

# **Report to Congress on FY 2014 Activities Defense Contract Audit Agency**

**U.S. Department of Defense**

March 25, 2015





**DEFENSE CONTRACT AUDIT AGENCY**  
**DEPARTMENT OF DEFENSE**  
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March 25, 2015

Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's annual Report to Congress for Fiscal Year 2014 required by 10 U.S.C. §2313a. This report provides an overview of DCAA's critical mission, summarizes the Agency's audit performance in FY 2014, and describes significant deficiencies and recommended actions to improve the audit process.

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, and I look forward to DCAA continuing to provide vital contract audit support to DoD in FY 2015.

Respectfully,

A handwritten signature in cursive script, reading "Anita F. Bales", is positioned below the "Respectfully," text.

Anita F. Bales  
Director

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

DCAA provides audit and financial advisory services to the 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. Its work benefits our men and women in uniform and the American taxpayer.

The Agency's primary function is to conduct contract audits and related financial advisory services. Contract audits are independent, professional reviews of financial representations made by defense contractors. Specifically, DCAA helps determine whether contract costs are allowable, allocable, and reasonable. DCAA conducts audits in accordance with Generally Accepted Government Auditing Standards (GAGAS), a set of standards that ensures that audit conclusions are 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 contractor accounts, records, and business systems to evaluate whether contractor business practices and procedures are in compliance with the Federal Acquisition Regulation (FAR), the Defense Federal Acquisition Regulation Supplement (DFARS), Cost Accounting Standards (CAS), and other applicable government laws and regulations. DCAA has no direct role in determining which companies are awarded defense contracts; rather, it provides recommendations to government officials on contractor cost assertions regarding specific products and services. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. In a typical year, DCAA audits around 3,000 contractors, examines about \$200 billion in contract costs, and issues about 6,000 audit reports.

## 2. ORGANIZATIONAL STRUCTURE AND STAFFING

**A. Organizational Structure.** DCAA assumed contract audit responsibility from individual services for all DoD entities in 1965. At the end of FY 2014, DCAA had over 300 office locations throughout the United States, Europe, the Middle East, Asia, and the Pacific. DCAA is organized into six regions—five with geographic boundaries plus a Field Detachment that handles classified work.

**Headquarters** is at Fort Belvoir, Virginia. Principal elements 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. (Note: In January 2015, DCAA established the Office of Inspector General which replaced the Internal Review Directorate.)

**Regional offices** are in Lowell, Massachusetts; Philadelphia, Pennsylvania; Smyrna, Georgia; Irving, Texas; La Palma, California; and Chantilly, Virginia. Each region directs and administers the DCAA audit mission at various locations near the 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, such as Lockheed Martin, Boeing, and General Dynamics.

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

**B. Staffing.** DCAA has a highly professional workforce of over 5,000 employees. About 90 percent of them have a bachelor's degree, and approximately 37 percent also have a higher level degree. In addition, roughly 25 percent are Certified Public Accountants, and 5 percent have other professional certifications. Nearly 89 percent of DCAA employees are auditors. The remaining 11 percent are professional support staff individuals who work in a variety of occupational fields including administrative support, budget, human resources, information technology, and legal (Table 1).

**Table 1 – DCAA Workforce at September 30, 2014**

Auditors	4,556	88.8%
Professional Support Staff	575	11.2%
<b>Total</b>	<b>5,131</b>	<b>100.0%</b>

### 3. FY 2014 AUDIT PERFORMANCE

**A. Overview.** DCAA uses a risk-based approach to tackle its audit workload in a cost-effective manner. Using this approach, DCAA examined \$182.6 billion in contract costs, issued 5,688 audit reports, increased its incurred cost work, identified \$4.5 billion in net savings, and produced a return on investment of almost 6.9 to 1.

**(1) Incurred Cost.** DCAA established incurred cost audit teams in FY 2012. These teams have developed a high level of expertise in conducting these audits and were in full action in FY 2013. As a result, DCAA significantly increased the number of incurred cost years closed in recent years (Figure 1).

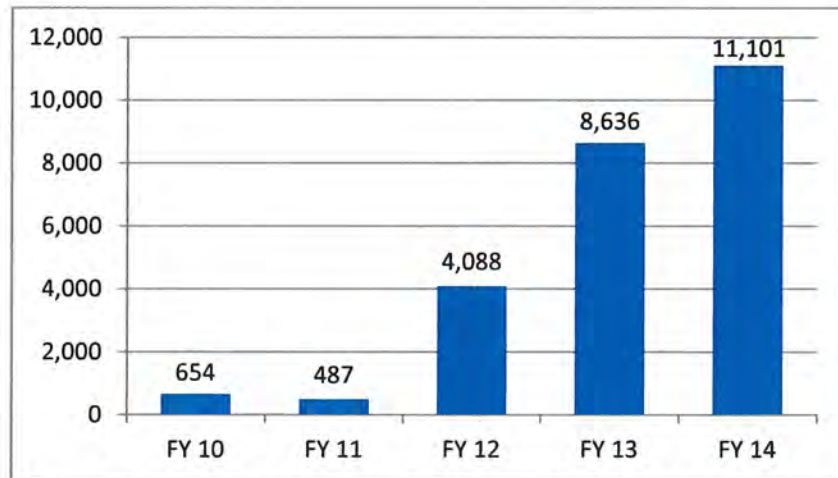


Figure 1 – Incurred Cost Years Closed FY 2010 – FY 2014

**(2) Net Savings.** During FYs 2004-2009, DCAA averaged \$2.6 billion in annual net savings; however, over the last 5 years, DCAA’s net savings has averaged \$3.9 billion, an increase of about 50 percent. In FY 2014, DCAA identified about \$4.5 billion in net savings to the Government. This was roughly 70 percent more than the annual average during FYs 2004-2009 (Figure 2).

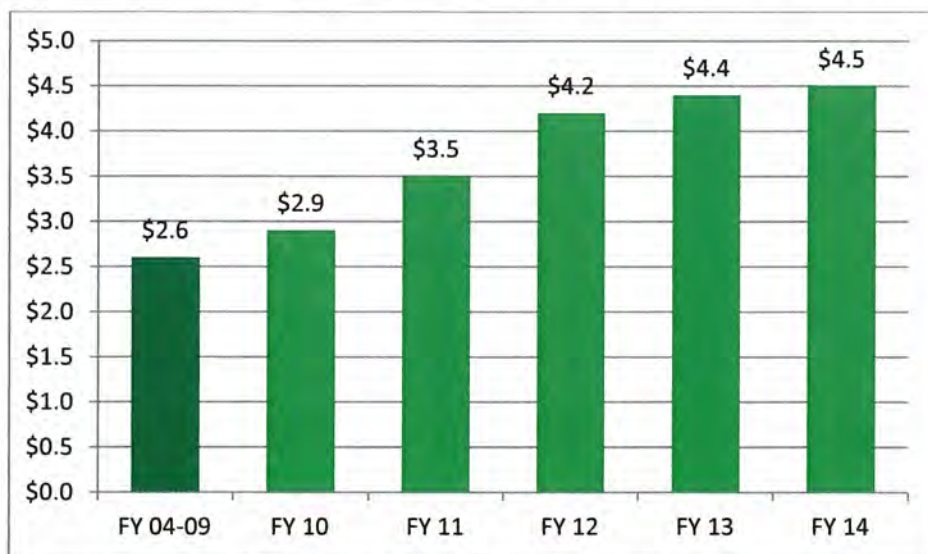


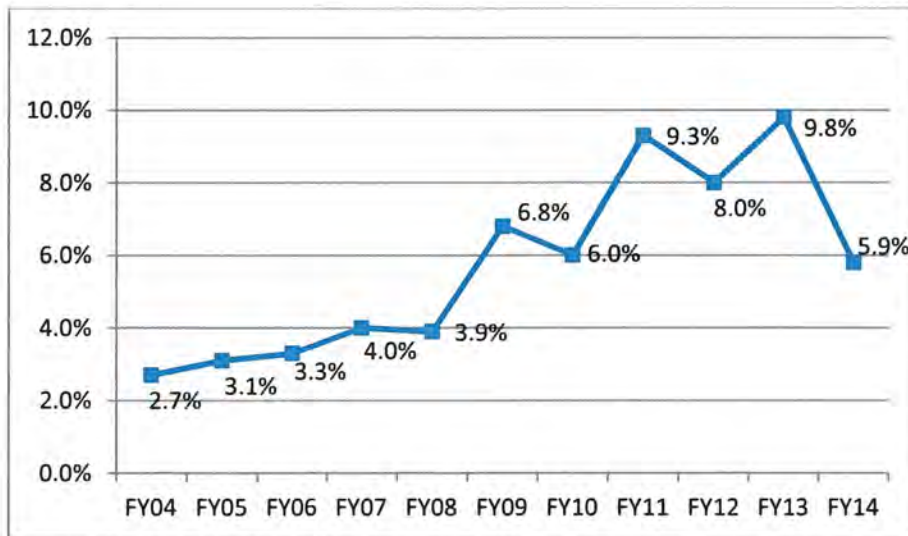
Figure 2 – DCAA Net Savings FY 2004 – FY 2014 (billions)

**(3) Return on Investment.** Based on these net savings, the return on taxpayers' investment in DCAA was about \$6.89 for each dollar invested and represents actual savings that DoD can reinvest in various ways to help the warfighter. DCAA takes a conservative approach to reporting savings and return on investment. DCAA savings do not represent potential savings or possible future savings if DCAA recommendations are implemented. Instead, DCAA only reports savings that have been realized based on actions taken by Government contracting officers. As shown in Figure 3, the \$6.89 is near the high end of the return on investment range during the last decade.



**Figure 3 – DCAA Return on Investment FY 2004 – FY 2014**

**(4) Questioned Costs.** DCAA recommended reductions in proposed or claimed contractor costs of \$10.7 billion. This is a lower percentage of dollars examined compared to the past several years (Figure 4).



**Figure 4 – Percentage of Questioned Costs to Dollars Examined**

The decrease was caused primarily by a lower amount of forward pricing activity in FY 2014 which is the area with the highest level of questioned costs. Forward pricing dollars examined decreased \$38.2 billion



(38%) and questioned costs related to forward pricing work decreased \$4.6 billion (39%) compared to FY 2013.

**B. Audit reports completed in FY 2014.** DCAA conducts a variety of audits that provide the basis for recommendations to the acquisition community. Each audit that DCAA completes, whether it is before or after contract award, supports government officials who negotiate prices and settle contracts for major weapons systems, services, and supplies. When conducting an audit, DCAA evaluates whether contractor business practices and procedures are in accordance with the FAR, DFARS, Cost Accounting Standards (CAS) and other applicable government laws and regulations. Contracting officers may also request certain specific information such as an independent financial opinion on specific elements of a contract or an assessment of compliance with specific acquisition regulations or contract terms. DCAA typically categorizes these types of requests as “Special” or “Other” audits.

Government officials draw on DCAA audit findings throughout the acquisition process. At the front end, DCAA’s findings can directly impact the price that the government pays for contracted work. Even after a contract is underway, DCAA findings may address instances where the government overpaid contractors for work, uncover potential fraud or misuse of funds, and impact future contract prices by addressing inadequacies early on. Before contract completion, DCAA assesses if the contractor’s final annual incurred costs claimed for contract performance are allowable and reasonable in accordance with applicable acquisition regulations and contract provisions prior to the contract being officially closed out, which prevents excess costs charged to the Government.

The total number of audit reports completed by DCAA in FY 2014 and the total dollar value of questioned and unsupported costs are shown in Table 2.

**Table 2 – Audit Reports Completed by DCAA in FY 2014**

Type of Audit Report	Number of Audit Reports	Questioned Cost (Millions)*	Unsupported Cost (Millions)**
(1) Forward Pricing	1,089	\$7,137	\$5,981
(2) Special Audits	1,627	\$658	N/A**
(3) Incurred Cost	1,919	\$2,734	N/A**
(4) Other Audits	1,053	\$164	N/A**
<b>Total</b>	<b>5,688</b>	<b>\$10,693</b>	<b>\$5,981</b>

\* Questioned Costs are costs the auditor considers not acceptable for negotiating a reasonable contract price or not acceptable for reimbursement under existing contracts.

\*\* Unsupported Costs denote instances where the contractor has not provided specific evidence or documentation to support assertions related to the cost of future work. Unsupported costs are not applicable in the case of Incurred Cost Audits, Special Audits, and Other Audits, because the contractor is not making a claim about the cost of future work. Any potential cost discrepancies identified by DCAA in the case of Incurred Cost Audits, Special Audits, and Other Audits are classified as “Questioned Costs” where the contractor has not provided adequate documentation to support a claim about the actual costs the contractor has incurred.

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

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

**(3) Incurred Cost.** Incurred Cost Audits determine the accuracy of contractor's annual allowable cost representations. When a contract price is not fixed, DCAA conducts an incurred cost audit *after* contract award to determine the accuracy of contractor cost representations. DCAA expresses an opinion as to whether such costs are allowable, reasonable, and allocable to the contract, based on government accounting and acquisition provisions. Incurred cost audits allow the contracting officer to recover the questioned costs before the contract is officially closed out, which prevents excess payments by the Government.

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

**C. Pending Audits.** DCAA's management information system does not formally separate audits into a "pending" category. However, DCAA considers contractors' adequate annual incurred cost submissions awaiting final DCAA action as pending. A contractor is required to submit a certified incurred cost submission of its costs incurred for each year of contract performance where the contract price is not fixed at time of contract award. Incurred cost submissions may be provided to DCAA at any time and can cover a range of prior fiscal years. For example, DCAA could receive a submission in FY 2014 for contract work completed in FY 2011. This submission would then become part of DCAA's FY 2014 pending incurred cost audits.

After receiving an annual incurred cost submission, DCAA auditors will review it to determine if the submission and supporting data are adequate and in accordance with FAR 52.216-7(d)(2)(iii). If the submission is not adequate, it is returned to the contractor for correction and resubmission. When a submission is determined to be adequate, it becomes part of DCAA's list of "pending" incurred cost audits.

DCAA allowed its balance of incurred cost submissions to increase significantly beginning in FY 2010 when it made the conscious decision to defer incurred cost audits so that more auditors could work on other audits that were especially time sensitive. DCAA reduced this balance in FY 2013 and made further reductions in FY 2014. At the end of FY 2014, DCAA had 11,324 adequate annual contractor incurred cost submissions on hand valued at roughly \$419 billion. Additionally, DCAA was either awaiting receipt of, or had not made an adequacy determination for 6,861 incurred cost submissions

valued at roughly \$403 billion. This total year-end balance of 18,185 submissions was 4,924 less than the prior year-end balance of 23,109, or a reduction of 21 percent for the year.

**D. Prioritization of Audits.** DCAA's risk-based planning process helps ensure that audit resources are focused on the highest-payback areas to DoD, the warfighter, and the taxpayer. When prioritizing work, DCAA plans its audits based on the highest-risk areas to the Government. Consequently, instead of prioritizing audits based solely on the type of audit being conducted (i.e., Forward Pricing, Special Audit, Incurred Cost, or Other Audit), DCAA examines the risk factors involved in each individual audit regardless of type. Contracts considered "high-risk" typically involve significant costs, poor contractor performance in the past, or circumstances where there may be less incentive to control costs such as on cost-type contracts. This method has proven to be the best use of existing resources and very effective in returning greater net savings to the Government.

In FY 2014, the highest priority audits were those related to Overseas Contingency Operations (OCO) and to Forward Pricing. In both categories, the audits were time sensitive, carried significant risk factors, and would have significantly impacted the Government and/or the contracting process had they been deferred. Two of the reasons that make OCO higher risk are (1) that a foreign contractor is subject to the same laws and rules as a contractor in the U.S. but might not be fully familiar with them, and (2) that a significant portion of the costs the Government is paying for OCO includes subcontracted work, historically a high-risk area. In FY 2014, DCAA audited roughly \$11.5 billion for OCO contracts and recommended about \$483 million in reductions. In addition to OCO-specific audits, the majority of all Forward Pricing audits were also a high priority for DCAA in FY 2014. These audits are extremely time sensitive because they need to be completed before contract negotiations occur to be of value to the contracting officer.

Beyond the two areas of highest priority, DCAA assigns priority to additional audits (Incurred Cost Audits, Special Audits, and Other Audits) based on individual contract and audit risks to the Government. DCAA generally classifies pending (non-backlog) Incurred Cost audits as lower priority because they are performed after contract award. However, audits related to the incurred cost backlog are a high priority because of their age. In addition, specific Incurred Cost Audits can be a high priority for DCAA if DCAA or the contracting officer identifies significant risk factors. Special Audits are a high priority when requested by contracting officers who need an independent financial opinion on a contractor's accounting business system or other specific contract elements before contract work can proceed. Finally, Other Audits are a high priority when DCAA or the contracting officer identifies a high risk area such as inadequate business systems.

**E. Length of time to complete audits.** The timeline for an audit is based on audit type, dollars involved, level of risk, and needs of the requester. Therefore, DCAA does not have specific or mandatory time requirements for completing audits. Instead, DCAA assesses what is necessary to conduct an audit that meets professional audit standards and that will provide value to the contracting officer in negotiating a fair and reasonable price for the Government. DCAA works closely with Contracting Officers to set reasonable due dates based on the requirements of the audit and the needs of the buying commands. Based on this coordination, DCAA and Contracting Officers mutually set priorities, milestone plans, and agreed-to dates. Once these agreements are reached, DCAA assesses timeliness based on meeting those targets.

The average length of time to complete three of the four types of audits was less in FY 2014 compared to either of the two prior fiscal years. Details are shown below (Table 3), followed by additional explanation for each audit type.

**Table 3 – Average Elapsed Days to Complete Audits**

Type of Audit Report	Elapsed Days		
	FY 2012	FY 2013	FY 2014
(1) Forward Pricing	110	97	95
(2) Special Audits	217	184	165
(3) Incurred Cost	1,184	1,090	1,006
(4) Other Audits	384	309	461

**(1) Forward Pricing.** The time to complete a Forward Pricing Audit is generally measured from the date of receipt of the audit request or, in some cases, from the date of receipt of an adequate proposal if received later than the request. In FY 2014, the average time between request and audit report issuance was 95 days.

**(2) Special Audits.** The time to complete a Special Audit is generally measured from the date of receipt of the audit request to the date of the audit report issuance. In FY 2014, the average time between request and report issuance was 165 days.

**(3) Incurred Cost.** The time to complete an Incurred Cost Audit is measured from the time an adequate annual incurred cost submission is received until the date of the audit report issuance. The average time between the receipt of an adequate annual incurred submission and audit report issuance was 1,006 days. This high number is the result of elapsed days continuing to mount for submissions sitting idle in the incurred cost backlog while DCAA performs higher priority, higher risk audits within resource constraints.

**(4) Other Audits.** The time to complete Other Audits is generally measured from the time audit work began to the date of the audit report issuance. In FY 2014, the average time between the start of the audit and audit report issuance was 461 days.

#### 4. SIGNIFICANT DEFICIENCIES AND RECOMMENDED ACTIONS TO IMPROVE THE AUDIT PROCESS

Contract auditing is a critical step in the acquisition process, and DCAA's independent audit opinions directly affect the value that the Government, taxpayer, and warfighter receive for contracted work. To ensure DCAA is providing the highest value to its acquisition stakeholders, it has identified deficiencies in the acquisition process and recommended changes to these ongoing challenges.

**A. Forward Pricing.** We have worked with the Department to establish and communicate common expectations for the adequacy of contractor proposals. DoD was successful in implementing new DFARS rules for a forward pricing rate proposal adequacy checklist (December 2014) and an individual price proposal adequacy checklist (March 2013). However, additional work is still required for the Department to obtain adequate support for proposed commercial prices. With expanded subpoena authority for "data other than certified cost or pricing data," DCAA will be better able to assist the Department in improving the support obtained for commercial procurements.

**Challenges.** The lack of express authority to review "data other than certified cost or pricing data" continues to affect DCAA's ability to obtain sufficient contractor data to conduct timely, quality audits, especially proposed commercial procurements.

- **Authority to Review and Subpoena "Data Other than Certified Cost or Pricing Data."** The DCAA subpoena authority contained in 10 U.S.C. §2313 permits DCAA both access to and the authority to subpoena "certified cost or pricing data," but it does not specifically provide similar authority for "data other than certified cost or pricing data" as defined in FAR 2.101. When a contracting officer determines that historical data is insufficient to determine the reasonableness of prices in a fixed-price contract for commercial items, FAR 15.403-3 permits the government to obtain "data other than certified cost or pricing data" to assist in making a fair and reasonable price determination. Contractors have been reluctant to provide this information to DoD, including DCAA. While the FAR allows contracting officers to request data, there is currently no authority to compel production of that data. This problem is likely to get worse. Even as the Department's Better Buying Power Initiative and Industry groups continue to promote the use of commercial procurements, there has been no improvement in the Department's ability to obtain adequate supporting data from contractors to support the proposed commercial prices. For this reason, the Department submitted a legislative proposal in FYs 2014 and 2015 requesting an amendment to 10 U.S.C. §2313 expanding DCAA's subpoena authority to obtain "data other than certified cost or pricing data." DCAA did not submit a legislative proposal for 2016 because we are in the process of analyzing additional information and the impact of the ongoing GAO review required by Section 831 of the 2013 National Defense Authorization Act (NDAA). After we complete our assessment, we will work with the Department, as necessary, to resubmit a legislative proposal in FY2017. The expected benefit of providing this authority to DCAA is that the Department's contracting officers will receive timelier audit support and better-supported negotiation positions for commercial procurements, which will, in turn, improve their effectiveness and reduce the risk of paying excessive commercial prices.

**B. Access to Contractor Records.** To perform GAGAS-compliant audits, DCAA must obtain an understanding of the contractor's systems and operation to develop audit procedures to gather sufficient evidence to provide a reasonable basis for the conclusions expressed in its audit reports. A key part of this evidence is pertinent contractor records. Access to records—including access to internal audit reports, and contractor employees—continues to pose significant challenges to DCAA auditors. The

auditing standards require auditors to inquire of management and others within the contractor organization that, in the auditor's professional judgment, have information pertinent to successful planning of their audit. Therefore, DCAA considers access to internal audits and contractor employees a routine and established audit procedure that is necessary to perform our audits and satisfy GAGAS.

**Challenges.** Denial of access to contractor internal audit reports and contractor employees is a continuing barrier relative to conducting audits.

- **Access to Contractor Internal Audit Reports.** As discussed in the FY 2013 Report to Congress, DCAA had significant concerns regarding DCAA's ability to access contractor internal audit reports. The FY 2013 NDAA, Section 832, mandated documentation requirements for DCAA for access to defense contractor internal audit reports. DCAA disseminated the NDAA documentation requirements through Agency formal training, written guidance, and language in its Contract Audit Manual (CAM). As required by the NDAA, in 2014 the Comptroller General reviewed the documentation DCAA is required to maintain, and issued a report to the congressional defense committees regarding the results of the review. The report stated that DCAA revised policies and guidance to incorporate documentation requirements for requests for companies' internal audit reports as mandated in section 832 of the NDAA. However, it did note that DCAA could clarify the guidance with examples and definitions, and better establish and monitor internal controls relative to the process. DCAA agreed with the report recommendations, and will make the necessary revisions to guidance.
- **Access to Employees.** As discussed in the FY 2012 and FY 2013 Reports to Congress, DCAA strongly believes that having access to contractor employees to conduct interviews and observations is critical to ensure the high level of assurance required by GAGAS. DCAA continues to find contractors arguing that DCAA's access to records does not include access to employees. FAR 52.215-2(d) specifically gives the GAO rights to interview any officer or employee; however, FAR does not specifically give DCAA this right. DCAA submitted a legislative proposal for FYs 2015 and 2016 to support DCAA's right of access to contractor employees and to avoid any future confusion on DCAA's ability to interview those employees. This legislative change would ensure DCAA has access to employees, which allows DCAA to conduct audits in accordance with GAGAS. The proposal was not incorporated in the FY 2015 NDAA. The explanation for not including the proposal—provided in the House Armed Services Committee's Joint Explanatory Statement (JES) to Accompany the NDAA for FY 2015—is that the Agency already has authority to interview contractor employees during the course of an audit if such an interview is required to complete the audit. DCAA agrees, and therefore withdrew the legislative proposal from the FY 2016 consideration cycle. However, some contractors have argued that subsection (c)(1) of section 2313 of title 10 United States Code, and FAR 52.215-2(d), specifically gives the Comptroller General the right to interview employees and, because there is no corresponding reference to DCAA, that DCAA does not have such rights. Therefore, the Agency believes a change to the statute may still be necessary to clarify our right to interview contractor employees. DCAA will continue to monitor denials of access to employees and resubmit the legislative proposal if warranted.

## 5. SIGNIFICANT FY 2014 ACTIVITIES AND THEIR IMPACT

DCAA made numerous significant organizational accomplishments in FY 2014 in addition to its core auditing actions. Some of these accomplishments are summarized below.

**A. Peer Review.** DCAA officially passed its peer review with one deficiency related to a lack of sufficient documentation. DCAA had been operating without a required adequate opinion on its system of quality control since 2009. The Government Accountability Office (GAO) and the DoD Inspector General (DoDIG) had raised serious concerns about DCAA's audit quality, and DoDIG determined that effective August 29, 2009, its adequate opinion would no longer apply to the DCAA system of quality control. Since then, we made significant changes to improve quality and overcome those concerns. These changes included key actions such as creating new quality controls, conducting extensive training, and making organizational adjustments. The DoD Inspector General completed its peer review of DCAA and issued its report in August 2014. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. DCAA received a rating of *pass with deficiency*. The deficiency related to DCAA's engagement documentation not containing sufficient information in some cases. Importantly, the peer review team found that the changes we made to our system of quality controls had proven to be effective and that we had corrected many of the problems identified by GAO and DoDIG in 2009. Although our work is not done and we must remain vigilant in addressing and correcting the identified deficiency, the peer review results confirmed that we have made outstanding progress over the past 5 years.

**B. Strategic Planning Actions.** DCAA completed its work on the final 3 of the original 16 initiatives begun under its Strategic Plan for 2011-2015, and began working on 5 additional initiatives. In June we established the following Strategic Plan Action Teams:

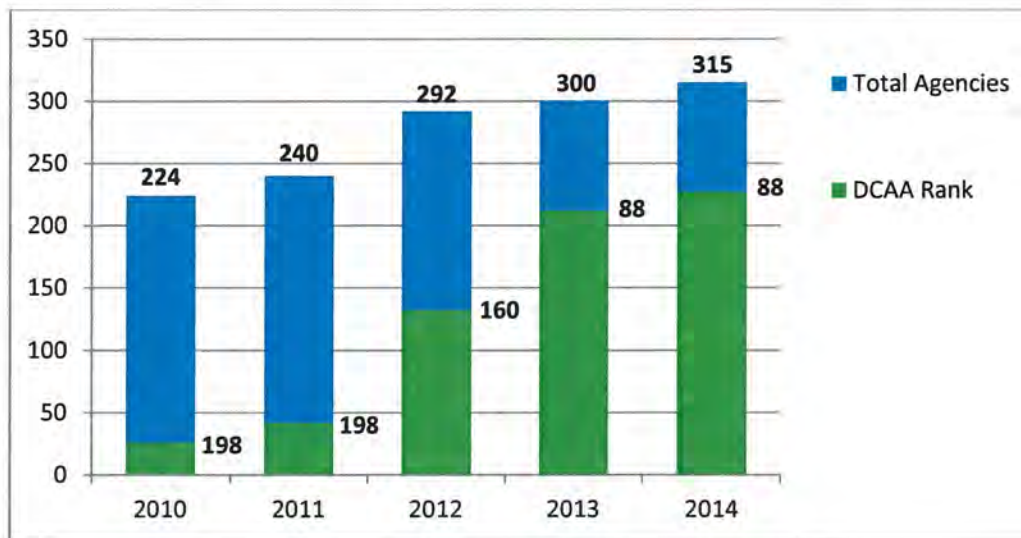
- Developing Ideal Audit Environment for the 21<sup>st</sup> Century
- Identification and Evaluation of Audit Planning and Performance System Alternatives
- Promotion and Preparation for Supervisory Position
- Succession Planning
- Improve Customer Relations with Non-DCMA Stakeholders

The majority of the work for all of these initiatives will occur in FY 2015 and should lead to continued progress and long term improvements in DCAA operations.

**C. Defense Contract Audit Institute (DCAI).** FY 2014 was an eventful year for DCAI, our training institute. In October, 2013, we moved it from Memphis, Tennessee to Atlanta, Georgia. DCAI had been in Memphis for over 30 years, but Atlanta was chosen as the new home following a study to select a location which would best serve the needs of Agency employees, with reasonably priced facilities and ease of transportation for the DCAA staff located throughout the country. We also reorganized DCAI into two Academies—Audit and Leadership—under the direction of a Chief Learning Officer. The Audit Academy continued to focus on satisfying mission-critical audit training. The Leadership Academy was created to more wholly develop the Agency's human capital in the areas of leadership and manager development. In addition, DCAI took on the development of a coaching program and implementation of Agency-wide onboarding for all new employees. While dealing with the major changes to the organization, DCAI managed an extensive program of live and on-line training during FY 2014. Although DCAI was still in temporary facilities at year-end, it will be in a fully operational state-of-the-art training facility by the summer of 2015.

**D. Federal Employees Viewpoint Survey.** DCAA substantiated a high standard of employee satisfaction with the results of the 2014 annual Federal Employee Viewpoint Survey. The Office of Personnel Management conducts this survey to measure employee views in six major areas: work experience, work unit, agency, supervisor, leadership, and overall satisfaction. About 4,500 DCAA employees received this survey and over 3,500 responded. This response rate of 78 percent was higher than any other DoD 4<sup>th</sup> Estate agency and more than twice the overall DoD response rate. Our high participation was 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. DCAA’s results this year, for each of the six areas, were higher than DoD and the Federal Government in total. This was particularly true for the category of Leadership; DCAA’s results were over 15 percentage points higher than the Federal Government average. DCAA’s results by individual question were also impressive. DCAA had higher positive responses than the DoD and Government-wide results for 66 of the 71 questions.

DCAA’s position in the “Best Places to Work” rankings of Federal Government organizations also was very positive compared to just a few years ago (Figure 5).



**Figure 5 – DCAA Rank for Best Places to Work, 2010 - 2014**

The Partnership for Public Service compiles these rankings based on selected data in the Federal Employees Viewpoint Survey. DCAA’s rank in 2014 was 88, which is the same as the prior year. However, more agencies participated in the survey this year than the prior year, so proportionally DCAA actually edged up a bit. At number 88, DCAA ranked higher than 227 other participating agencies and was higher than all of the other 16 DoD subcomponent agencies.

**Outlook**

The Peer Review results show that DCAA conducts quality audits and that our employees have proven themselves to be a valued part of the DoD acquisition community. With this foundation, combined with our Strategic Plan actions, revamped Training Institute, and engaged workforce, DCAA is definitely ready for the work challenges that lie ahead.



## ACRONYMS

CAM	Contract Audit Manual
CAS	Cost Accounting Standards
DCAA	Defense Contract Audit Agency
DCAI	Defense Contract Audit Institute
DCMA	Defense Contract Management Agency
DFARS	Defense Federal Acquisition Regulation Supplement
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
FAR	Federal Acquisition Regulation
FEVS	Federal Employee Viewpoint Survey
GAO	Government Accountability Office
GAGAS	Generally Accepted Government Auditing Standards
NDAA	National Defense Authorization Act
OCO	Overseas Contingency Operations



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