable contract dollars per year), the FY 2011 and 2012 goals have not yet been established.

8. Percent of non-major contractor incurred cost audits issued within required timeframes. Timely annual audits of costs incurred on contracts by DCAA are an important part of timely contract closeout for Government contracting officers and an important initiative for the DoD. For non-major contractors (contractors with less than \$100 million of auditable contract dollars per year), the FY 2011 and 2012 goals have not yet been established.

9. Cost Per Direct Audit Hour (CPDAH). The CPDAH metric measures the control of operating costs. To assess overall success in managing operating costs from year to year, each year's goal is set at a rate that will not exceed the prior year's rate when restated in constant dollars. The FY 2011 and 2012 goals have not yet been established.

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V. <u>Personnel Summary</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	Change FY 2010/ FY 2011	Change FY 2011/ FY 2012
<u>Civilian End Strength (Total)</u>	4,217	4,375	4,505	158	130
U.S. Direct Hire	4,211	4,369	4,499	158	130
Foreign National Direct Hire	1	1	1		
Total Direct Hire	4,212	4,370	4,500	158	130
Foreign National Indirect Hire	5	5	5		
Memo: Reimbursable Civilians Included	437	494	494	57	0
Civilian FTEs (Total)	3,960	4,183	4,269	223	86
U.S. Direct Hire	3,954	4,177	4,263	223	86
Foreign National Direct Hire	1	1	1		
Total Direct Hire	3,955	4,178	4,264	223	86
Foreign National Indirect Hire	5	5	5		
Memo: Reimbursable Civilians Included	437	494	494	57	0
Average Annual Civilian Salary (\$ in thousands)	\$112.6	\$110.5	\$112.2	-2.1	1.7
Contractor FTEs	57	55	53	-2	-2
DAWDF and OCO Personnel Summary					
DAWDF End Strength (Total)	508	559	271	51	-288
DAWDF FTEs (Total)	438	574	442	136	-132
OCO FTEs (Total)	157	193	153	36	-40

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VI. OP 32 Line Items as Applicable (Dollars in thousands):

<u>OP 32 Line</u>	<u>FY 2010 Actuals</u>	<u>Change FY 2010 to FY 2011</u>		<u>FY 2011 Estimate</u>	<u>Change FY 2011 to FY 2012</u>		<u>FY 2012 Estimate</u>
		<u>Price Growth</u>	<u>Program Growth</u>		<u>Price Growth</u>	<u>Program Growth</u>	
101 Exec, Gen'l & Spec Scheds	396,445	1,970	10,320	408,735		9,518	418,253
103 Wage Board	38	33		71	-16		55
104 FN Direct Hire (FNDH)	69	3		72	-3		69
111 Disability Compensation			1,233	1,233	19	1,098	2,350
121 Perm Change of Station						2,825	2,825
199 Total Civ Compensation	396,552	2,006	11,553	410,111		13,441	423,552
308 Travel of Persons	21,993	308	-4,889	17,412	261	-3,568	14,105
399 Total Travel	21,993	308	-4,889	17,412	261	-3,568	14,105
673 Defense Finance & Acctg Svc			4,032	4,032	-813	541	3,760
699 Total Purchases			4,032	4,032	-813	541	3,760
771 Commercial Transport	1,196	17	149	1,362	20	-166	1,216
799 Total Transportation	1,196	17	149	1,362	20	-166	1,216
912 GSA Leases	11,346	159	1,275	12,780	192	345	13,317
913 Purch Util (Non-Fund)	5		33	38	1	-34	5
914 Purch Communications	4,293	60	579	4,932	74	1,030	6,036
915 Rents, Leases (Non-GSA)	649	9	122	780	11	-123	668
917 Postal Svc (U.S.P.S.)	20		1	21			21
920 Supplies/Matl (Non-Fund)	7,554	106	-1,790	5,870	88	1,123	7,081
921 Print & Reproduction	207	3	-74	136	2	92	230
922 Eqt Maint Contr	11,849	4	-11,633	220	4	4,774	4,998
923 Facilities Maintenance						513	513
925 Eqt Purch (Non-Fund)	3,603	50	458	4,111	62	2,352	6,525
960 Interests and Dividends						5	5
987 Other IntraGovt Purch	16,363	33	-16,396			11,079	11,079

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VI. OP 32 Line Items as Applicable (Dollars in thousands):

<u>OP 32 Line</u>	<u>FY 2010 Actuals</u>	<u>Change FY 2010 to FY 2011</u>		<u>FY 2011 Estimate</u>	<u>Change FY 2011 to FY 2012</u>		<u>FY 2012 Estimate</u>
		<u>Price Growth</u>	<u>Program Growth</u>		<u>Price Growth</u>	<u>Program Growth</u>	
989 Other Services	4,230	357	18,442	23,029	364	-20,301	3,092
998 Other Costs			1,309	1,309		-1,309	
990 IT Contract Support Ser						12,619	12,619
999 Total Other Purchases	60,119	781	-7,674	53,226	798	12,165	66,189
Total	479,860	3,112	3,171	486,143	266	22,413	508,822

* The 2010 Actual column includes \$15,008 thousand of FY 2010 OCO Appropriations funding (PL 111-118); and includes \$8,800 thousand of FY 2010 Supplemental Appropriations Act funding (PL 111-118).

* The FY 2011 Estimate column excludes \$27,000 thousand requested in the FY 2011 Defense-Wide Overseas Contingency Operations Budget Request.

* The FY 2011 Estimate column reflects the FY 2011 President's Budget request.

* The FY 2012 Estimate column excludes \$23,478 thousand requested in the FY 2012 Defense-Wide Overseas Contingency Operations Budget Request.

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