



# Defense Contract Audit Agency



**Defense Contract Audit Agency**

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## 2011 Year in Review

In 2011, DCAA examined over \$125B in defense contractor costs and issued over 7,000 audit reports. These reports recommended \$11.9B in cost reductions. Overall, DCAA's efforts resulted in \$3.5B in net savings to the Government. Based on these net savings, the return on taxpayers' investment in DCAA was approximately \$5.80 for each dollar invested. This \$5.80 return represents actual savings that DoD can reinvest in other ways to help the warfighter.



# Director's Overview of DCAA 2011 Year in Review



*DCAA plays an important role in the prudent administration of billions of dollars in defense spending. We provide an objective, independent opinion on financial assertions made by defense contractors. Government officials use our recommendations to ensure our warfighters get the best value for critical supplies and services. The Year in Review highlights some of our work in 2011, and I hope it provides you with a sense of DCAA's important mission and how we achieve it.*

**The Year in Review is organized into three key sections:**

- **Overview of DCAA Mission and Services, Pg. 1-5** provides an overview of the DCAA mission and the services that we provide to Government contracting officials. It includes a description of the major types of audits we perform, and how we allocate audit resources to focus on the highest-payback areas to DoD using a risk-based planning approach.
- **Top DoD Acquisition Program Support, Pg. 6-17** highlights our audit support of top DoD acquisition programs and showcases how our auditors play an integral part in securing critical supplies and services for our warfighters. The examples in this section are a small representation of how our work impacts a broad spectrum of Government acquisition programs in use across the world.
- **Achieving the Mission & Driving New Initiatives, Pg. 18-21** outlines the specific steps DCAA takes to conduct quality audits and ensure our recommendations provide value to Government contracting officials. It contains key actions we've undertaken to increase our effectiveness in terms of audit quality, growing our workforce, and engaging with the acquisition community and industry stakeholders. It also outlines how we can continue to build on our success in 2011 by identifying key actions that we will undertake as an Agency in 2012.

*As I reflect back on DCAA's accomplishments in 2011, I am extremely proud of our employees for their work in ensuring that our warfighters receive the best value for critical equipment and services. They continue to demonstrate the importance of conducting independent financial audits, identifying potential cost discrepancies, and providing recommendations to support acquisition officials. Based on their hard work, we issued over 7,000 audit reports last year, took exception to almost \$12 billion of proposed or claimed costs, and saved the U.S. Taxpayer \$3.5 billion.*

*The hard work of our employees has not gone unnoticed by the acquisition community. For example, following one of our audits of a prime vendor contract that supplies food to our troops, a Defense Logistics Agency acquisition executive said, "Your performance and dedication in completing this audit is commendable and we could not have asked for a more dedicated professional auditor to work with DLA." Following another audit, an Army acquisition executive wrote, "The cooperation and teamwork exhibited by [DCAA employees] contributed to our meeting deadlines and a constrained timeline dictated by the size and complexity of the acquisition. As a result, I would like to commend the team involved in this effort and express my appreciation for the product provided by your office." These comments reflect the outstanding workforce that I have come to know over the past two years, and I am continually inspired by their accomplishments and dedication to our mission. I look forward to 2012 with great anticipation of how DCAA can serve the Department of Defense with even greater effectiveness.*

**—Patrick Fitzgerald, Director, DCAA**

## *Defense Contract Audit Agency – Supporting the warfighter and protecting the taxpayer through audit and financial advisory services*

**THE DEFENSE CONTRACT AUDIT AGENCY (DCAA) PROVIDES AUDIT AND FINANCIAL ADVISORY SERVICES TO DEPARTMENT OF DEFENSE (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. It operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller), (USD (C))/Chief Financial Officer (CFO), Department of Defense. In serving DoD, DCAA protects the public interest, and its work benefits the American taxpayer and our armed forces.

DCAA'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. Specifically, DCAA assists in determining whether contract costs are allowable, allocable, and reasonable. DCAA conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), a standard that ensures that audit conclusions are 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.) DCAA audits only contractors; it has no internal audit responsibilities in DoD.

*DCAA provides recommendations and advice to Government officials who are responsible for acquisition and Government contract administration.*

**DCAA AUDITORS EXAMINE AND REVIEW CONTRACTOR ACCOUNTS, RECORDS, AND SYSTEMS OF INTERNAL CONTROLS.** DCAA's goal is to evaluate whether contractor business practices and procedures are in accordance with the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation

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Supplement (DFARS), and other applicable Government laws and regulations. Based on their findings, DCAA provides recommendations and advice to Government officials who are responsible for acquisition and Government contract administration. These officials select contractors to perform Government-funded work and

negotiate prices for products and services for our warfighters. Consequently, 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.

**CONTRACTING OFFICERS ARE BETTER ABLE TO NEGOTIATE PRICES AND SETTLE CONTRACTS FOR MAJOR WEAPONS SYSTEMS, SERVICES, AND SUPPLIES USING DCAA RECOMMENDATIONS.** Importantly, these contracting officers draw on audit findings throughout the acquisition process. 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 previous work, uncover potential fraud or misuse of funds, and impact future contract prices by addressing inadequacies early on.

*Over the last five fiscal years, DCAA has averaged more than \$2.9B in net savings to the Government.*

**THE SCOPE OF DCAA’S INFLUENCE IS SIGNIFICANT.** DCAA provides definitive recommendations to contracting officers that impact negotiations with nearly 8,000 contractors in a typical year. Over the last five fiscal years, DCAA has averaged more than \$2.9B in net savings to the Government. These savings, which are especially critical in the current economic environment, are reinvested in more and better equipment and services for the warfighter. In 2011, DCAA examined over \$125B in defense contractor costs and issued over 7,000 audit reports. These reports recommended \$11.9B in cost

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## Structuring the Organization for Effective Audit Management

**AN ORGANIZATIONAL STRUCTURE THAT EFFECTIVELY SUPPORTS BUYING COMMANDS AND CONTRACTORS IS CRITICAL TO DOING GOOD AUDITS.** DCAA assumed contract audit responsibility from individual services for all DoD entities over 47 years ago on January 8, 1965. Today, DCAA consists of nearly 4,900 employees located at over 350 office locations throughout the United States, Europe, the Middle East, Asia, and the Pacific. To manage the geographically dispersed and complex work, DCAA is organized into five regions and a Field Detachment that handles classified work:

- Headquarters** is located at the Andrew T. McNamara building, Fort Belvoir, VA. Principal elements of Headquarters are the Director, Deputy Director, Executive Officer, Special Assistant for Quality, General Counsel, Internal Review Directorate, and the Assistant Directors for Operations, Policy and Plans, Integrity and Quality Assurance, and Resources.

<i><b>Workforce Staffing</b></i>	
Auditors	4,225
Other Professionals	651
<b>Total</b>	<b>4,876</b>
<i><b>Professional Qualifications</b></i>	
CPAs	1,213
Advanced Degrees	1,422

- Regional offices** are located in Irving, TX; Smyrna, GA; Philadelphia, PA; Lowell, MA; and La Mirada, CA. Each region directs and administers the accomplishment of the DCAA audit mission spanning at over 50 locations near the customer and contractor base.

- Field Detachment Headquarters** specializes in contract audits related to sensitive compartmented information and special access programs.
- Branch Offices** are strategically situated within the regions and they are responsible for the majority of contract audit services within the assigned geographical area. Branch offices often have smaller suboffices to ensure adequate oversight of contractors.
- Resident offices** are established at contractor locations when the amount of 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, including Boeing, Lockheed Martin, and Raytheon.
- DCAA liaison activities** are conducted at DoD acquisition or contract administration offices to directly communicate and coordinate audit processes with acquisition, contract administration, and contract audit personnel.



## ***Focusing on Contracts with the Highest Payback to DoD***

**DCAA USES A RISK-BASED PLANNING PROCESS TO ENSURE AUDIT RESOURCES ARE FOCUSED ON THE HIGHEST-PAYBACK AREAS TO DoD, THE WARFIGHTER, AND THE TAXPAYER.** Contracts considered “high-risk” typically involve significant costs, poor contractor performance in the past, or circumstances where contractor controls are weak. When prioritizing work, DCAA plans its audits based on the highest-risk areas to the Government.

### ***Some of DCAA’s highest priority activities include:***

- **Audits of Overseas Contingency Operations – Directly supporting high priority operations:** Overseas Contingency Operations (OCO) represent one of the highest-risk contracting areas to DoD. Foreign contractors are subject to the same laws and rules as those in the U.S., but might not be fully familiar with these laws and rules. This requires more scrutiny to ensure that the prices the Government pays for contracted work are fair and reasonable. For example,

DCAA may encounter situations where contractor and subcontractor proposals are not subject to true competition due to foreign contractor relationships. In 2011, DCAA audited roughly \$9B for OCO contracts, and recommended nearly \$2B in reductions. Additionally, a significant portion of the costs the Government is paying for OCO includes subcontracted work—a historically high-risk area.

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- **Contractor Pricing Proposal Audits – Setting the stage for a fair and reasonable price for the warfighter:** Accurate contract prices are the starting point for fair and reasonable prices throughout the acquisition process. Contractor pricing proposal audits are completed before the contract is awarded and evaluate contractor estimates of how much it will cost them to provide goods or services to the Government. In 2011, DCAA completed nearly 2,600 contractor pricing proposal audits and identified over \$9.6B in cost discrepancies.

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- **Incurred Cost Audits – Determining accuracy of contractor cost representations:** When a contract price is not fixed, DCAA conducts incurred cost audits. After the contract has been awarded, DCAA determines the accuracy of contractor cost representations. Based on its examination, DCAA expresses an opinion as to whether such costs are reasonable and applicable to the contract, based on Government acquisition regulations and contract provisions. Incurred cost audits allow the contracting officer to recover the questioned costs before the contract is closed out, which prevents excess costs charged to the Government.

- **Equitable Adjustment and Termination Claim Audits – Evaluating costs when contracts are changed or terminated:** Contracts are sometimes adjusted and partially or fully terminated before completion. These circumstances represent complex and high-risk audits where DCAA must carefully separate the cost of original contract work from the changed scope of work. The findings from these audits can be contentious and typically involve litigation before the

*In 2011, DCAA examined roughly \$2.5B in contractor equitable adjustment and termination settlement proposals and identified approximately \$1B in discrepancies.*

Armed Services Board of Contract Appeals or the Court of Federal Claims. DCAA auditors occasionally testify as expert or fact witnesses in these cases based on their audit and their examination of the contractor's books and records. In 2011, DCAA examined roughly \$2.5B in contractor equitable adjustment and termination settlement proposals and identified approximately \$1B in discrepancies.

- **Financial Liaison Assistance – Explaining complex audit practices:** DCAA auditors are co-located with contracting officers at major acquisition commands to provide financial liaison advisory support services to assist contracting officers in understanding DCAA audit reports and recommendations. This support helps contracting officers navigate complex audit processes so that they are better prepared to use DCAA recommendations for reaching reasonable agreements with contractors.
- **Investigative Support – Providing data on potential inconsistencies:** Standard DCAA audit efforts occasionally reveal indicators of potential fraud, waste, and abuse. If these circumstances are identified during the normal course of audit activities, DCAA alerts the proper authorities responsible for conducting fraud investigations. DCAA also responds to requests from investigative agencies or the Department of Justice regarding suspected fraud and other irregular practices. These services include developing evidence for presentation to a U.S. attorney, a grand jury, or prosecution at a trial. DCAA supported more than 160 investigations in 2011, which resulted in over \$350M in cost recoveries for the Government. These savings are over and above DCAA's \$5.80 return on every dollar spent on operations.

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## Supporting Top DoD Acquisition Programs

**DCAA'S WORK FACILITATES THE DELIVERY AND EXECUTION OF PRODUCTS AND SERVICES THAT ARE CRITICAL TO SUPPORT OUR WARFIGHTERS.** At any given time, DCAA directly impacts many components and processes that make up, for example, a sophisticated logistical supply chain, standalone fighter system, or troop support services. Key outcomes of the important systems and services that DCAA supported in 2011 include:

### *Reviewing \$9B for DoD to acquire 580 UH-60 Black Hawk helicopters*

*One of the most important mission aircraft for the U.S. Army is the UH-60 Black Hawk. This medium lift helicopter performs a wide range of missions including Air Assault, Medical Evacuation, Combat Search and Rescue, Command and Control, and VIP transport. Modified versions of the UH-60 were employed during the US Special Forces operation that resulted in the death of Osama bin Laden on May 1, 2011. In addition to its use by the Army, this aircraft is used by the Air Force, Navy, and Coast Guard.*



DCAA audited a \$9B proposal for the Government to procure roughly 580 aircraft for our warfighters. DCAA played a critical role in several stages of the acquisition process. For example, DCAA aided the buying commands in preparing their Program Objective Memorandum (POM), which consolidates all

pertinent documentation to help determine the Government negotiation position on a particular product or service.

***Contracting Officer Viewpoint: "DCAA has superlative service and their input has been invaluable in negotiating the Blackhawk acquisition."***

Based on the value of DCAA's help on the POM, DCAA auditors were invited by the Naval Air Systems Command (NAVAIR) and the Army

Aviation and Missile Command (AMCOM) to participate in the Office of Secretary of Defense (OSD) peer review of the Black Hawk POM. This review substantiates evidence to ensure it is sufficient to support the Government position for high-dollar negotiations. DCAA's participation in the OSD review demonstrates how DoD acquisition stakeholders coordinate to achieve a strong Government position.

DCAA's previous audit work on the most recent Black Hawk acquisition resulted in a savings of \$305M—the cost of 23 new new Black Hawk helicopters previously acquired at \$13M per aircraft.

## ***Supporting key upgrades to Navy warships by examining over \$1.1B***

*As the Navy's fleet ages, DoD must modernize and upgrade key ships to maintain these important assets.* Two classes of ships—the DDG 51 and FFG 7—are scheduled for upgrades. The DDG 51 is a multipurpose warship and the first in the Arleigh Burke class of destroyers. The FFG 7 is the first in the Oliver Hazard Perry class of frigates, which were designed to protect carriers and other large ships during operations. The modernization of these ships will increase mission effectiveness, reduce manning requirements, and lower total cost of ownership.



In support of the Navy's fleet modernization, DCAA reviewed over \$1.1B in proposed services related to Arleigh Burke and Oliver Hazard Perry modernization efforts. These services included activities such as program management, materials, design and engineering services, and installation support. DCAA worked

closely with the Naval Sea Systems Command (NAVSEA) to ensure that the buying command had a full understanding of the findings. Specifically, DCAA provided detailed working papers to NAVSEA that, in addition to explaining the overall audit conclusions, clarified contractor terminology that was a previous source of confusion for evaluating the costs. Based on its effectiveness in assisting NAVSEA, DCAA was invited to attend contract negotiations to help sustain the Government position.

Any cost savings identified as a result of DCAA reviewing the \$1.1B proposal could free up money towards, for example, the next Arleigh Burke Destroyer, DDG-115, which was recently awarded at \$680M.

## ***Supporting the negotiation of nearly \$2B in disputes over contractor payments for the Army's Logistics Modernization Program***

*The Logistics Modernization Program (LMP) is a critical component in the Army's business transformation efforts.* This program addresses the systems and processes for achieving the Army's supply chain management goals to streamline supply lines, improve distribution, reduce theater footprint, and enable the warfighter to be better equipped and ready to respond to threats.

DCAA supported the negotiation of nearly \$2B in disputes over contractor payments for LMP services. This case spanned over a 5-year period and escalated into a case under the Armed Services Board of Contract Appeals. As part of its support to the Government, DCAA issued 12 audit reports to the Army Contracting Command to help verify acceptable payments claimed by the contractor.



DCAA's support of the case continued beyond issuance of the audit reports. The audit team saw to it that the buying command understood and could clearly illustrate the evidence supporting the Government position. For example, DCAA provided assistance for mediation preparation and alternative dispute resolution negotiation to the Director, Acquisition Alternative Dispute Resolution (ADR)

***Contracting Officer Viewpoint:***  
*"DCAA services were high quality, timely, practical, and extraordinarily helpful."*

Program, Department of the Army, and the Office of the General Counsel. DCAA also provided negotiation support to the Army ADR Litigation Team by testifying during the ADR mediation to substantiate DCAA's findings.

Ultimately, the Army and the contractor entered into a definitive settlement. Based in part on the strength of DCAA's findings, the Army maintained a robust negotiating position, upholding \$350M out of the \$376M in DCAA's recommended reductions.



## Reviewing over \$2.7B for the F-35 Joint Strike Fighter Lightning II

The F-35 Joint Strike Fighter (JSF) Lightning II represents a new age in fighter and strike aircraft for the Air Force, Navy, Marine Corps and several international allies. JSF meets effective multi-system and multi-service requirements with the ability to adjust between air-to-surface and air-to-air missions. An estimated \$200B program, JSF is slated to be the largest military aircraft contract in history,

**Contracting Officer Viewpoint:** “DCAA provided timely support during contentious negotiations. Its professionalism and insightful audit recommendations have been critical to the success of JSF negotiations.”

with aircraft likely to remain in service for the next 50 years. JSF’s international sponsorship represents a complex, global system of suppliers. Roughly 20 different DCAA offices may support JSF at any given time, including several offices overseas.

DCAA has supported the JSF acquisition since 2006,

examining over \$6.7B for roughly 65 requested aircraft. DCAA’s recommendations on JSF have contributed to a nearly \$1.2B reduction in the proposed versus negotiated costs to the Government.

Most recently, for example, DCAA examined \$2.1B of a \$2.7B JSF subcontract. Based on its review of proposed labor and materials costs, DCAA identified over \$100M in discrepancies. DCAA remained active in the proposal process by assisting the JSF Program Office and Director of Defense Pricing in understanding the various components of the proposal discrepancies to support the Government position.

## Evaluating \$261M for TRICARE services that affect 3 million military members, retirees, and their families

DCAA’s role in delivering quality services to warfighters extends beyond active duty members in uniform. DCAA provided audit support on a \$261M contract that affects the delivery of healthcare services to nearly three million military members, retirees, and their families from all branches of military service. The contract, managed by TRICARE Management activity (TMA), covered the continuing administration of healthcare services for military beneficiaries in the Southwestern states.

**Contracting Officer Viewpoint:** “It’s rare to experience the level of commitment and dedicated team effort that DCAA provided— a rare success story in these days of shrinking workforce.”

DCAA's early engagement in the audit process and ability to keep TMA informed resulted in a shorter audit turnaround time. For example, DCAA coordinated with TMA before formal receipt of the proposal to ensure the audit scope was understood, verifying the correct audit approach and the effective use of DCAA resources to get the best result for the Government. This early coordination expedited DCAA's ability to obtain critical information about the necessary resources and specific processes needed to conduct the audit. DCAA also conducted regular status meetings with TMA and issued a draft report that ultimately expedited the contract award—any potential issues were addressed early in the audit process.

DCAA's audit support and assistance during negotiations helped TMA save over \$8.4M. DCAA's work also positively impacted contracts for future Tricare services. Because TMA believed it achieved a fair and reasonable price based on the negotiation, it is using the results of this negotiation to price future TRICARE service extensions. This further reduces costs to the Government by eliminating the need to prepare and audit another high-risk proposal.

***Assisting the Army and Marine Corps in reducing the unit price for nearly 12,000 Humvees***

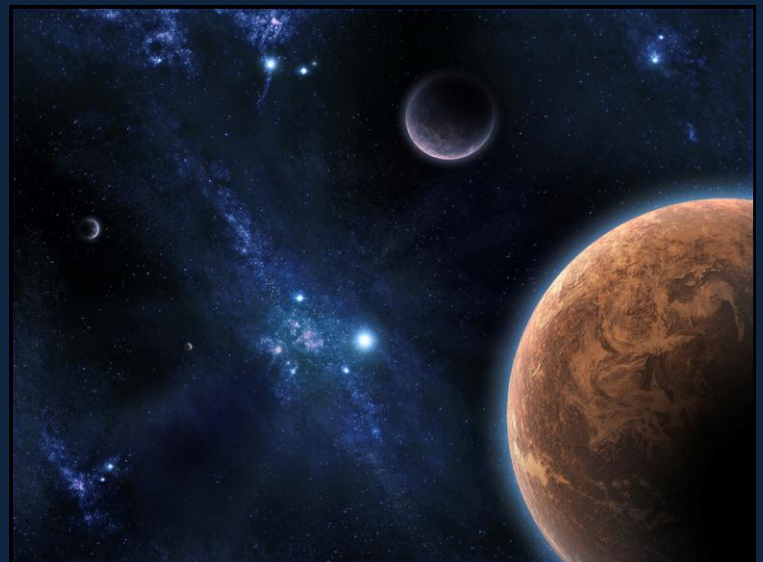
*The High Mobility Multi-Purpose Wheeled Vehicle (Humvee) is a versatile and mobile light tactical vehicle.* Humvees are used in logistics, combat, disaster relief, and other roles for U.S. and allied military services. The continued production of these vehicles is important for our armed forces overseas, and ongoing design improvements are critical for effective crew protection, increased payload, and better vehicle performance. Humvee maintenance and support is required worldwide from the combat theaters of Afghanistan and

## ***Providing Audit Support Beyond DoD***

In addition to supporting DoD, DCAA provides contract audit services to roughly 30 other Government entities outside of DoD each year that are responsible for procurement and contract administration. For example, DCAA provides audit and financial advisory assistance to NASA for important research and development programs.

DCAA supports the evaluation of roughly \$1.5B per year for NASA's Jet Propulsion Laboratory—which is responsible for important planetary and deep space navigation programs including the Mars Exploration Rovers. Most recently, DCAA has provided financial advisory assistance to NASA's Office of Education to aid its management of contracts and federal funding such as unique grants associated with the American Recovery and Reinvestment Act. As part of its work for NASA, DCAA also examines large, complex subcontracts.

In a recent evaluation of NASA's work, DCAA identified over \$30M in cost discrepancies—the equivalent of monitoring the Mars Rover Vehicles for over 40 days.



Iraq, to CONUS bases, and reserve and National Guard centers.

DCAA supported the Army's Tank-automotive and Armaments Command (TACOM) Life Cycle Management Command Light Tactical Vehicles Team in procuring roughly 12,000 Humvees for the Army and Marine Corps. DCAA—combined with technical analysis from TACOM—was instrumental in identifying approximately \$165M in cost discrepancies in the contractor's proposal.



For example, DCAA researched and analyzed national average statistics on employee health care and fringe benefit costs; executive compensation; Current Global Insight indices, an index that projects escalation costs for material and labor; and linear regression analysis in support of projecting indirect rates, including inbound freight and other manufacturing expenses. This additional information proved critical in supporting TACOM's negotiation position; for example, part of the \$165M in questioned costs centered on excessive fringe benefits, including unreasonable health care costs and profit sharing paid to hourly employees.

Ultimately, DCAA recommendations, combined with technical analysis from TACOM, led to an average savings of \$22K per Humvee. Overall, the Government saved approximately \$257M based on the difference between the contractor's proposed prices and TACOM's final position following negotiations—equivalent to 2,100 additional Humvees.

***Contracting Officer Viewpoint:***  
*"DCAA demonstrated a high level of customer service and its audit recommendations led to significant cost reductions."*



## *Identifying a \$222M reduction in subcontract price for the F-18*

*Built as the nation's first strike fighter, the F/A-18 E/F (F-18) Super Hornet is an attack aircraft as well as a fighter.* The F-18 is in demand again as a result of JSF budget and schedule challenges. The F-18 will keep carrier decks full with the production line likely to continue well into 2014. Over the F-18's lifetime, DCAA has examined over \$9B and identified over \$800M in cost discrepancies.

Part of DCAA's work for the F-18 addresses high-risk subcontract costs. For example, DCAA assisted the Navy in evaluating a subcontract proposal for F-18 fuselage components. The proposal was significant and complex: \$2.3B in proposed costs, over 5,000 line items of materials, and over 230 different suppliers. DCAA identified several cost discrepancies, including a historical pattern of the contractor overestimating rates. This resulted in major differences between the subcontractor's proposed rates and DCAA's recommendation to the buying command.

Based on DCAA's findings, the subcontract settlement price for the F-18 was \$222M less than the proposed price for this small part of the F-18—the cost of four additional F-18 aircraft.



## Examining \$3.7B for the Marine Corps to procure over 110 V-22 Osprey

*The V-22 Osprey allows Marines to move more quickly and at a greater distance when conducting operations from ship to shore.* Faster than a helicopter, and more flexible for shorter distances than fixed winged aircraft, the Osprey provides Marines with critical adaptability for important missions. The Osprey's tilt-rotor blades provide vertical and short takeoff and landing capability, making the Osprey a unique hybrid of helicopter and fixed wing capabilities.

DCAA assisted the Naval Air Systems Command (NAVAIR) in procuring over 110 Osprey for the Marine Corps by examining a \$3.7B contractor proposal. Based on challenges with prior Osprey production contracts, DCAA engaged the contractor and buying command to establish clear expectations on how the management of the current proposal could be more effective. In conjunction with the contractor and NAVAIR, DCAA helped develop a clear proposal management plan that outlined contractor data requirements, explained DCAA's responsibilities, and established agreed upon due dates for specific actions. This approach to proposal management improved coordination among acquisition stakeholders and set a clear path for a successful outcome.

DCAA's previous audit work for the most recent Osprey acquisition resulted in a savings of \$106M—nearly the cost of two new Osprey which were previously acquired at \$62M per aircraft.



## *Aiding Contract Execution Overseas – A situational presence for effective audit oversight*

**DCAA SUPPORTS GOVERNMENT CONTRACTING EFFORTS BEYOND ITS STATESIDE LOCATIONS FOR BETTER AUDIT OVERSIGHT, WHETHER IT BE IN AN AFGHANISTAN COMBAT ZONE, AN IRAQ SUSTAINMENT OPERATION, OR IN SUPPORT OF FOREIGN ALLIES IN OTHER PARTS OF THE WORLD.** Part of this work includes auditing foreign contractors, which is accomplished through offices geographically located within close proximity to contractor locations. Auditors working on these assignments have subject matter expertise of foreign contractor business systems, concepts, and logistical processes. DCAA auditors working on these

assignments are knowledgeable of foreign contractor accounting customs and can better define audit risk and set the appropriate audit procedures. For example, foreign contractors may rely on cash-based versus accrual accounting systems that are common among U.S. contractors.

*Since 2003, DCAA has examined roughly \$95B and issued roughly 3,800 reports in support of Contingency Operations in Iraq, Kuwait, and Afghanistan.*

Auditors working overseas develop and maintain relationships with local commands and contractors, fostering open dialogue that can lead to effective problem

solving of pertinent contracting issues. Open communication between Government partners enables DCAA auditors to address contract questions in real-time. Additionally, this communication allows auditors to develop effective professional working relationships with contractors that can be difficult to establish from CONUS locations where time zone changes only allow for a limited number of hours per day to coordinate on important activities.

**AS PART OF ITS WORK OVERSEAS, DCAA OPERATES IN THEATER TO BETTER ADDRESS CONTRACT IRREGULARITIES AS THEY OCCUR.**

Auditors stationed in theater primarily support audits for contingency and sustainment operations in Iraq and Afghanistan. Being in theater allows them to have first-hand observation of the systems executed overseas, as well as the ability to perform frequent contractor

site visits. This regular presence allows DCAA to talk with contractor employees and make physical observations of contractors on the job site, consumption of services or material, and economy and efficiency of operations that cannot be observed otherwise.

*“Boots on the ground can audit in real-time, see the contractor up close and personal, and discover potential harm to the Government you can’t see 6,000 miles away.”*

*- Afghanistan Branch Office Senior Auditor*

**BECAUSE DCAA IS ON LOCATION, IT CAN CORROBORATE WHETHER THE PRODUCTS AND SERVICES BEING PAID FOR BY THE GOVERNMENT ARE THOSE ACTUALLY BEING RECEIVED BY OUR WARFIGHTERS.** For example, auditors in Afghanistan have been a valuable resource to Defense Contract Management Agency (DCMA) and Logistics Civil Augmentation Program (LOGCAP) oversight personnel who often call upon DCAA to answer questions or concerns about contract work in theater. LOGCAP is a combined joint force-multiplier contract, representing roughly \$5B in contracted work in Afghanistan alone, to provide logistics support to warfighters overseas. In other examples, DCAA had assessed contracts that provide food and water to warfighters at hundreds of forward operating bases, and played a key role in analyzing the number and type of contractor personnel in Iraq to ensure that contractor personnel drew down at approximately the same level as military personnel. Any savings identified as a result of these audits are a direct benefit of DCAA's ability to observe the in-theater site where contract work was being conducted and coordinate with its stateside offices reviewing the contractor's official books and records. Similar examples of the value of DCAA's proximity to where contract work occurs overseas include:

- *\$37M in labor payment discrepancies for misapplied danger pay*
- *\$3.3M in excess charges for rented shipping containers*
- *\$900K of disallowed lease and repair costs for inoperable equipment*
- *\$200K in unauthorized construction projects*

### *What does DCAA do in Iraq, Kuwait and Afghanistan?*

- Troop Sustainment Support (i.e., LOGCAP)
- Real-time on-site Labor & Material Reviews
- Support for Evaluation of Contractor Business Systems
- Support to Acquisition Community in Pricing of Contracts

### *What is DCAA's scope of audit work in theater?*

- Over 130 Contractors
- Over 300 Prime Contracts
- Over 500,000 hours of audit effort

### *Where does DCAA operate in theater?*



★ DCAA operating locations



**DCAA AUDIT WORK COMPLETED IN THEATER DIRECTLY SUPPORTS OPERATIONS CRITICAL TO OPERATION IRAQI FREEDOM AND OPERATION ENDURING FREEDOM.** For example, DCAA contracting activities decisively support U.S. counterinsurgency strategies. DCAA's Afghanistan Branch Office supports a unique task force that provides commanders and acquisition teams with situational understanding regarding the flow of contract funds in the Combined/Joint Operations Area. The goal of monitoring this flow is to limit illicit access of funds by criminal and insurgent networks. The result of this in-theater oversight is a better link of U.S. contracting funds with the desired counterinsurgency objectives. Additionally, DCAA supports USAID contracts—contracts in excess of \$200M dollars per year that provide assistance for Iraqi Economic Governance, Private Sector Development, and Agribusiness initiatives. By being in theater, DCAA auditors provide real-time feedback to USAID on contractor performance. For example, upon request of the Government, DCAA's Iraq Branch office is currently verifying whether vehicles USAID purchased for a security contractor are actually being used for that purpose. Additional examples of how DCAA supported contract work overseas include:

### ***Examining over \$1B for the Army's Logistics Civil Augmentation Program***

*Contractors are a vital component of the military's efforts to combat terrorism and provide humanitarian aid in response to natural disasters.* The predominant source of contractor support for American and other Coalition forces has been the Army's Logistics Civil Augmentation Program (LOGCAP). This program supports various U.S. combat and humanitarian contingency operations, and it represents roughly \$47B in contracting dollars since 2003.

Since the beginning of the Middle East conflicts, DCAA has worked hand-in-hand with Army Contracting Officers to ensure LOGCAP contracts are in place. These contracts provide a variety of services including the construction of forward operating bases, the operation of various basic troop services (e.g., dining facilities, full and self-service laundries, post offices), and provisions for morale, health, and welfare activities in places like Iraq, Afghanistan, Kuwait, and Bahrain. As one of many examples of DCAA's LOGCAP work, DCAA identified various cost discrepancies including \$25M for construction projects at Camps Payne and Geronimo in Afghanistan, and nearly \$100M for unreasonable dining facility costs in Iraq.

Although the role of combat troops in Iraq is winding down, a mission supported by LOGCAP will remain in Iraq after 2011. The Department of State (DoS) will continue to use the Army's LOGCAP contracting vehicle to support its diplomatic mission in Iraq. In support of this diplomatic mission, DCAA has evaluated over \$1B in LOGCAP proposals. DCAA has worked quickly and efficiently, investigating potential cost discrepancies and various non-compliances with Government contract regulations to aid the Army in timely award of the DoS base life support contract, thereby helping to facilitate the timetable for troop drawdowns.

### ***Examining \$2.5B for foreign language interpretation services***

*DCAA supports DoD's effort to rapidly and securely recruit and deploy linguists in support of U.S. Coalition and Combatant commands.* DCAA has assisted the Army's Intelligence and Security Command with a \$2.5B contract for these important foreign language interpretation and translation services.

During a recent review of contractor data, DCAA found evidence that the contractor was billing the Government for linguists who did not meet the qualifications required by the contract. DCAA assisted in confirming the accuracy of the contractor records and aided the Army in assessing whether the linguists met the required qualifications. This coordinated effort resulted in the expedient revision of the contractor's payment to mitigate the risk of delaying interpreter activities in the Iraq theater.

As a result of DCAA's findings, the buying command has already requested a \$15M refund for the Government.

### ***Recommending an \$87M reduction for Afghan National Army and Police Vehicle Maintenance***

*A stable Afghanistan National Army (ANA) and Afghan National Police (ANP) are important components of the allied forces' mission in the Middle East.* Most recently, DCAA provided financial recommendations for vehicle maintenance activities for the ANA and ANP. The contracted maintenance services directly support the Army's 401<sup>st</sup> Field Support Brigade at nearly 20 locations across Afghanistan. These services are also part of a high-dollar, complex contract vehicle—the Army's Field and Installations Readiness Support Team (FIRST). The FIRST contract is a 20-year contract for a variety of field and installation-level logistics functions. It includes over 30 unique contractors and may represent as much as \$36B over its life cycle.

To support important vehicle maintenance services for the ANA and ANP, DCAA has reviewed nearly \$400M in contracted work since 2010. During this time, DCAA reviewed interim contractor payments, and identified roughly \$24M in inconsistencies between the prices the Government agreed to pay versus what the contractor was billing the Government. In 2011, DCAA worked diligently to evaluate a new proposal for continued maintenance services. Upon examination, DCAA determined that the contractor's proposal had several deficiencies. Primarily, the contractor was overestimating manpower requirements that were not reflective of its current staffing levels.

***Contracting Officer Viewpoint:***  
*"DCAA was very responsive to our requests for audit support, was extremely knowledgeable and are key players in evaluation of contractor data and negotiation support."*

DCAA's ability to identify and carefully document inadequacies in the contractor's proposal had several key results. For example, the Army buying command could confidently rely on DCAA's recommendations in its decision to return the proposal to the contractor for revisions—twice. Additionally, the contractor's final proposal included a nearly \$87M reduction in the proposed price for vehicle maintenance services. This reduction was due to DCAA's strong recommendations and the united Government team between DCAA and the Army buying command.



## ***Director's 2011 Initiatives and Vision for 2012: Achieving the Mission & Driving New Initiatives for the Way Ahead***



*The key to our growing effectiveness is rooted in our Agency vision statement: "Dedicated professionals working together to deliver top-quality audit services to support the Department and the warfighter, and to protect the taxpayer's interest." DCAA exists to serve the warfighter and protect taxpayer interests. As the Director of this Agency, that imperative is always forefront in my mind as I chart our course moving forward. We are absolutely committed to that responsibility, and the examples in this Year in Review are a testament to how we are delivering on that commitment.*

*To keep building on our value to the Warfighter and taxpayer, we initiated several key strategies in 2011, across all functions of the Agency, which will continue into 2012 and beyond. What follows is a brief synopsis of the specific efforts we've undertaken to increase our effectiveness in terms of audit quality, growing our workforce, and engaging with the acquisition community and industry stakeholders.*

- ***Putting quality first – Self-monitoring assignments:*** DCAA created a Directorate of Quality Assurance (QA) to centralize existing quality review activities at Headquarters, to ensure audits meet Government quality standards. Since QA's new Agency-wide on-the-job training initiative, DCAA has experienced a 20% increase in the number of audit assignments reviewed that met or exceeded internal quality standards.
- ***Getting the whole picture – Comprehensive evaluation of contractor data:*** Quality audits require a comprehensive understanding of information, which we're getting through more in-depth inquiries and rigorous testing of contractor data in accordance with GAGAS.
- ***Driving quality through efficient organization – Restructuring audit management of large contractors:*** To more efficiently manage audits at large contractors, we conducted a successful Raytheon pilot project, giving us an excellent model for other large contractors. In the Raytheon case, we permanently restructured offices to fall under one Raytheon management jurisdiction, in one DCAA region. This structure aligns all Raytheon auditors and support staff, and it ensures a more consistent and comprehensive contract audit approach.
- ***Communicating consistently – Ensuring active communication with contracting officials and contractors:*** DCAA has created "rules of engagement" to foster good communication practices and ensure that contracting officials and contractors understand the pertinent facts of an audit. For example, DCAA auditors directly communicate with DCMA officials so DCMA can make appropriate determinations as to whether contracts are being executed as agreed and take necessary actions. Additionally, DCAA auditors conduct "walk-throughs" to educate everyone involved about financial data in a proposal, and they actively respond to stakeholder questions and reflect their perspectives. For example, DCAA actively seeks the contractors' views of the audit conclusions and includes their comments in the audit report.
- ***Understanding acquisition community challenges – Meeting with buying command and industry officials:*** To best serve the acquisition community, DCAA must understand their

challenges and concerns. For the past two years, DCAA executives have made a regular practice of meeting with industry officials, visiting buying commands, and attending conferences to discuss common acquisition challenges. For example, in 2011, DCAA co-sponsored the first ever DCAA Government/Industry Summit in conjunction with AMCOM and ACC-Redstone, which provided a rich forum for exchanging ideas, clarifying Government expectations, understanding industry perspectives.

- **Providing support at the negotiating table – Assisting Contracting Officers:** In negotiations, contractors may provide additional information in direct response to audit findings. When DCAA attends negotiations, they can provide valuable assistance to help the contracting officers explain the Government position, uphold audit findings, and understand how the new data impacts audit conclusions.
- **Embracing a common vision – Implementing a new Strategic Plan:** The driving force of the strategic plan is to align DCAA as One Agency—a cohesive approach to managing the diverse audits and work requirements across the country and abroad. This way of operating is critical for achieving DCAA’s strategic goals and long term vision. A key component of this 5-year plan is workforce involvement, a critical source of knowledge. Employee volunteers from all levels across DCAA are participating in ad hoc committees and focus groups that provide feedback and establish best practices to achieve strategic goals and objectives that directly impact Agency operations.
- **Emphasizing commitment to the taxpayer – Revising the mission statement:** To reinforce DCAA’s commitment to the taxpayer and the warfighter, DCAA revised its mission statement to more clearly connect the results of sound and fiscally responsible audit findings with the ability to fund critical warfighter needs. The clarification and refinement of DCAA’s mission provides a powerful point of focus for mission achievement.
- **Managing Human Capital – Fostering a diverse, highly skilled workforce:** Attracting and retaining a quality workforce is critical to fulfill DCAA’s mission and support DoD programs and missions. In 2011, DCAA approved a new Human Capital Plan (HCP), which advances five key goals: Inclusiveness, Leader Excellence, Talent Management, Employee Engagement, and Accountability. The human capital strategies in this plan help ensure DCAA has a talented, sustainable workforce to meet the needs of the DCAA mission today and in the future.
- **Maintaining an upward trend – Surveying the workforce to assess progress:** In 2011, the Office of Personnel Management (OPM) conducted an Organizational Assessment Survey (OAS) of

### Strategic Plan Goals

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

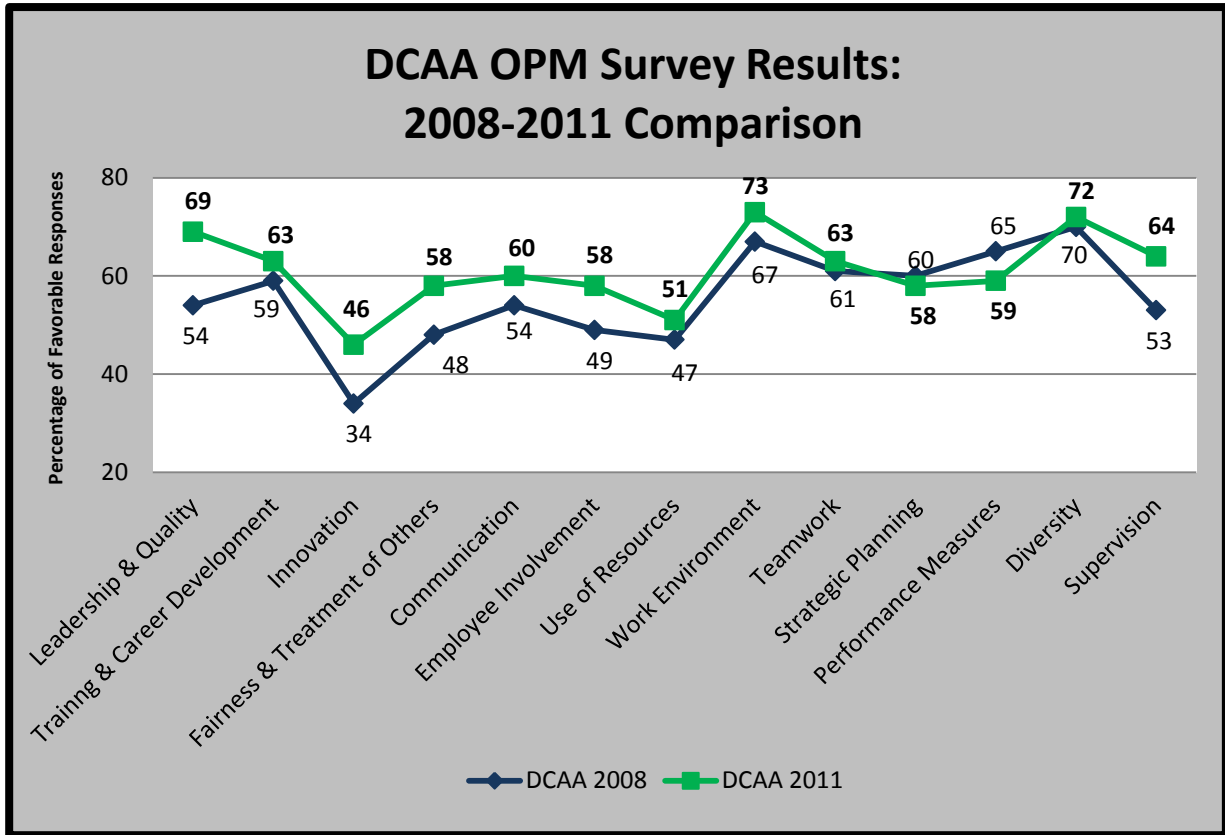
**Goal 2:** High-quality audits and other financial advisory services.

**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.

DCAA to assess strengths, challenges, and drivers of effectiveness. The survey measured 152 individual indicators of job characteristics and employee attitudes and behaviors. Overall survey results were measured across dimensions associated with OPM’s general standards of high performance.



- *DCAA exceeded the benchmark considered to be an organizational “Strength” in 5 categories: Employee Support, Strategic Management, Ethics, Supervision, and Teamwork. Of OPM’s High Impact Dimensions considered to be critical drivers of organizational health and performance, DCAA scored highly in the Strategic Management and Ethics categories.*
- *DCAA scored above the median in six areas compared to the overall Performance America benchmarks: Employee Support, Customer Orientation, Rewards, Strategic Management, Innovation, and Supervision. Additionally, when examining the Best Places to Work (BPTW) Index, DCAA showed large improvement across all items from 2008 to 2011.*
- *DCAA showed improvements in eleven dimensions when results were compared to the 2008 OAS of DCAA: The greatest improvements in the OAS for DCAA from 2008-2011 were in the Leadership & Quality, Innovation, Supervision, and Fairness and Treatment of Others categories.*

*As I look ahead to 2012, I envision Agency employees working together to continuously improve the quality of our audit services and products. 2012 will be a critical year for DCAA and will include several important actions:*

- ***Attaining a balance between quality and schedule:*** As we continue to address the quality of DCAA audits, we cannot forget that timeliness is an important part of a quality audit. Attaining this balance will include continuing to revamp our audit process to build in quality early on and to increase communications with acquisition and industry stakeholders throughout the entire process. Additionally, DCAA will use the new Agreed-To-Date performance measure to track the Agency's progress in meeting its audit commitments and attaining the balance between quality and schedule.
- ***Harnessing the Agency's Strategic Plan to focus on audit quality and workforce issues:*** DCAA has established 16 strategic plan ad hoc groups to focus on improving audit quality and address workforce issues. During 2012, the Agency will institute many of the recommendations of the ad hoc groups. This will include changes to how new employees are brought on-board, mentored and trained, development of new audit guidance related to business system reviews at major contractors, and development of a revised Agency-wide telework policy.
- ***Assessing the Agency's formal training program at the Defense Contract Audit Institute:*** During 2012 DCAA will arrange for an independent review and evaluation of its training operations. This will be first big step in developing a state of the art training concept and methodology for the entire audit workforce.
- ***Enhancing audit quality in preparation for a Government peer review:*** As the Agency prepares for an external peer review, 2012 will be a critical year for DCAA. Everyone in the Agency will need to display a sense of dedication and urgency in continuing to improve our audit quality to ensure we successfully pass our peer review

*DCAA's ultimate success depends on our commitment to our workforce and the audit process. I am confident that the progress we have made in 2011, and vision for 2012 will allow us to continue providing critical value to the warfighter and taxpayer. I'm honored to lead this fine workforce and together we will build on our Agency's strong legacy for a bright future.*



—Patrick J. Fitzgerald, Director, DCAA



# DCAA 2011 Year in Review



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