



Defense Contract Audit Agency



Defense Contract Audit Agency
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2012 Year in Review

In FY 2012 DCAA examined over \$150 billion in contractor costs and issued over 6,700 audit reports. Overall, DCAA's efforts resulted in \$4.2 billion in net savings to the government—the highest in Agency history. Based on these net savings, the return on taxpayers' investment in DCAA was approximately \$6.70 for each dollar invested. This return represents actual savings that DoD can reinvest in other ways to help the warfighter.



Director's Overview



2012 marked a new standard of excellence for DCAA. Our efforts resulted in over \$4.2 billion in net savings to the government—the highest in Agency history. At the same time, our auditors examined \$154 billion in contracting dollars—an increase of almost 20 percent from 2011—and issued over 6,700 audit reports.

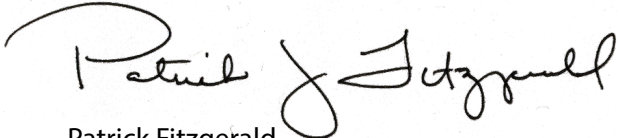
Our 2012 achievements exemplify the critical role that DCAA plays in the prudent administration of billions of dollars in defense spending. Importantly, these achievements demonstrate how government officials are using our objective, independent opinions on defense contractors' financial assertions to ensure our warfighters get the best value for critical services, equipment, and supplies.

The 2012 Year in Review illustrates how our activities over the past year have led to impressive achievements and highlights some of the ways that we deliver on our mission.

The Year in Review is organized into three sections:

- **Overview of DCAA Mission and Services, Pg. 2-6** provides an overview of the DCAA mission and the services 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 by using a risk-based planning approach.
- **Top DoD Acquisition Program Support, Pg. 6-23** 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 across the world.
- **Achieving the Mission: Director's 2012 Initiatives, Pg. 25-28** 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.

As you read the examples in the 2012 Year in Review, it will be clear how our talented employees bring value to the acquisition process. Our mission is only successful because of their efforts to work as a comprehensive, government team with acquisition stakeholders to support the warfighter and protect the taxpayer. I am proud to share our 2012 accomplishments with you.


Patrick Fitzgerald
Director

Supporting the warfighter and protecting the taxpayer through audit and financial advisory services

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. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. 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 set of standards 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 auditors examine and review contractor accounts, records, and business systems. 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 Supplement (DFARS), and other applicable government laws and regulations. Based on its 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. 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 recommendations throughout the acquisition process. At the front end, DCAA's recommendations can directly impact the price that

DCAA's role is critical to ensure DoD gets the best value for every dollar spent on defense contracting.

the government pays for contracted work. Even after a contract is underway, DCAA's analysis 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.

The scope of DCAA's influence is significant. DCAA provides definitive recommendations to contracting officers that impact negotiations with nearly 7,500 contractors in

With a 2012 net savings of \$4.2 billion, DCAA returned \$6.70 for every \$1 of taxpayer investment.

a typical year. Between 2002 and 2009, DCAA averaged \$2.5 billion in annual net savings; however, over the last 3 years, DCAA's net savings has averaged \$3.5 billion, an increase of 40 percent. In 2012, DCAA examined about \$154 billion in contractor costs and issued over 6,700 audit reports. These reports recommended \$12.4 billion in cost reductions. Overall, DCAA's efforts brought back \$4.2 billion in net savings to the government. Based on these net savings, the return on taxpayers' investment in DCAA was approximately \$6.70 for each dollar invested.

This \$6.70 return represents actual savings that DoD can reinvest in various ways to help the warfighter.

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 48 years ago on January 8, 1965. Today, DCAA consists of over 5,000 employees located at over 300 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 six regions which include a Field Detachment that handles classified work:

- **Headquarters** is located at the Andrew T. McNamara building, Fort Belvoir, Virginia. Principal elements of Headquarters are the Director, Deputy Director, General Counsel, Internal Review Directorate, and the Assistant Directors for Operations; Policy and Plans; Integrity and Quality Assurance; and Resources.
- **Regional offices** are located in Irving, Texas; Smyrna, Georgia; Philadelphia, Pennsylvania; Lowell, Massachusetts; La Mirada, California; and Chantilly, Virginia. Each region directs and administers the DCAA audit mission at over 50 locations per region near the customer and contractor base.
- **Branch Offices** are strategically situated within the regions and 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.

DCAA Workforce at End of FY 2012

Staffing	
Auditors	4,492
Other Professionals	689
Total	5,181
Professional Qualifications	
CPAs	1,272
Other Professional Certifications	193
Advanced Degrees	1,611

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 high-dollar values, poor contractor performance in the past, historically high rates of questioned costs, or circumstances where contractor internal 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—Ensuring contractor understanding and compliance with U.S. laws:** Overseas Contingency Operations (OCO) represent one of the highest-risk contracting areas in DoD because of the continuing urgency to support the troops on the ground. The combat support environment often does not allow for the normal internal controls that exist in the U.S. In addition, much of the overseas work is contracted to foreign contractors. These contractors are subject to the same laws and rules as those in the U.S., but they may lack understanding and familiarity with those laws and procurement guidelines. Consequently, these contracts require increased scrutiny. In 2012, DCAA audited roughly \$6.4 billion for OCO contracts and recommended over \$1.1 billion in reductions.
- **Forward Pricing Audits—Setting the stage for a fair and reasonable price for the warfighter:** Accurate proposal prices are the starting point for fair

In 2012, DCAA audited roughly \$6.4 billion in OCO contracts and recommended nearly \$1.1 billion in cost reductions.

and reasonable prices throughout the acquisition process. Forward pricing audits are completed before the contract is awarded, and their purpose is to evaluate contractor estimates for goods or services being proposed to the government. In 2012, DCAA completed over 1,800 forward pricing audits and identified \$9.9 billion in cost exceptions.

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- **Incurred Cost Audits—Determining accuracy of contractor cost representations:** When a contract price is not fixed, DCAA evaluates the yearly costs incurred by contractors to ensure that the costs are reasonable and applicable to the contract. Because these audits are done for each year, often within a larger contract that spans a longer time period, they are accounted for as “incurred cost years.” These audits not only allow the contracting officer to recover the questioned costs before the contract is closed out, they also allow contractors to be paid for any fees that are outstanding. To more efficiently conduct these audits, DCAA developed a multi-pronged approach in 2012 that included:

In 2012, DCAA completed 2,700 incurred cost years—a sixfold increase over 2011.

- Dedicating teams to specifically perform incurred cost audits
- Increasing the staffing on these dedicated teams
- Using multi-year audit techniques
- Implementing a low-risk sampling approach

By emphasizing and increasing audit efficiencies, DCAA completed more than 2,350 incurred cost years and, as a result of the low-risk sampling process, closed out over 350 incurred cost years. Taken together, DCAA completed over 2,700 incurred cost years in 2012—a sixfold increase over 2011.

- **Equitable Adjustment and Termination Claim Audits—Evaluating costs when contracts are changed or terminated:** In some cases, contracts may be adjusted or terminated before completion. Contracts under these circumstances are high-risk because of their complexity, and DCAA must carefully separate the cost of original contract work from the changed scope of work. Additionally, the findings from these audits can be contentious, typically involving litigation before the Armed Services Board of Contract Appeals or the U.S. Court of Federal Claims. DCAA auditors occasionally testify as expert or fact witnesses in these cases because of their understanding of the audit. In 2012, DCAA examined roughly \$6.4 billion in these audits, which resulted in approximately \$405 million in exceptions.

In 2012, DCAA examined roughly \$6.4 billion in contractor equitable adjustment and termination settlement proposals and identified approximately \$405 million in exceptions.

DCAA supported over 200 investigations in 2012, recovering nearly \$270 million for the government.

- **Financial Liaison Assistance—Explaining complex audit practices:** DCAA auditors are co-located with contracting officers at major acquisition commands to help them better understand DCAA audit reports and recommendations. This support helps contracting officers navigate complex audit processes, be better prepared to use DCAA recommendations in negotiations, and reach reasonable agreements with contractors.
- **Investigative Support— Helping uncover fraud, waste, and abuse:** Standard DCAA audit efforts occasionally reveal indicators of potential fraud, waste, and abuse. When this happens, 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 over 200 investigations in 2012, which resulted in nearly \$270 million in cost recoveries for the government. These savings are over and above DCAA's \$6.70 return on every dollar spent on operations.

Supporting top DoD acquisition programs

DCAA's work facilitates the delivery and execution of services, equipment, and supplies 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, a standalone fighter system, or troop support services. DCAA's audits in 2012 positively impacted several important government systems and services.

Examining \$812 million for the Army to upgrade 51 Apache helicopters

The Apache AH-64 and its upgraded Longbow version—attack helicopters primarily used by the Army and several U.S. allies—have seen action in both Iraq and Afghanistan. DCAA examined \$812 million for critical upgrades that will increase flight performance and incorporate new sensors and electronic technology for over 50 of these important helicopters.

Based on a thorough examination of the data for the upgrades, the audit team identified over \$65 million in potential cost exceptions. For example, DCAA determined that the contractor was using unrealistic labor-hour estimates—industry averages and the contractor's historical labor costs proved much lower than the proposed estimates. Additionally, the contractor could not support its proposed prices for materials. To provide an alternative basis for appropriate material costs, DCAA examined historical invoice pricing and existing vendor purchase agreements, data that was central to the negotiating position of the contracting officer.

DCAA continued to support the Army throughout the negotiation process. During negotiations, the contractor increased its cost estimate by \$50 million. With DCAA assistance, the government ultimately settled the contract for \$116 million less than the overall cost estimate—the equivalent of six additional upgraded Apaches.



Buying Command Viewpoint:

“We commend DCAA for its exceptional support evaluating the Apache contract and help[ing] to develop a government negotiation position. This outstanding effort recognizes DCAA's dedication to the soldier in the field.”

Supporting the modernization of over 350 Bradley Fighting Vehicles

As technology advances, DoD must upgrade key ground combat vehicles to properly maintain these important assets. DCAA supported the modernization of a critical asset: the Bradley Fighting Vehicle. Upgrades to the Bradley will provide enhanced situational awareness and improve network connections for the Army's Heavy Brigade Combat teams.

In support of the modernization of over 350 Bradleys, DCAA audited a \$702 million proposal. The audit team identified over \$22 million in cost exceptions, primarily related to vendors and subcontractors, in a review of \$450 million of labor, materials, and other direct costs. As part of its review, the audit team methodically compared the contractor's current prices to its recent purchase history, which showed

Buying Command Viewpoint:

“Award of the Bradley contract would have been in jeopardy without DCAA's assistance.”

lower unit prices than what the contractor was proposing to charge the government.



\$19 million savings—equivalent to upgrades of 10 more Bradley Fighting Vehicles.

Based on DCAA's effectiveness and assistance during the audit process, the buying command invited DCAA auditors to attend contract negotiations to help uphold the government position. Ultimately, DCAA recommendations led to savings of \$19 million—the equivalent of upgrading 10 additional Bradley Fighting Vehicles.

Evaluating \$1.1 billion for the Navy to secure over 200 F414 engines for the F-18 Super Hornet fighter aircraft

Built as the nation's first strike fighter, the F/A-18 E/F (F-18) Super Hornet can carry every tactical air-to-air and air-to-ground weapon in the Navy's inventory. This tactical fighter is powered by twin F414 turbofan engines, enabling it to fly at impressive speeds and perform a variety of missions. The Super Hornet made its debut in 2002 during Operation Iraqi Freedom, and it has performed combat missions in both Iraq and Afghanistan.

DCAA recently supported the Naval Air Systems Command (NAVAIR) in its acquisition of over 200 F414 engines. Proactive coordination by DCAA at the start of the audit enabled DCAA and NAVAIR to effectively target two historically high-risk contract areas—material pricing and labor-hour estimates. During the initial coordination phase, DCAA sent auditors offsite to where the contractor maintained its records, which enabled them to better assess complex material pricing data. The payoff of this analysis was significant. For example, based on its observations, DCAA discovered that the proposed material costs were overestimated and did not account for cost-saving measures that the contractor had taken, such as shipping engines ahead of schedule. Additionally, having auditors onsite to gather real-time data from the contractor's manufacturing systems also enabled DCAA to incorporate more accurate savings estimates

Buying Command Viewpoint:

"The communication between NAVAIR and DCAA was open and effective, providing for a frequent exchange of data and information, which greatly contributed to successfully completing contract negotiations."

based on the contractor's labor productivity improvements.

The work on this audit resulted in a fair and reasonable price for the high-powered F414 engines, saving the government roughly \$325,000 per engine. Taken together, the government saved \$65 million on the total contract acquisition—the equivalent of 20 additional F/A-18 Super Hornet engines.

Saved \$65 million—equivalent to 20 F/A-18 Super Hornet engines.



Supporting \$1.7 billion in healthcare construction projects to serve over 500,000 active duty service members, dependents, and retirees

Our men and women in uniform make up the finest military in the world. To serve them better and provide them the premier healthcare services they deserve, the government is modernizing and constructing new hospitals across the country. Three healthcare facilities are currently undergoing construction and renovations—the Camp Pendleton Naval Replacement Hospital, Carl R. Darnell Army Medical Center at Fort Hood, and the Veterans Administration (VA) New Orleans Replacement Hospital. These projects, totaling \$1.7 billion, will result in improved general and specialty care facilities for more than 500,000 active military personnel, family members, and retirees.

DCAA supported three different buying commands by reviewing construction overhead costs associated with future contract modifications, adjustments that can easily range into the tens of millions. For example, DCAA identified cost exceptions that included duplicate labor expenses and inflated employee stock benefits. Although the contractor challenged DCAA's findings, DCAA effectively conveyed complex government audit and accounting requirements to company executives, resulting in their voluntary agreement to remove \$40 million in overhead costs.

DCAA's research, persistence, and coordination are not only significant for current contract modifications, but also for future healthcare construction projects as well.

Buying Command Viewpoint:

"DCAA's professionalism, expertise, and expedience of services allowed us to successfully resolve important contract issues."

For example, one buying command intends to incorporate DCAA's overhead rates in its final negotiation for the \$845 million VA New Orleans Replacement Hospital project.

The estimated savings to the government on this VA project is \$13 million—the equivalent of an Outpatient Services Pavilion for an 80-bed Veterans Administration Mental Health Center.



Reviewing \$2.8 billion for the military to transport personnel and critical supplies

Getting our troops the right equipment for important missions is just one step in the acquisition process—we also have to get them where they need to be. The Civil Reserve Air Fleet (CRAF) program helps transport troops and critical supplies via air to mission locations.

Buying Command Viewpoint:

“DCAA’s CRAF audits use an in-depth consistent approach and are a valuable part of establishing the final contract rates.”



The United States Transportation Command (USTRANSCOM) is responsible for CRAF and negotiates annual contracts with some of the nation’s largest commercial airlines and cargo carriers. These carriers provide international airlift services for troops and cargo as a supplement to DoD’s organic fleet.

DCAA examined \$2.8 billion for the FY 2013 CRAF contract, conducting multiple, complex audits on the 17 air carriers that bid on the CRAF program. As part of the audit process, DCAA conducted over 25 separate audit engagements, which included evaluations ranging from historical carrier costs to current fuel prices. In addition to ensuring compliance with Federal Acquisition Regulations (FAR) and Cost Accounting Standards (CAS), DCAA also performed additional cost testing to verify that the contractor was following unique Department of Transportation requirements.

Successful execution of this nationwide audit request required a high degree of coordination among local audit offices, DCAA’s HQ Policy Directorate and USTRANSCOM. Through regular meetings and close communication, DCAA efficiently addressed complex accounting issues, regulatory requirements, and other audit challenges to complete all 25 requested audit actions.

Overall, DCAA identified \$53 million in cost exceptions—the equivalent of 1.3 million air miles, which, on average, equates to 111 additional missions to transport our soldiers, sailors, airmen, marines and equipment.

\$53 million equates to 111 additional transport missions.

One Agency, One Audit

A Complex Business

Defense contracting is a complex business. Thousands of contractors are bidding for, executing, and closing tens of thousands of contracts each year. Oftentimes, one contractor can have up to several thousand contracts at once, and they may execute their services in numerous, geographically dispersed locations. DCAA needs to conduct their work where the contractors are, so auditors travel across the country or around the world to gather the data they need to complete their audits.

Centralized Management

To address the unique challenges posed by these complex contract audits, DCAA implemented a One Audit Approach. With this new approach, all facets of a particular audit are combined, which has led to improved audit planning and consolidated contractor data retrieval. Now, instead of one primary DCAA audit supported by secondary audits—a decentralized approach that leads to unnecessary duplication of effort and lacks a unified focus—DCAA centralizes the management of certain audits for a particular contractor, regardless of how many contracts they have or where they are located.

Outstanding Efficiencies

Centralizing audit management yields outstanding efficiencies and effective results for DCAA, the buying command, and the contractor. As one example, DCAA is using the One Audit Approach at a major overseas contingency operations contractor that has employees stationed at

Benefits of the One-Audit Approach:

- No redundant information requests to the contractor
- No unnecessary levels of management review
- Open communication among DCAA audit teams
- Comprehensive understanding of contractor business segments
- Easier access to contractor records
- More timely reporting of audit results

six locations across three different continents. Rather than DCAA issuing six audit reports—one for each location—DCAA issues one report that incorporates the audit results from all six locations.

Close Coordination

Not only does the One Audit Approach reduce the number of audit reports, it fosters close coordination between auditors at different locations who now work as a single team. Centralized visibility of the whole audit means that an auditor overseas, who, for example, might be conducting observations on the use of materials on a particular product or system, could quickly share those observations with stateside auditors working on the contractor’s transactions related to those specific materials. In short, auditors can connect the dots and uncover potential issues more effectively and better validate contractor data.

Taxpayer Savings

Most importantly, because of this close coordination, the One Audit approach can save money for the taxpayer. At one contractor, for example, DCAA engaged the efficiencies of the new model to complete multiple, time-sensitive audits of proposed costs. This tighter coordination led to increased visibility to cost exceptions, which leads to greater taxpayer savings.

Savings of \$70 million—equivalent to 725 additional EGI systems.

Identifying nearly \$70 million in current and future savings for the Air Force to acquire over 1,500 new Embedded GPS Inertial Navigational Systems

The Embedded GPS Inertial Navigational System (EGI) guidance system is a navigation device used on several military aircraft including the Army Blackhawk, Navy Sea Stallion, and Air Force Pave Low helicopters. The EGI merges global positioning and inertial navigation features for enhanced geo-location and remote sensor performance.

DCAA audited a \$123 million proposal for over 1,500 new EGI systems. During an important walk-through with fellow acquisition stakeholders at the contractor's site, DCAA identified several potential cost exceptions. For example, the contractor did not provide comparable commercial sales data to support the prices that they were charging the government for commercial items. The contractor struggled to correct the cost exceptions, and DCAA diligently worked with the buying command to overcome the challenges of auditing the insufficient data. Specifically, the audit team held weekly—and oftentimes daily—meetings with the buying command, and contractor as needed, to resolve pertinent audit issues.

Buying Command Viewpoint:

“It was a pleasure working with the DCAA community at the local, regional, and HQ level, and I believe this effort is a true demonstration of what we can accomplish by working together as a DoD team. We really appreciate the outstanding support that DCAA provided on this effort.”

The issues DCAA brought to acquisition stakeholders led to an important meeting between the contractor and senior executives in the Air Force, DCAA, and DoD acquisition community. As a result of this meeting, the buying command was able to negotiate lower prices for the three most expensive commercial items under review.

By applying DCAA's sound recommendations, the Air Force saved \$14 million in price reductions of the three commercial items. Notably, the contractor agreed to use the negotiated price reductions

on future Air Force contracts that require the same items. Based on active Air Force contracts, the anticipated future cost savings of these price reductions is roughly \$55 million. Combined, these savings are equivalent to 725 additional EGI systems.

Securing \$237 million in net savings by evaluating \$4 billion in C-130J proposals

The C-130J Super Hercules is a four-engine turboprop tactical and long-range military aircraft. Designed with multiple mission capabilities, the C-130J has updated performance improvements, such as new engines and a computer-controlled digital flight deck. Used extensively by the Air Force and Marine Corps in Iraq, as well as by 15 other countries, the C-130 is the longest continually produced aircraft in the U.S. military.



To support the C-130J program, DCAA audited five proposals, totaling over \$4 billion, for the Air Force to acquire over 65 C-130J aircraft, including 12 aircraft sold to our allies through foreign military sales. DCAA's in-depth corporate knowledge

Buying Command Viewpoint:

“It's tough to imagine conducting an effort of this sheer magnitude without DCAA's support. DCAA was highly responsive in providing effective analysis and assistance.”

of the contractor and supplier issues—such as exchange rates, long-term agreements, and quantity discounts—proved valuable to the Air Force and critical to the success of the audit. As one example, DCAA was able to calculate more appropriate warranty costs based on current average data, which the Air Force easily upheld during negotiations. DCAA also conducted onsite fact-finding sessions at the contractor's facility, leading to other key findings. For exam-

ple, DCAA identified duplicate material costs in the proposal based on its analysis of contractor data.

Ultimately, DCAA's work resulted in a \$237 million net savings to the government—the equivalent of four additional C-130J aircraft.

Supporting over \$45 million in cash repayments to the government for the Air Force F-22 program

The F-22 Raptor is a single-seat, twin-engine stealth fighter aircraft. The F-22 fleet, used by the Air Force, contains 183 aircraft; the most recent aircraft entered the fleet in 2011.

The F-22 is a highly complex acquisition program. Not only can each contract include over 9,000 individual line items of material from hundreds of different suppliers, but each one will typically undergo numerous, significant requirements changes. At \$66 billion, the F-22 fleet is one of the most expensive Air Force acquisition programs in history.

Savings of \$237 million—equivalent to four additional C-130 aircraft.

\$45 million savings—enough to refuel the entire F-22 fleet 24 times.

DCAA's ongoing audit support for the F-22 program has resulted in over \$45 million in cash repayments to the government.

Most recently, DCAA identified exceptions in a contractor's ability to comply with the Truth in Negotiations Act, which led to roughly \$15 million in recommended price adjustments that were awaiting settlement at year-end. Using a program-based audit approach that compares and tracks program costs over time, DCAA found that the contractor did not provide accurate data for the government to rely on during negotiations. In many cases, DCAA identified duplicate costs—for example, the prime contractor included parts in material lists that were duplicated in subcontractor material lists. Importantly, the contractor agreed with the majority of DCAA's findings because they understood and trusted DCAA's process for identifying the exceptions.

DCAA continues to support the F-22 program through a variety of audits across several DCAA offices. The \$45 million in cash repayments is the equivalent of 13.8 million gallons of jet fuel—enough to refuel the entire F-22 fleet 24 times.



Buying Command Viewpoint:

“DCAA takes the time to thoroughly explain the technical nuances and intricacies of how they evaluate contractor systems. It's clear that DCAA's involvement positively contributed to the F-22 savings.”

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Examining a \$396 million proposal for the Marine Corps and Army to acquire Tactical Common Data Link Kits for the Shadow 200 Drone

The Shadow 200 drone is an unmanned aerial vehicle (UAV) that provides aerial reconnaissance and surveillance to locate and assess targets of interest in operational areas. This lightweight UAV, with a 14-foot wingspan and 3-foot height, has completed roughly 47,000 missions in Afghanistan. Its performance is impressive—it flies between 6,000-10,000 feet above ground level, and it can provide coverage for up to 4 hours across a 125-kilometer area. The Shadow 200 has played an integral part of Army and Marine Corps missions overseas.

To keep the Shadow 200 in top operational condition, DCAA supported the Marine Corps and Army in acquiring Tactical Common Data Link kits, a purchase that provided

Buying Command Viewpoint:

“DCAA's expertise, attention to detail, and professionalism were an integral part of the over \$30 million savings. The auditors' dedication, perseverance and outstanding ability to work closely with others contributed to the timely and successful contract award.”

critical hardware and software upgrades for the drone system. DCAA ensured consistent interaction with acquisition stakeholders, including frequent communication with the contractor and biweekly team conference calls among the Army Redstone Arsenal, DCMA, and DCAA offices during the audit. These coordination meetings were especially helpful in the subcontract area. In one case, DCAA discovered that a subcontractor was proposing to keep work in-house rather than subcontracting it out at a much lower cost, which was what the subcontractor had done historically. Because of its close coordination with stakeholders, DCAA was able to quickly resolve the issue with the help of the prime contractor.

Initially, DCAA identified nearly \$30 million in potential cost exceptions, a figure that increased by \$9 million based on DCAA's ability to assess additional data during negotiations. The result was a net savings of nearly \$39 million—the equivalent of five additional Shadow 200 Tactical Common Data Link kits.

Supporting Foreign Allies

Foreign allies play an important role in our national defense, and DCAA's reach in the acquisition process extends far beyond our own borders—each year, DCAA's audit activities positively impact over 30 countries across the globe. In 2012, DCAA provided over 70,000 hours of audit and financial advisory services to our allies by evaluating foreign military sales.

As one example of this important work, DCAA is supporting the F-15 Fleet Modernization program for the Kingdom of Saudi Arabia. The multi-billion dollar Fleet Modernization Program is the largest foreign military sales effort in government history. The total acquisition of 150 F-15s includes producing new aircraft, modifying existing aircraft, and training over 5,000 Saudi military personnel. This complex program involves over 25 U.S. Government organizations and over 1,000 suppliers. DCAA is examining a variety of items to support the Air Force in this sale, including a nearly \$1 billion progress payment to verify that it reflects actual contractor costs. As part of its evaluation of the progress payment, DCAA found that the foreign subcontractor receiving the progress payment billed the government based on estimates rather than actual out-of-pocket costs. In response to DCAA's findings, the prime contractor now only pays the subcontractor after it delivers the product.

DCAA also supported acquisition officials from the United Kingdom (UK) on a recent purchase of a C-17 aircraft. The UK requested DCAA's assistance to assess a contractor's forecasted labor, indirect rates, and material costs. Using available data from a recent Air Force C-17 purchase, DCAA was able to save the UK approximately \$8 million—the equivalent of 70,000 labor-support hours for aircraft.

Buying Command Viewpoint:

“This was a fine example of cooperation between the staff of our two governments, and I would be grateful if you would extend my thanks to all involved.”

DCAA was integral in the negotiations, and the buying command upheld DCAA's findings.

Providing Audit Support for Unique Programs

From peace-time missions to healthcare for military families, DCAA supports key acquisition programs of all kinds:

- **United States Agency for International Development—USAID:** DCAA assisted the U.S. Agency for International Development (USAID) by auditing five contracts worth roughly \$11 million for domestic and international consulting and management services. After reviewing the contractor's complex accounting structure, DCAA identified \$1.9 million due to misclassified costs. Specifically, the USAID contract contained costs for the contractor's other commercial projects unrelated to the services the contractor was providing to the government.
- **Educational Institution Research:** In addition to auditing defense contractors, DCAA audits educational institutions that receive federal funding to perform research for agencies such as the Department of Health and Human Services, which represents billions in federal funding. As part of this work, DCAA audited an educational institution that receives an average of \$450 million in annual funding to improve cancer therapies and armor plating worn by troops. DCAA determined that the contractor was significantly overcharging the government for research facility lease costs and reported this discrepancy to the Office of Naval Research, who subsequently recovered \$23.9 million—the largest single refund check that the Office of Naval Research has ever received.
- **Healthcare for Warfighters and their Families:** TriCare provides health care benefits to over 9 million military service members, retirees, and their families at 59 hospitals, 364 medical clinics, and 282 dental clinics across the world. To support this important program, DCAA



evaluated a current TriCare contract to ensure 2.8 million beneficiaries get the best value when seeking healthcare services outside of the military system. For example, DCAA identified over \$68 million of cost exceptions when evaluating a high-risk contract from a civilian healthcare insurance provider, which included:

- \$37 million in costs that should have been applied to a different contract
- \$11 million in subcontract costs for overstating the workforce size required to process healthcare claims
- \$5 million in unreasonable labor and salary costs compared to industry averages



Identifying \$48 million in net savings for the Air Force to acquire 200 Joint-Air-to-Surface Standoff Missiles

The Joint-Air-to-Surface Standoff Missile, or JASSM, is a critical, semi-stealth component on several types of U.S. military aircraft, including the B-2A Stealth Bomber, the F-16 Fighting Falcon, and the F-35 Joint Strike Fighter. The 2,000-pound JASSM is a GPS-aided cruise missile that is difficult to detect by radar. This important combat weapon can reach direct targets from over 200 to over 500 miles.

Buying Command Viewpoint:

“DCAA provided very insightful analysis of the contractor's proposed costs that served as an excellent basis for negotiating excessive costs down. Their audit report was a valuable tool for the JASSM negotiating team and led to a sound government position.”

DCAA supported the Air Force in acquiring 200 JASSM missiles by auditing a \$285 million proposal. As part of the audit, DCAA reviewed

complex historical accounting records to compare past missile warranty costs to current costs, which showed that the contractor had inaccurately estimated costs and led to over \$19 million in potential exceptions. In another example, DCAA identified \$850,000 for the acquisition of unwarranted test equipment that was not required per the terms of the government's request for proposal.

In addition to generating savings for the government on the current contract, DCAA's work also resulted in more rigorous contract requirements on future production buys. For example, because of the warranty cost problems, the contractor will be required to report warranty costs on a quarterly basis. Additionally, the Air Force JASSM Program Office included another new clause that impacts the upcoming JASSM contract. Specifically, the government will hold the title of any test equipment purchased with government funds, thus ensuring that any equipment costs designated for government testing are used solely for that purpose.

Overall, based on DCAA's work, the buying command saved \$48 million—the equivalent of 51 short-range or 25 extended-range JASSM missiles.



Supporting Navy Shipbuilding and Maintenance Programs

The U.S. Navy operates over 280 ships and submarines that support a variety of critical missions across the globe. NAVAL Sea Systems Command (NAVSEA) acquisition officers award DoD contracts to companies in the shipbuilding and ship repair industry. To keep these assets in operational condition, the Navy's Supervisors of Shipbuilding, Conversion, and Repair (SUPSHIPS) manage these DoD contracts. NAVSEA and SUPSHIPS use DCAA audit recommendations to price and support contracts for the construction, repair, and maintenance of the Navy's fleet that impacts important programs and services.

■ DDG 51- and DDG 1000-Class Destroyers:

DCAA examined a \$2.3 billion proposal for the DDG 51- and DDG 1000-Class Destroyers. SUPSHIPS lauded DCAA's clear explanation of audit recommendations, a level of clarity that was critical to a productive resolution in government negotiations. As one example, DCAA distinctly demonstrated that the contractor was incorrectly billing the Navy for lease costs. The audit team also easily supported its finding that the contractor was overstating costs for healthcare, a conclusion that it determined by in-depth data analysis on historical healthcare costs. SUPSHIPS upheld 90 percent of DCAA's recommendations, which totaled over \$135 million in potential cost exceptions.

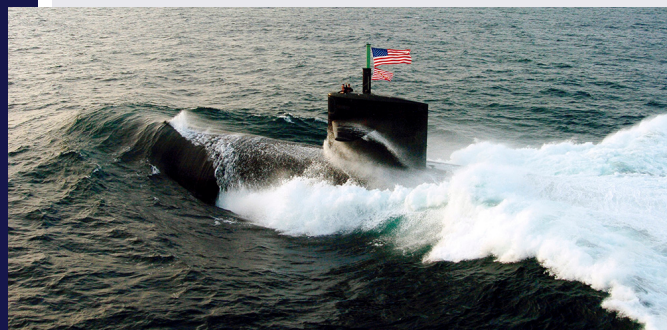
- **Ohio-Class Submarine Replacement Program:** DCAA supported a \$22 billion proposal, spanning over 10 years, for the Ohio-Class Submarine Replacement Program. In this project, DCAA created an application that allowed the buying command to see the real-time impact of any price changes that the contractor made to its forecasted costs. This application not only provided SUPSHIPS with more timely results, the utility of the resulting data was central to SUPSHIPS' decision to take DCAA's recommendations and negotiate costs with the contractor.

- **Dry Dock Ship Repair:** DCAA evaluated a contractor's \$11-million claim for dry dock costs that support important ship repair and maintenance functions. The audit

team determined that the contractor incorrectly charged the government for use of the dry dock because the same dock was also being used for repair work on other commercial and government vessels unrelated to the Navy contract. Although the contractor did not agree with DCAA's assessment and appealed it to the Armed Services Board of Contract Appeals, the Board upheld DCAA's recommendations and denied the contractor's claim entirely. Notably, the audit team testified to its recommendations during the trial.

Buying command viewpoint:

"The audit team consistently provided excellent support and demonstrated high level of professionalism and dedication to duty. Their insights and audit judgments of complex issues were pivotal in developing the government position."



Aiding Contract Execution Overseas— A situational presence for effective audit oversight

To best provide audit oversight, DCAA goes where the contractors are—travel that can take them to an Afghanistan combat zone or around the world. To be effective as auditors of contractors overseas, DCAA has established offices in close geographical proximity to where the contracted work is done. This proximity has several key benefits, both for the U.S. and for the contractor. First, auditors gain a clear understanding of contractor business systems, accounting customs, and logistical processes, allowing them to better define audit risk and set the appropriate audit procedures. For example, contractors overseas may rely on cash-based versus accrual accounting systems that are common in the U.S. Second, auditors develop and maintain relationships with local commands and contractors, which foster open communication and more effective, real-time problem solving. These working relationships are difficult, if not impossible, to establish and maintain from CONUS locations, where time-zone changes and lack of contact between auditors and acquisition officials can negatively impact the level and degree of communication. The value of DCAA situational presence is clearly evident in Iraq and Afghanistan.

Iraq and Afghanistan: Operating in theater to address contract performance.

Auditors stationed in theater primarily support audits for sustainment operations in Afghanistan and Department of State Operations in Iraq. It is critically important for DCAA to be physically present with the contractor to talk with employees at the job site, gauge the level of materials used, observe other service providers, and get a first-hand account of operational efficiencies—all of which can affect the reasonableness of costs charged to the government.

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 about contract work in theater. LOGCAP is a combined joint force-multiplier contract, representing roughly \$5 billion in contracted work in Afghanistan alone, to provide logistics support to warfighters overseas. In one instance, during the Iraq drawdown, DCAA assessed the operations of the contractors that provide food and water to warfighters at over 200 forward operating bases. DCAA auditors played a key role in ensuring that contractor personnel drew down at approximately the same level as military personnel, a degree of oversight that would not have been possible from a stateside location.

DCAA audit presence has been instrumental in counterinsurgency strategies.

DCAA's support goes beyond what one might typically expect from a team of auditors. For example, DCAA's Afghanistan Branch Office assists a unique task force, Task Force 2010, which provides commanders and acquisition teams with situational understanding about contract funds flowing in and out of the Combined/Joint Operations Area.

Illicit access of funds by criminal and insurgent networks is a top national security concern, and the commitment to stopping this criminal flow of funds is outlined in the “No Contracting with the Enemy Act of 2011.” DCAA has played a vital role in support of that effort.

Buying Command Viewpoint:

“We could not accomplish our mission of ‘no contracting with the enemy’ without the hard work of the auditors from the Defense Contract Audit Agency. . . your auditors have been the spearhead of our activity in countering fuel pilferage and helping rewrite the trucking contract, which I can say with certainty (and conservatively) has saved our nation hundreds of millions of dollars. . . you have an extremely talented organization that has the potential to do amazing things for the anti-contract-corruption mission set.”

In one case, DCAA conducted a rigorous examination of fuel delivery data to a foreign contractor, uncovering gross irregularities in over 206 documents. Specifically, DCAA found that contractors:

- Falsified the actual amount of fuel delivered
- Pocketed proceeds from undetected and unreported excess fuel
- Forged duplicate or fraudulent fuel deliveries
- Stole over 384,000 gallons of fuel (estimated value over \$7 million) from two forward operating bases

Additionally, DCAA’s work provided valuable evidence to U.S. officials, which was part of the rationale for U.S. officials to recommend debarment of over 200 companies and seizure of contractor assets to recover U.S. costs.

- ▶ **Commitment**
- ▶ **Teamwork**
- ▶ **Outstanding Support**

Nothing stops DCAA audit teams from getting the facts they need to do their job overseas. For example, the Afghanistan Branch Office supported stateside DCAA offices by completing over 20 audit inquiries, results that were only possible because of the auditors’ persistence and commitment to completing essential fieldwork. As part of that fieldwork, auditors interviewed over 1,200 employees on site wherever contract work was being performed. These audit teams traveled throughout Afghanistan, both to main military installations and more remote Forward Operating Bases—to be thorough, they went anywhere U.S., NATO or Afghani troops had a presence. These trips ranged from a few days to a few months, involving travel via helicopters or armored convoys. The auditors demonstrated outstanding commitment to DCAA, the U.S. military, and their fellow team members to accomplish these important assignments.

In-Theater Operations

What does DCAA do in Iraq, Kuwait and Afghanistan?

- Troop Sustainment Support
- 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 140 Contractors
- Over 350 Prime Contracts
- Over 440,000 hours of audit effort

Where Does DCAA Operate in Theater?



Securing \$8 million in future costs savings to transport over 20,000 contractor employees to support operations overseas

LOGCAP provides vital services for troop sustainment support in Iraq and Afghanistan. A subset of the current LOGCAP contract covers charter flights to transport over 40,000 contractor and subcontractor employees, both in and out of theater, for initial deployment; Rest and Recuperation leave (R&R); redeployment; and other transport needs.

DCAA’s Afghanistan Branch Office recently assessed over \$25 million in charter flight costs to transport civilian LOGCAP employees between Kandahar Air Field in Afghanistan and Dubai, UAE. While examining the charter flight costs, DCAA noted that costs per passenger were unreasonably high—almost 60 percent higher—when compared to the ticket price of existing commercial air alternatives.

The audit team determined that the contractor's high per-passenger costs were actually due to the contractor paying a fixed rate per charter flight regardless of the number of seats filled. Because the contractor could not increase per-flight seat utilization, it couldn't achieve the same cost per passenger that was available commercially. Commercial flights are readily available on the military hub airfields and a viable alternative for LOGCAP needs. As a result, the government could save over \$8 million a year by renegotiating the charter contract and making better use of commercial air alternatives—the equivalent of transporting 20,000 additional personnel each year. Importantly, the LOGCAP contractor concurred with DCAA's recommendations and is actively utilizing more commercial air alternatives.



Conducting on-site audit activities for the \$2 billion Kuwait Base Operations and Security Support Services contract

The Kuwait Base Operations and Security Support Services (K-BOSSS) contract is the largest contract in Kuwait, with a current value over \$2 billion. K-BOSSS provides services for troops, support personnel, and equipment traveling to, from and within Kuwait. K-BOSSS supports the U.S. effort in various ways to facilitate troop deployments to nine major locations, including Camp Arifjan and Camp Buehring.

All original K-BOSSS records are maintained by a prime contractor in Kuwait. DCAA's Iraq Branch Office performs key audit services, such as verifying actual costs incurred, adequacy of internal control systems, and verifying labor hours, all of which are vital to accurate contract assessments in coordination with stateside DCAA offices. The Iraq Branch Office also communicates closely with the Army and the Defense Contract Management Agency to coordinate audit activities.

In a recent audit, DCAA supported the Army by reviewing a K-BOSSS contractor's transactions to determine compliance with contract terms. As a result of its analysis, DCAA rejected over \$8 million in incorrect employee overtime payments for various workers, as well as nearly \$530,000 in contract overbillings that were in excess of funding limitations. DCAA also assisted the Defense Finance and Accounting Service in rejecting an additional \$21 million in billings that exceeded funding limitations. Combined, the \$8 million, \$530,000, and \$21 million are the equivalent of over 2,500 additional workers.

Recommending Increased Competition to Reduce Future LOGCAP Costs

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 LOGCAP program. This program supports various U.S. combat and humanitarian contingency operations, at a cost of approximately \$2 billion per year.

Subcontracts are a critical part of LOGCAP and 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. These subcontractor services comprise nearly \$600 million of the LOGCAP program.

Recently, the DCAA Afghanistan Branch office reviewed a LOGCAP prime contractor and its acquisition process for awarding subcontracts. The audit team found that the prime contractor was not consistently opening up acquisitions over \$25,000 to competitive bid, an acquisition rule put in place to ensure that the government gets the best value for the warfighter and taxpayer. Specifically, DCAA found that the prime contractor was only competitively bidding 46 percent of subcontracts over the \$25,000 threshold.



DCAA successfully explained its findings to the contractor, who agreed with DCAA's recommendation to increase competitive bidding. Subsequent audits found that the contractor was now competitively bidding 99.6 percent of all subcontracts over the threshold, decreasing future costs by nearly \$29 million—enough for 6 months of food service operations at Bagram Air Field, the largest airfield in Afghanistan.

Partnering with the Defense Contract Management Agency to Proactively Resolve Outstanding Audit Issues

Delays in resolving audit issues cost the taxpayers money, and DCAA and DCMA jointly sponsored the Cost Recovery Initiative (CRI) to aggressively target outstanding audit report actions. These unresolved audit actions are generally the result of contractor noncompliance with Cost Accounting

Standards (CAS), and successful resolution requires tight coordination and teamwork between DCAA auditors and DCMA contracting officers. Through this initiative, DCAA and DCMA have already resolved nearly 500 of the roughly 700 audits originally identified as requiring resolution, and contracting officers have requested that over \$600 million be returned to the U.S. Treasury.

DCAA's role in this initiative includes briefing contracting officers on the approach DCAA took in the audit, how contractors' accounting changes

may impact how they charged the government, and whether the contractor is appropriately progressing to resolve any noncompliance issues with Cost Accounting Standards. DCMA uses DCAA's assessment to protect the government's interest until the contractor can demonstrate that it has made the appropriate corrections.

Some of the important audit issues DCAA uncovered include:

- Recovering over \$11 million because a contractor improperly classified business-development expenses, erroneously charged general training costs to specific contracts, and claimed excessive profit on in-house work
- Settling \$8.8 million in accounting changes that, if left unresolved, would have caused increased costs to the government.
- Resolving a contractor's noncompliance in correcting nearly \$600 million in Executive Compensation
- Securing \$3.2 million for the Coast Guard that was erroneously charged to the government because of a contractor's accounting procedures

DCAA and DCMA will continue to expand the CRI to consistently address outstanding audit issues. Recently, DCAA and DCMA extended this initiative to other types of audits, representing nearly \$2.3 billion in potential cost recovery to the government.

Buying command viewpoint:

"Thank you for all the support DCAA provided my office. The non-compliances have been resolved, and contracts have been adjusted. Obviously, this \$3.2 million recovery would not have been possible without DCAA."

Achieving the Mission: Director's 2012 Initiatives



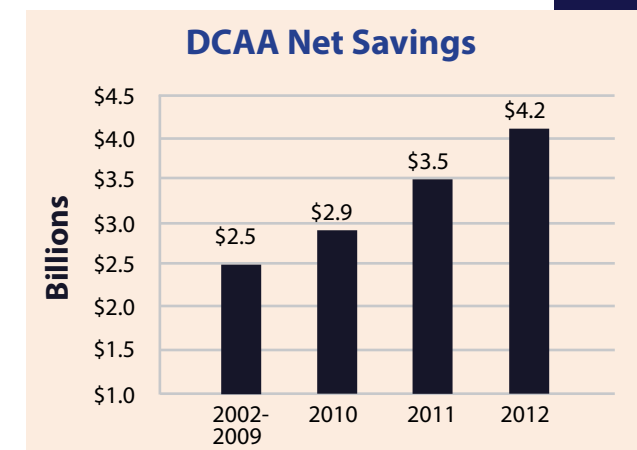
As our 2012 results demonstrate, DCAA exists to serve the warfighter and protect taxpayer interests. The outstanding work by DCAA employees led to billions in savings and tangible benefits for our men and women in uniform.

What these results also show is that audits are not a commodity. Our job is not to complete as many audits as possible; rather, our success as an Agency is based on what happens after the audit is complete—how it impacts the acquisition

process and whether our assessments can be relied upon to get a fair price for the warfighter and taxpayer. That's why all our Agency initiatives exist to make sure we do the right audits, in the right way, with the right placement of resources devoted to the highest value work.

To keep building on our commitment to providing the best value for the Department, we initiated several key strategies in 2012 across all functions of the Agency, which we will continue to execute in 2013 and beyond. What follows is a brief synopsis of our specific efforts in the areas of audit quality, growing our workforce, and engaging with the acquisition community and industry stakeholders.

- **Allocating audit resources based on risk vs. audit quotas:** When we focus our limited resources on the right audits, we save more money for the taxpayer. To get there, we use a risk-based approach, one that identifies the audits that provide the most value in the acquisition process. This risk-based approach may result in fewer audit reports, but it pays back richly in net savings. This is clearly evident when you look at historical trends. Between 2002 and 2009, for example, DCAA averaged about \$2.5 billion in annual net savings; however, over the last 3 years, DCAA's net savings have averaged \$3.5 billion, an increase of 40 percent. We will continue to build on these successes and redirect our resources to areas that bring the most value to the taxpayer.



- **Conducting rigorous evaluations of contractor data:** Better information gets us a higher-quality product, and higher quality gets better results. To gain the information and understanding we need, we conduct thorough analysis and rigorous testing of contractor data in accordance with GAGAS. We know our level of rigor is paying off because of our net savings, which have gone up significantly. One key factor that leads to greater net savings is an increase in questioned costs—a representation of our ability to question exceptions based on a thorough analysis of the contractor data. The connection is clear: more rigor means more dollars. That level of rigor also creates an important incentive for contractor compliance and a way to help contractors be better prepared for audits.

- **Balancing quality and schedule: We know that quality must be balanced with timeliness.** One key step we are taking is to continually ensure that we build quality into our audit process early on rather than at the end. This saves

A recent survey of DCAA customers—buying commands and contracting officers—showed a 92 percent satisfaction level with DCAA audit work.

time because we can identify and address problems at their earliest stages. We have also continued to increase and

improve communications with acquisition and industry stakeholders throughout the entire audit. One component of better communicating with our customers is to set expectations by using agreed-to dates for audit completion. Not only do these expectations help the contracting officer and the buying command in their planning, it also provides a valuable way for us to better understand the factors that impact timely completion of audits. By evaluating trends and investigating causes, we can address problems or adjust expectations moving forward.

- **Restructuring audit management of large contractors to drive quality through efficient organization:** In 2011, we consolidated the audit management at Raytheon, aligning all auditors and support staff under one region. This approach to managing large contractors has resulted in a more consistent and comprehensive contract audit approach. Based on our experience at Raytheon, we are currently applying the model to Northrop Grumman, which represents over \$20 billion in government sales. While the Northrop Grumman change is still in the early stages, we expect the same level of success at Northrop Grumman as we've seen at Raytheon.

- **Meeting with buying command and industry officials to understand acquisition community challenges:** DCAA has a clear commitment to reaching out to the acquisition community to better understand its challenges and concerns. Throughout 2012, DCAA executives made a regular practice of meeting with industry officials, visiting buying commands, and attending conferences to discuss common acquisition challenges. What started as an initiative has become standard operating procedure in our agency. Now and in the future, we will continue to seek out forums to exchange ideas, clarify government expectations, and understand industry perspectives.

- **Supporting contracting officers at the negotiation table:** Contracting officers rely on DCAA audits to assist them in negotiating for fair and reasonable prices. As a result, they are increasingly requesting that DCAA auditors attend negotiations to help support the government's position, uphold audit findings, and explain how data impacts audit conclusions.

- **Federal Employee Viewpoint Survey:** The DCAA results for this Office of Personnel Management survey in 2012 showed significant improvement in employee satisfaction. This survey is a tool that provides a snapshot of employees' perceptions of whether, and to what extent, conditions characterizing successful organizations are present in their agencies.

DCAA employees gave higher ratings for 71 of the 84 total questions (85 percent) compared to 2011. Our 2012 ratings were also higher than the DoD-wide ratings for 65 of the 84 questions (77 percent). I was

Employee Satisfaction Since 2008	
	Percent of Increase 2008-2012
■ Leadership	+8.5%
■ My Supervisor/Team Leader	+6.9%
■ My Satisfaction	+6.2%
■ My Work Experience	+4.4%

particularly pleased that we had especially strong results for the questions that measured employee views in the following categories:

- Leadership
- My Supervisor/Team Leader
- My Work Experience

DCAA was criticized on these aspects of the workplace in the past, and I consider them to be essential for overall workforce satisfaction and critical to the Agency's success in the future.

It is clear from this survey that we are making solid improvement across the board. With over 65 percent of DCAA employees responding to this survey, it provided a broad consensus of agency-wide attitudes. These results also showed substantial and pervasive improvement from those in a similar survey in 2008, demonstrating the continual progress we have made over the last few years. We will continue to listen to our employees' feedback to ensure we pursue changes that enhance the success of all our employees to deliver on the Agency's mission.

- **Implementing the Strategic Plan to maintain audit quality and a positive work environment:** 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. A key component of this 5-year plan is workforce involvement, a critical source of knowledge. Nearly 250 employee volunteers from all levels across DCAA are participating with

Strategic Champions in ad hoc committees to provide feedback, offer innovative ideas, and help establish best practices that directly impact Agency operations. During 2012, the Agency instituted many ad hoc team recommendations, including adopting a revised, Agency-wide telework policy; developing a formal coaching and mentoring program; instituting several key improvements to audit process and quality; improving communication with our stakeholders; and clarifying the core values that comprise our agency. These teams exemplify DCAA's commitment to One Agency, and they play a significant, ongoing role in achieving our strategic objectives.

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.

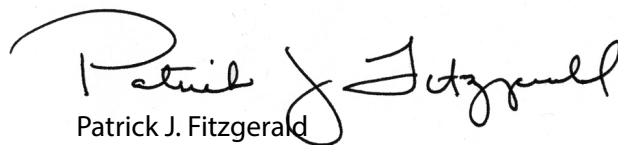
DCAA is tasked with a tough and complex task. The job we are asked to do—amidst competing demands and limited resources—is a difficult, but essential component of the acquisition process. As DoD budgets are increasingly constrained, the warfighter and the taxpayer will be even more reliant on DCAA to help get the best value for the critical equipment and services the Department needs to support our national defense.

DCAA cannot do this alone, and I am pleased by our progress in 2012 to improve coordination with buying commands and contracting officers. We will continue our commitment to increased communication, a clearer understanding of requirements, and a goal of operating as one government team.

Ultimately, our success depends on our ability to serve our employees. We are fortunate to have an exceptional workforce that repeatedly impresses me with their dedication and commitment to

our important mission. We will continue to seek out their feedback—and that of all our stakeholders—to help us improve and serve them better.

Throughout the many changes the agency has undergone in the last several years, I have personally seen how this workforce has overcome constraints and exceeded high expectations. While 2013 will be a challenging year, I know that we will be able to deliver on our mission with continued outstanding results.



Patrick J. Fitzgerald
Director