



Defense Contract Audit Agency



Defense Contract Audit Agency
8725 John J. Kingman Road
Fort Belvoir, VA 22060
(703) 767-3200
www.dcaa.mil
May 2015

2014 Year in Review

In Fiscal Year 2014, DCAA examined \$182 billion in contractor costs and produced over 5,600 audit reports. Overall, our efforts helped contracting officials achieve \$4.5 billion in documented savings to the Government. This was the fifth consecutive year of increased savings, and the FY 2014 savings total was higher than any of the prior 10 years. For the year, these savings represented a return on taxpayers' investment in DCAA of about \$6.89 for each dollar invested.

From the Under Secretary of Defense (Comptroller), the Honorable Mike McCord



I am pleased to introduce DCAA's 2014 year in review. I have been associated with DCAA for many years and have come to appreciate the true professionalism and dedication of their employees. DCAA is a vital part of the Department of Defense, and the examples in this document clearly illustrate the importance of the DCAA mission and their significant value within the acquisition community. DCAA has made

excellent progress on the incurred cost backlog, and they have achieved another year of impressive net savings and return on investment for the taxpayer. In the past year, DCAA has achieved a successful peer review, and once again has reflected impressive levels of workforce engagement and achievement in government-wide surveys. All of these results demonstrate the effective leadership Pat Fitzgerald displayed as Director of DCAA, and I am confident Anita Bales will continue to move DCAA forward as she begins her second year as Director. I'm proud of their accomplishments and I look forward to another productive year ahead.

To our DCAA employees, congratulations on your success.

A handwritten signature in blue ink that reads "Mike McCord".

Mike McCord
Under Secretary of Defense (Comptroller)/
Chief Financial Officer

Director's Overview



DCAA provided significant support to DoD throughout FY 2014. We examined over \$182 billion in defense contractor costs and issued over 5,600 audit reports, and we made major progress in working through our balance of incurred cost submissions. Overall, our efforts helped contracting officials achieve \$4.5 billion in documented savings to the Government. This was the fifth consecutive year of increased savings, and the FY 2014 savings total was higher than any of the prior 10 years. For the year, these savings represented a return on taxpayers' investment in DCAA of about \$6.89 for each dollar invested.

In addition to these impressive statistics, DCAA underwent a successful peer review and received a positive opinion in August. Since DCAA had been operating without a peer review opinion for about 5 years, this was clearly a noteworthy accomplishment. DCAA also achieved solid results in the Federal Employee Viewpoint Survey for the third straight year. As a result, the Best Places to Work rankings showed that DCAA was in the top 30 percent of Federal Agency subcomponents and was the highest ranked subcomponent in DoD.

“I am extremely proud of our employees for their skill, dedication and accomplishments. Their commitment to our mission is evident to me every single day.”

I am extremely proud of our employees for their skill, dedication, and accomplishments. Their commitment to our mission is evident to me every single day, and I look forward to DCAA continuing to provide vital contract audit support to DoD in FY 2015. It is my pleasure to share some of our accomplishments with you in this Year in Review.

A handwritten signature in black ink, which appears to read "Anita Bales". The signature is fluid and cursive.

Anita Bales
Director

DCAA Mission and Goals

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. It helps ensure DoD gets the best value for every dollar spent on defense contracting by conducting 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. 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'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), Cost Accounting Standards (CAS), and other applicable government laws and regulations. DCAA provides recommendations to government officials on contractor cost assertions regarding specific products and services. These officials select contractors to perform government-funded work and negotiate prices for products and services for our warfighters. Importantly, contracting officers use auditors' recommendations throughout the acquisition process.

DCAA Organization

DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. It consists of roughly 5,000 employees at over 300 locations in the United States, Europe, and the Middle East. In addition to its headquarters, DCAA has six regions—five that have geographic boundaries and a field detachment that handles classified work.

Branch offices and suboffices are strategically located within regions to cover contractors in local geographic areas.

Resident offices are established at large contractor locations where the amount of audit workload justifies the assignment of a permanent staff.



Serving the Acquisition Community: A Snapshot of DCAA's 2014 Contributions

\$27M Savings on Lightweight Counter-Mortar Radar

Taxpayers saved \$27M on a contract for Lightweight Counter-Mortar Radar (LCMR) hardware and kits. LCMRs are used to protect deployed forces by identifying incoming rounds and accurately directing return fire. The contractor's proposal included material that was based on commercial pricing; however, the audit team found that much of the material did not meet the definition of a commercial item and therefore questioned significant portions of the proposed costs. The contracting officer sustained 100 percent of DCAA's findings, resulting in net savings of \$27 million.



Buying Command Perspective

"The outstanding support provided by DCAA, specifically their communication informing the contracting officer of issues encountered during the audit, was very helpful in preparing the negotiation strategy."

\$2.8M Savings in F-15 Program Depot Maintenance Program



The F-15 Program Depot Maintenance (PDM) contract provides the Royal Saudi Air Force, an important partner in the fight against ISIS in the Middle East, with weapons-system capability. DCAA's audit of a \$19.2M proposed PDM contract resulted in net savings of \$2.8 million. Auditors compared the contractor's estimating methodology to its actual history. Based on reconciliation of historical payroll records and hours, auditors found that the proposed direct labor cost was significantly overstated compared to its historical experience. The savings from this

audit could enable the Royal Saudi Air Force to service two additional aircraft.

Auditor's best moment

"It is very rewarding to know that the service we provide to buying commands is meaningful and equates to real cost savings."

Taxpayers saved \$4.2M on V-22 Osprey Actuators

DCAA helped negotiate \$4.2M savings on a manufacturing contract for the V-22. The V-22 Osprey is capable of both vertical and horizontal flight, which makes it valuable for missions that move cargo or passengers into austere locations. On very short notification, the Defense Logistics Agency requested that DCAA specialists attend negotiations for the 5-year contract to manufacture the Osprey's Pylon Conversion Actuator (PCA), a key component of the aircraft that allows the tilt rotors to function. DCAA negotiation support contributed to \$4.2 million dollars (about 17 percent) in savings on the total proposed price of \$24 million. The dollars saved on this contract is equal to the purchase of 14 additional PCAs.



Buying Command Appreciation

A DLA official stated, "I wanted to thank you again for assisting in the negotiations, especially on such short notice. You provided valuable contributions that helped me develop my position and negotiate the contract."

\$45M Savings in Repair, Maintenance, and Modernization of U.S. Navy ships

DCAA's audit of a \$242.5M, seven-year contract for ship repair, maintenance, and modernization of four U.S. Navy DDG-51 class Ballistic Missile Defense (BMD) destroyers resulted net savings of \$45 million, approximately equal to the cost of ship repair, maintenance, and modernization of a fifth destroyer for seven years. DCAA auditors closely worked with the Navy's Procuring Contract Officer (PCO) and Contract Specialist and the contractor to come to a negotiated agreement.



Auditor's perspective on why the audit was a success

"...Because of our close coordination throughout the audit—including the PCO's initial meeting with the contractor to discuss our assessment of the original proposal—which resulted in significant reduction in the revised proposed amount. Additionally, the audit team worked together to successfully meet the negotiation timeline and provide support and during the actual contract negotiations."

Contracting Officer sustains \$11.2M on Utilities Contract

Taxpayers saved \$11.2M from an audit on a proposal for a 50-year Utilities Privatization contract for Navy Facilities Engineering Command Southeast. This contract was for the operation and maintenance of the electric distribution systems of naval activities on five naval bases in Texas. After reviewing \$50.9M of proposed costs, auditors questioned \$16.1M in unallowable costs including property tax, disaster recovery insurance, and loan interest. Based on these findings, the contracting officer sustained \$11.2M of the questioned costs, which reflected a 70 percent sustention rate. These savings could buy seven additional years of utility operation.

“DCAA’s accounting expertise allowed for a good understanding of the details behind the Contractor’s figures.”

– Contracting Officer

Stakeholder Perspectives

“Your efforts and assistance were fantastic! Thanks very much for all your support and hard work!” In the Post Negotiation Memorandum the Contracting Officer stated, “DCAA’s accounting expertise allowed for a good understanding of the details behind the Contractor’s figures.”

Supporting the Construction of Virginia Class Submarines

Teamwork among all acquisition partners led to the timely completion of Newport News Shipbuilding’s \$6.2B proposal for construction of nine submarines under the fourth block of the Virginia Class Submarine Program. The Virginia Class Submarine is the next generation of attack submarine. DCAA’s auditors questioned \$399M in labor, materials, and indirect costs in the proposal for Naval Sea Systems Command. DCAA attended and provided support for negotiations, and the buying command upheld \$363M—a sustention rate of 91%. The auditor attributed the high sustention rate to “the fluid communication between the audit team and NAVSEA throughout the procurement process.”



Contracting Officer Appreciation

“Wanted to let you know how good of a job your team has been doing in coordinating audit efforts. Much thanks to you and your team for all the hard work and timely response.”

\$1.5M saved on Tank Engine Contract

DCAA saved \$1.5M on a proposal audit related to the Abrams Tank, the most technologically advanced armored vehicle in the world. This tank is powered by the AGT 1500 engine, and DCAA was asked to audit the material costs, which accounted for over 50 percent of the total proposed costs on an engine contract. Due to significant inadequacies in the contractor's proposed subcontract costs, DCAA auditors were unable to complete the audit and issued a disclaimer. Despite the disclaimer, the auditors offered negotiations support to the Army Contracting Command-Warren and, as a result, ACC Warren reduced the proposed material pricing by \$300,000 for excessive mark-up on vendor parts, which led to an additional reduction of \$1.2M in materials. The \$1.5M saved would be enough to one additional engine, including support.



Military Housing

DCAA provided testimony at an Armed Services Board of Contract Appeals (ASBCA) hearing related to a military housing construction contract. At the request of the Army Corps of Engineers, the Seattle Branch Office audited a \$1.4M claim against the Government. The contractor alleged it could not get qualified carpenters onto base due to a change in base access policies. The contractor asserted that when it bid, it intended to use people with felony convictions and those in a pre-release program at the nearby prison. However, the Convict Labor clause was included in the prime contract. The contractor claimed it incurred increased administrative costs from the need to process hundreds of applicants and perform hundreds of job interviews due to the inability to use convict labor. After examining the claim, DCAA auditors questioned \$1.2M of the \$1.4M claim as the contractor could not provide support of a change in base access, its intention to employ people with felony convictions, or increased costs incurred due to processing and hiring new employees.



Kudos to the Auditor

“The auditor made significant contributions to analyzing the merits of the claim and its presentation before the ASBCA. Her performance is a tribute to the professionalism and support of DCAA and to the Department of Defense.”

Honest Brokers between Contractors and U.S. Government

100 percent of questioned costs were sustained on a contract to produce 2050 headsets which was subsequently cancelled. The contractor submitted a Termination Settlement Proposal for \$167,205 claiming that 1,800 of the 2,050 headsets were produced within the first week prior to a stop work order being issued. Additionally, the contractor

“Thank you ...You should really know how much your efforts are appreciated ...”

Buying Command Official

claimed that the Government’s Plant Clearance Office instructed the contractor to destroy all 1,800 headsets produced. These circumstances could have made a mutually acceptable solution difficult. However, the audit team conducted an objective and independent review of the documentation, the results of which led to a 100 percent sustention rate and an amicable agreement on price between the Government and Contractor.

Auditor’s Best Moment: When the Termination Contracting Officer and the Contractor’s representative saw DCAA’s independent assessment as the only viable way to settle their differences and reach a fair and reasonable negotiation.

Cost Recovery Initiative

In FY 2011, DCAA and DCMA jointly sponsored the Cost Recovery Initiative (CRI) to aggressively target any outstanding Cost Accounting Standards (CAS) related audit report actions. By the end of FY 2014, DCAA and DCMA resolved approximately 660 of the 705 audits originally identified as requiring resolution, and DCMA contracting officers have requested approximately \$1.139 billion be returned to the U.S. Treasury.

Some of the important audit issues DCAA uncovered include:

- ◆ Supporting the contracting officer’s \$349.2 million demand for payment resulting from a contractor excluding certain material costs from its overhead base, which led to inequitable allocations to contracts.
- ◆ Supporting the contracting officer’s \$8.3 million demand for payment relating to a contractor’s inappropriate accounting associated with direct proposal preparation effort.
- ◆ Recovering \$3.4 million relating to six unilateral cost accounting practice changes implemented by a contractor that resulted in increased costs to the Government.
- ◆ Recovering about \$1 million because a contractor inappropriately calculated the three-factor-formula used to allocate home office expenses to its segments.



Small Business Initiative

In Better Buying Power 2.0, Mr. Frank Kendall, USD AT&L, described the value of small business as “effective sources of innovation and reduced cost” on government contracts. In response to his call for increased participation, roles, and responsibilities for small business, DCAA started up the “Small Business Initiative” in July, 2013. DCAA has been reaching out to conduct seminars and educate small business contractors about areas that will likely come up in their interactions with DCAA. Those attending

learn about things such as:

- the requirements for accounting systems
- contract briefings, provisional billing rates
- public vouchers
- real-time labor evaluations
- requirements for adequate proposal submissions

Participant Feedback

These seminars have proven to be very successful and feedback has been consistently positive: “The training was outstanding and comments and contributions were superb,” one participant

said. Another shared her appreciation for DCAA’s help to demystify the Federal Acquisition Regulations (FAR), which can be confusing: “While the FAR seems comprehensive, I often struggle to apply it to real life situations. Like most other small businesses, we just want to do what is correct, but sometimes receive conflicting advice being able to understand an auditor's perspective helps to promote positive outcomes for everyone.”

DCAA Outreach

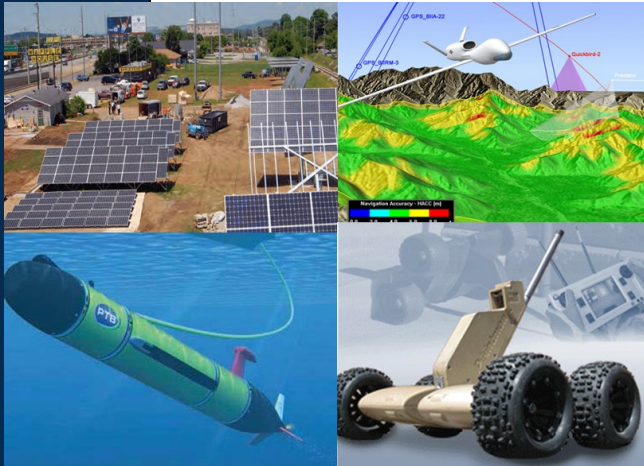
In FY 2014, DCAA held 53 seminars for small business at various venues and organizations including Procurement Technical Assistant Centers, Small Business Administration Business Opportunity Specialists, Procurement Commands’ Office of Small Business Programs, and numerous others.

In addition, for the past two years, representatives from DCAA Policy and Operations Divisions, including the Small Business Focal Point, have been holding quarterly meetings with a joint Small Business Technology Coalition (SBTC)/National Defense Industry Association (NDIA)/DCAA/DCMA Committee. The purpose of these quarterly meetings is to discuss areas of concern for small businesses regarding DCAA audits. “It is amazing how many constructive actions can be achieved,” said the SBTC Chair, “when an open and candid communication channel is established and maintained.”

DCAA will continue build on this success and work with small business to ensure they have the information they need to better understand the audit process.

“While the FAR seems comprehensive, I often struggle to apply it to real life situations... being able to understand the auditor’s perspective helps to promote positive outcomes for everyone.”

—Small Business Owner



DCAA's role in preventing Fraud, Waste, and Abuse in Contracting

When DCAA auditors uncover a suspected irregularity in an audit, they report it to the proper investigative authorities, which may include the Defense Criminal Investigative Organizations and the Department of Justice for criminal and/or civil fraud cases, or other law enforcement agencies like Immigration and Customs Enforcement and the Federal Bureau of Investigation. If any of these authorities accepts the engagement, then they may solicit support from DCAA's Investigative Support Division. As part of the investigative team, DCAA investigative support auditors assist the agent and attorney in determining whether fraudulent activity actually occurred by developing sufficient accounting/financial evidence to prove or disprove the elements of the alleged fraud.



DCAA provides support by

- Identifying and locating pertinent documents as evidence
- Reconstructing financial transactions through third party sources
- Preparing summary documentation to present at trial
- Providing expertise and knowledge of contractors' records
- Helping prepare subpoenas and develop questions for witness interviews
- Providing assistance, based on the financial data, in the decision to pursue a settlement or trial

Recent cases that resulted in convictions

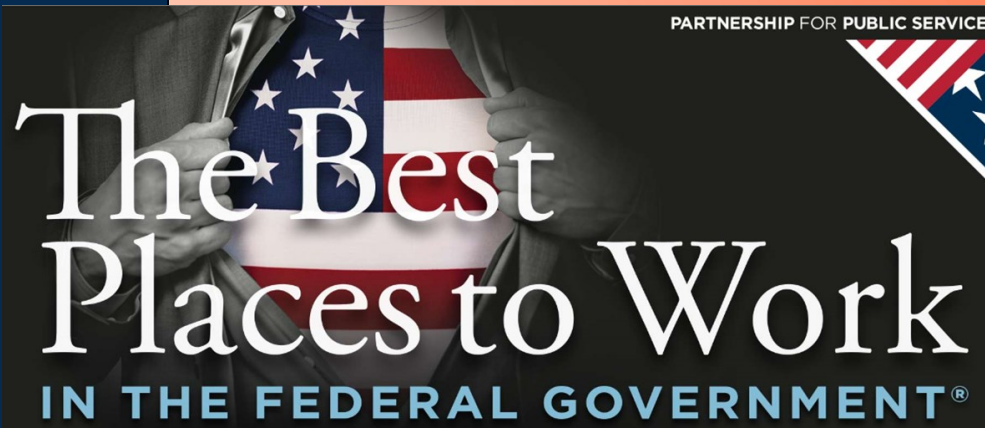
Violation of False Claims Act: a contractor has agreed to pay the United States Government \$27.5 million to settle allegations that it violated the False Claims Act by knowingly over billing the government for work performed by employees who lacked required job qualifications.

Selling Inferior Products: The former owner of the battery distributor company was sentenced to 87 months in prison and ordered to pay approximately \$2.7 million in restitution for defrauding the government by selling knock-off batteries to the Department of Defense. These batteries were to be used for emergency back-up power aboard nuclear aircraft carriers, minesweepers, and ballistic submarines.

Accepting benefits from favored contractors: A former contracting officer was sentenced to four years in prison for his role in accepting over \$490,000 worth of benefits—including cash payments and vacations—from favored contractors. In return, he helped these businesses obtain millions of dollars in federal contracts. The individual must also pay restitution, including \$250,000 to the Department of Defense and nearly \$125,000 to the IRS. In addition, he must pay a forfeiture money judgment of \$490,262.

Continuing Positive Trend in the 2014 Federal Employee Survey

The 2014 results of the annual Federal Employee Viewpoint Survey pointed to high employee satisfaction at DCAA. The Office of Personnel Management (OPM) conducts this survey every year to assess employee views in six major areas: work experience, work unit, agency, supervisor, leadership, and overall satisfaction.



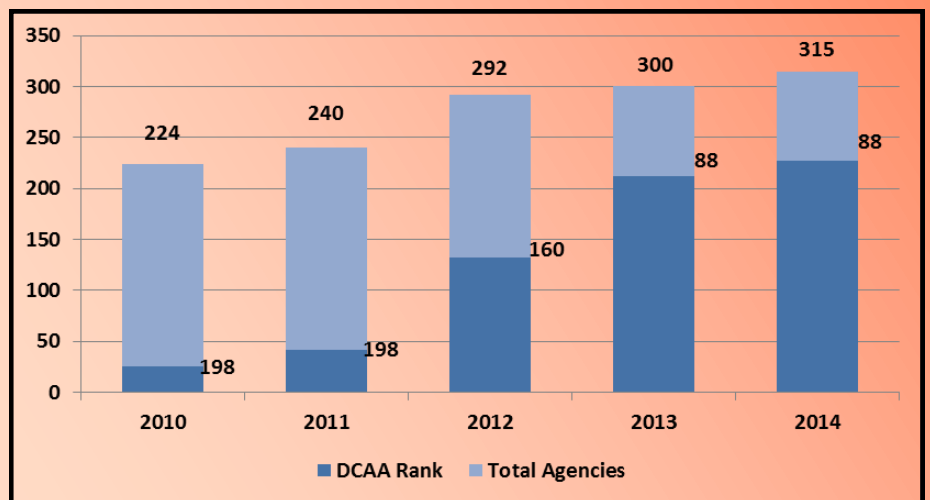
This year about 4,500 DCAA employees received this survey and over 3,500 participated. The experts say that high participation is a solid indication that DCAA employees are truly engaged, want to

play a part in continuing to improve the organization, and believe that DCAA management will listen to them.

Across all six areas, DCAA scored higher than the Federal Government total. Particularly notable was the category of “Leadership,” where DCAA came in 15 percentage points higher than the Federal Government average.

At the individual question level, DCAA also scored well. When 65 percent of respondents score a question positively, OPM considers the topic of that question to be a strength.

DCAA demonstrated strengths for 47 of the 71 total questions while the Federal Government overall had strengths in only 27 questions. On



a total comparison basis, DCAA scored better than Government-wide results in 66 of 71 questions. In the “Best Places to Work” ranking based on the FEVS results, DCAA ranked 88 out of 315, placing the agency above 227 other participating agencies.