

Report to Congress on FY 2015 Activities Defense Contract Audit Agency

U.S. Department of Defense

March 15, 2016





DEFENSE CONTRACT AUDIT AGENCY

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Congressional Defense Committees:

I am pleased to submit the Defense Contract Audit Agency's Fiscal Year 2015 annual Report to Congress, as required by 10 U.S.C. §2313a. This report highlights DCAA's key successes, audit performance, industry outreach activities, and recommended actions to improve the audit process. Our workforce continued to provide valuable support to the Department of Defense (DoD) in FY 2015 and is steadfast in its commitment to the warfighter and the taxpayer.

DCAA helped contracting officials save \$3.1 billion in defense spending last year—significant savings that could be reinvested in our Warfighters. We examined nearly \$260 billion in defense contractor costs, issued over 4,500 audit reports, identified over \$11 billion of audit exceptions, and reduced our average elapsed days in the execution of our audits. DCAA also provided considerable audit support in contract negotiations and for numerous DoD criminal and civil investigations. We delivered these results despite budget constraints and a hiring freeze that prevented us from replacing 278 employees lost through attrition.

Incurred cost submissions continue to be a top priority. We have made significant progress in the past two years, reducing our backlog of assignments by 21 percent from FY 2013 to 2014, and by 18 percent from FY 2014 to FY 2015. We expect to make continued headway, but we will be affected by the 2016 NDAA, which limits our authority for performing non-DoD audits and eliminates the funding associated with that work. Without additional funding, we cannot bring on new hires or hire behind attrition. This reduction in resources, combined with the operational lags for training and transition, will likely have a negative impact on our progress moving forward.

I am pleased to report that DCAA again posted solid results from the Federal Employee Viewpoint Survey. For over 90 percent of the survey questions, DCAA results were higher than both DoD and Government as a whole. In addition, for the third year in a row, the Best Places to Work rankings put DCAA well above the median for Federal Agency subcomponents after being below the median prior to FY 2013.

DCAA's outstanding team of employees produced impressive results in 2015, consistently demonstrating their commitment to excellence, dedication to mission, and resilience in challenging circumstances. I am confident in our ability to deliver another year of exceptional value to the Department and the acquisition community in 2016.

Respectfully,

A handwritten signature in black ink, reading "Anita F. Bales".

Anita F. Bales
Director

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1. DEFENSE CONTRACT AUDIT AGENCY MISSION

DCAA provides audit and financial advisory services to 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, and 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 unbiased and 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.

Government officials draw on DCAA audit findings throughout the acquisition process. With these recommendations, contracting officers are better able to negotiate prices and settle contracts for major weapons systems, services, and supplies. 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 official contract closeout, DCAA assesses whether the contractor's claims for final annual incurred costs during contract performance are allowable and reasonable according to applicable acquisition regulations and contract provisions. This final task in the contract audit process ensures that no excess costs were charged to the Government.

2. ORGANIZATIONAL STRUCTURE AND STAFFING

A. Organizational Structure. DCAA assumed contract audit responsibility from the individual services for all DoD entities in 1965. At the end of FY 2015, 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 and a Field Detachment that handles classified work.

Headquarters is at Fort Belvoir, Virginia. Principal elements are the Director, Deputy Director, General Counsel, Office of Inspector General, and the Assistant Directors for Operations, Policy and Plans, Integrity and Quality Assurance, and Human Capital and Resource Management.

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 locations near the contractor base.

Branch Offices are strategically situated within the regions and are responsible for the majority of contract audit services within their assigned geographical areas. Branch offices often have smaller suboffices to ensure adequate audit coverage.

Resident offices are established at specific contractor locations where the 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 about 4,800 employees. Roughly 92 percent of our employees have a bachelor's degree, 38 percent have a higher level degree, and 30 percent have a professional certification such as a Certified Public Accountant (CPA) or Certified Fraud Examiner (CFE). About 89 percent of DCAA employees are auditors, and 11 percent are professional support staff in various fields including administrative support, budget, human resources, information technology, and legal (Table 1).

Table 1 – DCAA Workforce at September 30, 2015

Auditors	4,304	89%
Professional Support Staff	549	11%
Total Employees	4,853	100.0%
Advanced Degrees	1,862	38%
Certified Public Accountants	1,290	27%
Other Professional Certificates	246	5%

Budget constraints significantly impacted our hiring ability during the year. As a result, DCAA had 278 fewer employees—including 252 fewer auditors—compared to the end of FY 2014.

3. FY 2015 AUDIT PERFORMANCE

A. Overview. DCAA uses a risk-based approach to target its limited resources on the work that provides the most value. Using this approach, DCAA examined \$257.5 billion in contract costs, issued 4,546 audit reports, identified over \$11 billion in audit exceptions, reported \$3.1 billion in net savings, and produced a return on investment of about \$4.80 to \$1. In addition to making steady progress on the incurred cost backlog, the Agency also continued to conduct other audits to help contracting officers establish fair and reasonable prices and reduce the risk of contractor overpayments.

(1) Incurred Cost. Since establishing dedicated incurred cost audit teams in FY 2012, DCAA has steadily increased the number of closed incurred cost years (Figure 1). The dedicated teams initially focused on a mix of small and large contractors, and we were able to close many of the small business incurred cost years by the end of FY 2014. In FY 2015, major contractors made up a significant proportion of the mix, and we finished the year with 9,400 incurred cost years closed—a notable number given that a single incurred cost year for a major contractor contains many contracts, higher dollars, and increased complexities. Because more work was necessary to close each incurred cost year, we completed fewer of them than in FY 2014. However, we nearly doubled the dollars examined, going from \$131 billion in FY 2014 to \$206 billion in FY 2015. Additionally, we were able to facilitate the closure of thousands of contracts, making FY 2015 a highly productive year for reducing the incurred cost backlog.

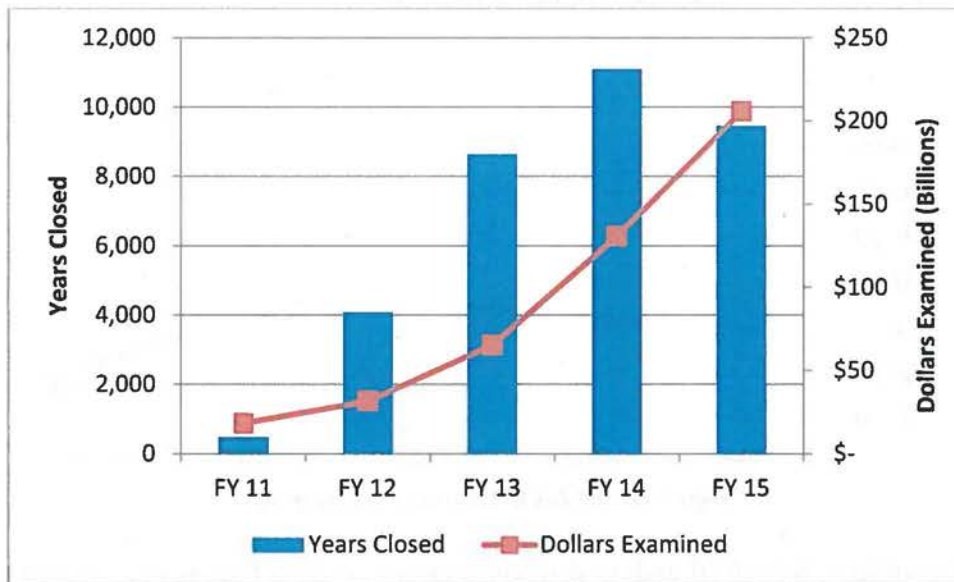


Figure 1 – Incurred Cost Years Closed and Dollars Examined

(2) Net Savings. In FY 2015, DCAA reported net savings of \$3.1 billion, marking the fifth consecutive year that the Agency returned over \$3 billion in savings to the Government (Figure 2). Throughout that five-year period, we had steady increases in net savings, but that rate of progression partly reflects a concerted effort to close out

old contract actions. By the end of FY 2014, we had successfully dispositioned a significant portion of those contract actions, which impacted our net savings in FY 2015. Another significant factor was a reduction in requests for forward pricing audits, DCAA's greatest source of net savings

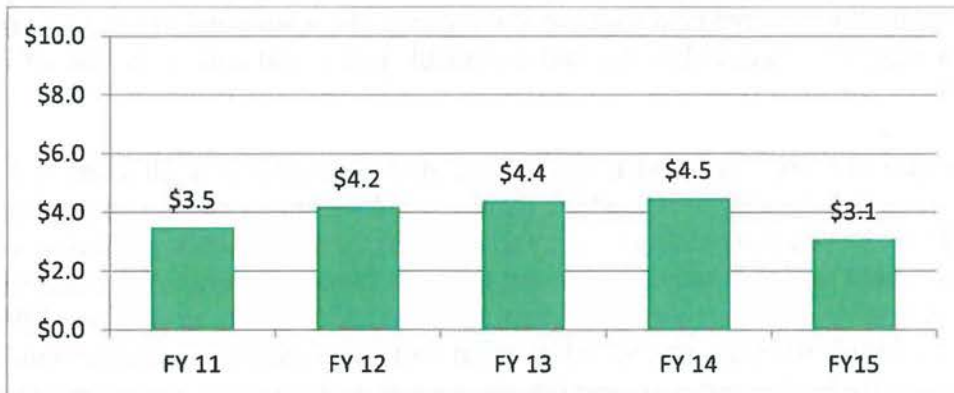


Figure 2 – DCAA Net Savings (billions)

(3) **Return on Investment.** DCAA is conservative when reporting savings and return on investment (ROI), foregoing projections of potential or future savings and only reporting actual savings based on contract actions taken by Government contracting officers. In FY 2015, the return on taxpayers' investment in DCAA was about \$4.80 for each dollar invested, savings that DoD can return to the Treasury or reinvest in various ways to help the warfighter (Figure 3).

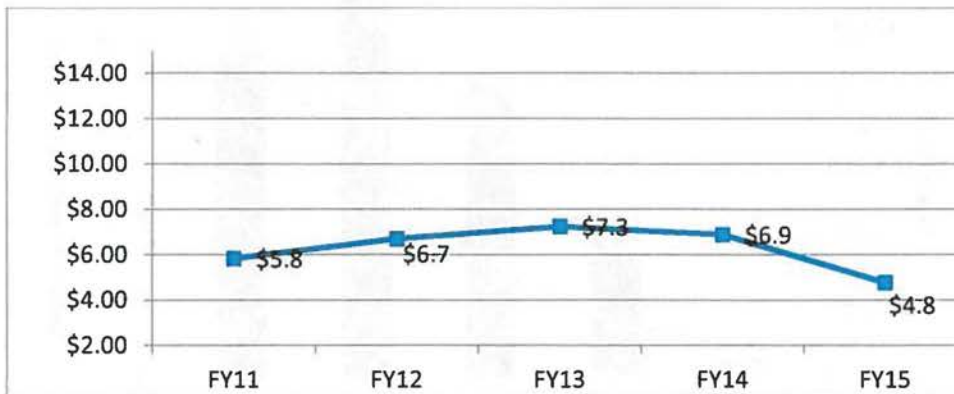


Figure 3 – DCAA Return on Investment

Net savings drive ROI and, as discussed above, several factors contributed to the drop in FY 2015, including fewer requests for forward pricing proposal audits. The reduction in forward pricing work clearly aligns with the drop in net savings (Figure 3.1).

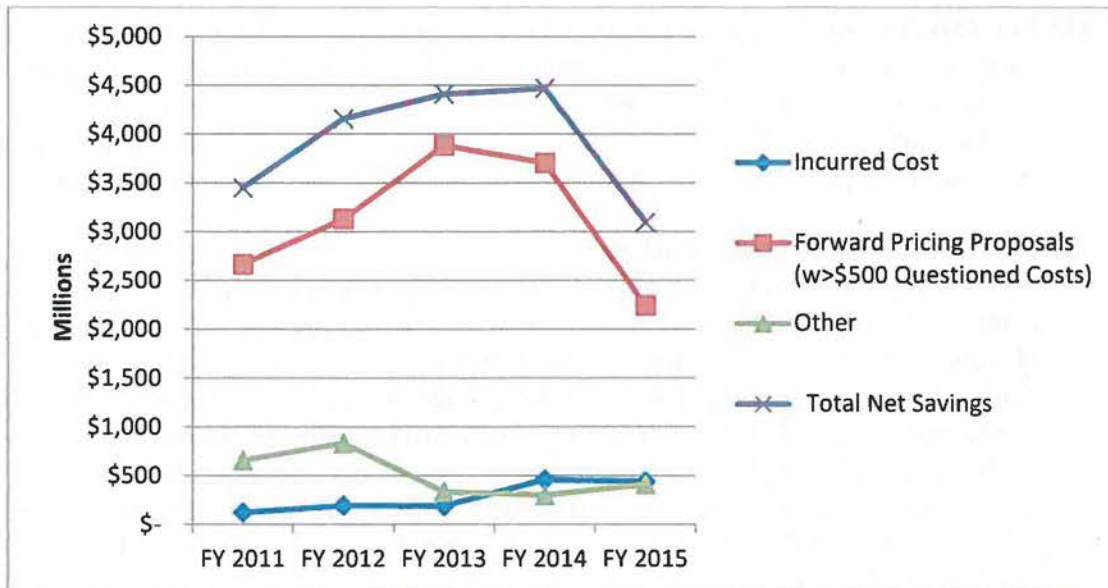


Figure 3.1 – DCAA Net Savings by Audit Type

B. Audit reports completed in FY 2015. DCAA conducts thousands of audits each year that provide the basis for recommendations to the acquisition community. Each audit that DCAA completes, whether 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. In FY 2015, DCAA identified over \$11 billion of audit exceptions as a result of the 4,546 audits performed.

Table 2 shows the total number of completed DCAA audit reports, by audit type, in FY 2015.

Table 2 – DCAA FY 2015 Audit Reports

Audit Reports	
Type	Number
1. Forward Pricing	883
2. Special Audits	1,095
3. Incurred Cost	1,925
4. Other Audits	643
Total	4,546

- (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. 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 (TINA). 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, we consider 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 when 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, if

DCAA received a submission in FY 2015 for contract work completed in FY 2013, then that submission would become part of DCAA's FY 2015 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 the FAR. 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 grow significantly beginning in FY 2010. At that time, we made the conscious decision to defer incurred cost audits and free up auditors for critical, time-sensitive audits that supported the warfighter and the War on Terror. In the past three years, DCAA has greatly reduced this balance. At the end of FY 2015, DCAA had 8,979 adequate annual contractor incurred cost submissions on hand, valued at roughly \$440 billion. DCAA was also in the process of reviewing an additional 2,779 to determine if the submissions were adequate. Taken together, the total year-end balance was 11,758 submissions, a significant reduction of 18 percent from the prior 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. DCAA prioritizes the audits that pose greatest risk to the Government, assessing the risk for different types of audit (forward pricing, special audit, incurred cost, or other audit), as well as the risk factors within individual audits, regardless of type. Contracts considered "high-risk" typically involve significant costs, poor contractor performance in the past, or circumstances that reduce the incentive to control costs, such as those inherent in cost-type contracts.

In FY 2015, the highest priority audits were those related to forward pricing and incurred cost. In both categories, the audits carried significant risk factors.

Forward pricing audits net the highest rate of return, but they are also time sensitive and need to be completed before contract negotiations occur to be of value. We have found that proactive and ongoing engagement with contracting officers increases our effectiveness. Throughout 2015, DCAA continued to build on successful initiatives to engage with contracting officials at all levels, confirm that we are focusing on the highest risk contract actions, and ensure that we are providing the right audit services to meet their needs. In addition, proactively engaging with the contracting officer and contractor prior to receiving the contractor's proposal has been highly successful, enabling us to understand audit requirements early, plan for appropriate staffing, and meet contracting needs in a timely manner.

Incurred cost audits continue to be a priority, both to facilitate the contract closeout process and to reduce the incurred cost backlog. Getting current on incurred cost means that we can conduct these audits closer to the year the costs were actually incurred, which will improve our ability to retrieve relevant records, ease contractor burden, encourage better compliance, and identify issues that may impact future audits.

As stated above, other audits are a high priority when DCAA or the contracting officer identifies a high risk area such as inadequate business systems. DCAA assigns priority to additional audits (other incurred cost audits, special audits, and other audits) based on individual contract and audit risks to the Government. Because we focused our limited resources on incurred cost and higher risk audits, we did limited work on audits in this category.

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. As a result, DCAA does not have specific or mandatory time requirements for audit completion; instead, we assess what is necessary to conduct an audit that will meet professional audit standards and provide value to contracting officials. 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. Additionally, DCAA and Contracting Officers work as a team to set priorities, create milestone plans, and decide on agreed-to dates. Once these agreements are reached, DCAA assesses timeliness based on meeting those targets.

We improved our timeliness in FY 2015, reducing our average elapsed days to complete audits, across all audit types, compared to the prior year (Table 3).

Table 3 – Average Elapsed Days to Complete Audits

Audit Report Type	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
1. Forward Pricing	120	110	97	95	85
2. Special Audits	184	217	184	165	159
3. Incurred Cost	965	1,184	1,090	1,006	883
4. Other Audits	283	384	309	461	333

- (1) **Forward Pricing.** The time to complete a forward pricing audit is measured from the date DCAA receives the audit request or, if the audit proposal arrives later than the audit request, from the date we receive the adequate proposal. The clock stops on the date we issue the audit report. We reduced our elapsed days for forward pricing audits by 11 percent compared to FY 2014.
- (2) **Special Audits.** The time to complete a special audit is measured from the date we receive the audit request to the date we issue the audit report. We reduced our elapsed days for special audits by 4 percent compared to FY 2014.
- (3) **Incurred Cost.** The time to complete an Incurred cost audit has historically been measured from the time we receive an adequate annual incurred cost submission until the date we issue the audit report. In FY 2015, the average completion time for incurred cost was 883 elapsed days, a significant improvement over FY 2014. However, that number is somewhat misleading because it does not reflect the actual time spent on the audits. Prior to making the conscious decision to defer incurred cost for higher priority work, DCAA would receive an incurred cost submission and begin the audit shortly thereafter. But as the incurred cost backlog grew, which increased

the number of incurred cost submissions in inventory, we could no longer audit the submissions as we received them. Consequently, we have been using a systematic, risk-based process to prioritize our audits and address the backlog. For example, in some cases we have employed a multi-year audit process where we examine two or more incurred cost years as a single audit. Therefore, the date we receive the first submission is not a valid starting point for measuring audit completion times and misrepresents the actual time to complete the audit. When we begin our measurement from the date of the entrance conference—that is, the time the incurred cost audit actually starts—the average for FY 2015 is 124 elapsed days rather than 883.

(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.

F. Questioned Cost Sustained. In FY 2015, we dispositioned contract actions based on contract negotiation data from contracting officials, which showed a sustention of \$5.9 billion of \$11.7 billion of questioned costs. Table 4 compares questioned costs and sustention data for FYs 2011-2015.

Table 4 – Questioned Cost Sustained (dollars in billions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Questioned Costs (Billions)	\$ 7.7	\$ 8.5	\$ 9.6	\$ 12.3	\$ 11.7
Questioned Costs Sustained	\$ 4.6	\$ 4.5	\$ 5.1	\$ 5.7	\$ 5.9
Percent Sustained	58.9%	52.2%	52.8%	46.4%	50.6%

The amount sustained increased by 4.2 percent, going from 46.4 percent to 50.6 percent. We attribute this increase to the success of our initiatives to better engage contracting officers before, during, and after the audit. Continually engaging with contracting officers allows us to provide timely, relevant, audit expertise throughout the audit, which assists the contracting officer during all phases of the procurement cycle, including negotiations.

4. SUMMARY OF RECOMMENDED ACTIONS OR RESOURCES 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, we have identified ways to improve the audit process.

A. Resources for Business System and Other Real Time Audits. To most efficiently meet contracting officer requirements, DCAA must perform some audit effort on a continuous and recurring basis. This effort includes conducting business system audits, real time testing of materials and labor, and cost accounting standards audits. Completion of these audits helps identify contractor noncompliances early, which is critical for timely completion of incurred cost and forward pricing assignments. In recent years, DCAA has focused its limited resources mainly on high risk forward pricing audits and incurred cost audits. As a result, DCAA has not had the resources to perform the continuous and recurring effort that makes the audit process more efficient. Additional resources to perform these real time audits would greatly improve the overall acquisition and contract closeout process for both DoD and Industry by 1) allowing for early identification and resolution of contractor noncompliances, and 2) ultimately resulting in more timely completion of our incurred cost and forward pricing audits.

DCAA has over 675 major contractors for whom we need to perform this continuous recurring effort. DCAA is responsible for auditing three Business Systems (Accounting System, Estimating System, and Material Management and Accounting System). To conduct business system audits at all of these companies on a cyclical basis, DCAA needs to do over 2,000 Business System audits over a three-year period. DCAA's approach is to do one business system per year at each contractor—a total of 675 business system audits per year—covering all three business system audits in a three-year period. Over the past several years, due to resource constraints, DCAA has averaged only 22 business system audits per year. DCAA leverages the work performed during these continuous and recurring audits to support future audits. The information we gain strengthens our knowledge of contractor systems and data, which enables us to do more focused testing and complete audits more quickly.

B. Unaudited Contract Actions for Compliance with Truth in Negotiations Act (TINA). Additional resources to perform TINA compliance audits would greatly improve the acquisition process for both DoD and Industry. Conducting these audits helps emphasize the importance of accurate proposals and the adequate certified cost and pricing data support that is necessary for negotiating fair and reasonable contract prices. TINA requires the contractor to submit or adequately disclose accurate, complete, and current cost or pricing data to the contracting officer, which ensures that the Government has the information necessary to negotiate prices. If a contractor fails to provide adequate support, DCAA determines how much more the Government paid and provides the contracting officer with a recommended price adjustment. A finding of defective pricing calls attention to the risk in future proposals and may trigger a review of the estimating system for deficiencies or highlight the need for upfront assurance that pricing is sound and supported.

In FY 2015, DCAA completed 26 TINA audits that resulted in a net recommended price adjustment of \$151.8 million, averaging \$5.8 million per audit. However, because of current resource constraints, DCAA cannot conduct these audits and address the risks of TINA noncompliance. Conducting defective pricing audits also provides valuable information for future forward pricing audits, reducing audit cycle time and making the acquisition process shorter and more efficient. The information we gain from these audits strengthens our knowledge of contractor systems and data, which enables us to do more focused testing and complete audits more quickly.

5. OUTREACH ACTIONS TOWARD INDUSTRY

In FY 2015, DCAA continued its initiatives to proactively engage with industry to clarify audit requirements, understand and address contractor concerns, and improve acquisition and audit processes. Following is a summary of those outreach actions.

A. Major Contractor Outreach

- (1) Sarbanes-Oxley Pilot.** DCAA has been working with an industry volunteer to explore how DCAA might leverage the information that contractors already prepare for Sarbanes-Oxley (SOX) corporate financial statement audits. Contractors assert that there is considerable duplication of audit effort between financial statement auditors, corporate internal auditors, and contract cost auditors, and we began this pilot to investigate how information prepared for SOX audits could be leveraged for DCAA business system audits. DCAA and Industry agree that SOX will not replace a DCAA audit, but both are committed to exploring actionable measures that can increase efficiencies.
- (2) Data Analytics/Contracting Systems.** DCAA has been working with one of our major contractors on ways to improve audit processes using analytical procedures. The objective is to identify areas of highest risk, refine our audit requests, and directly access the contractor's data system to gather appropriate and sufficient evidence. This process can ease the audit support burden for contractors and provide more efficient insights into risks and controls. Our joint efforts with industry are laying the groundwork for applying analytic procedures in concurrent audits and identifying risks as they occur rather than taking a historic or retrospective view.

B. Small Business Outreach

DCAA continued its outreach to our small business community to clarify audit expectations, offer guidance and training, provide opportunities for discussion, and gather feedback on additional ways we can provide assistance. Some of these efforts included the following:

- Conducting 72 small business seminars that offered training and guidance (up from 53 in FY 2014)
- Holding quarterly meetings with National Defense Industrial Association (NDIA) and Small Business Technology Council (SBTC) representatives to discuss and find solutions for small business concerns
- Working closely with DoD Office of Small Business Programs (OSBP), Small Business Administration National Ombudsman's Office, and Procurement Technical Assistance Centers (PTAC) to ensure effective outreach and consistent communication with small businesses
- Proactively monitoring and resolving systemic issues related to small businesses
- Developing a Small Business section on DCAA's public web site to help small businesses find helpful information and contacts

6. SIGNIFICANT FY 2015 ACTIVITIES AND THEIR IMPACT

In addition to core audit actions, DCAA had numerous significant organizational accomplishments in FY 2015. Some of these accomplishments are summarized below.

A. Strategic Plan. Because of the efforts of the entire DCAA team, we made significant progress over the past five years in executing our 2011-2015 Strategic Plan. Some of our key accomplishments include a successful peer review, two major corporate audit function realignments, improved communication with external stakeholders, steady increases in Federal Employee Viewpoint Survey results, and the addition of a Leadership Academy at our training institute. During FY 2015 specifically, our Strategic Action Teams made significant progress on the following strategic initiatives:

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

In late FY 2015, we began developing our 2016-2020 Strategic Plan to define our path forward and take DCAA to the next level of excellence. We retained our overarching strategic goals that focus on our people, products, and customers, the critical components to successfully accomplishing our mission. We refined our objectives to maintain momentum in key areas, address new challenges, and pursue opportunities that will increase our value to the Department, the taxpayer, and the warfighter.

2016-2020 DCAA Strategic Goals

1. Embody a culture of One Agency, one team, one direction
2. Support the acquisition community by providing quality audits and advisory services
3. Foster a diverse workforce of highly motivated and valued professionals
4. Enhance working relationships with DCAA external stakeholders
5. Provide the workforce with the right information, business processes, and capabilities to successfully accomplish the mission

B. Business Process Reengineering (BPR). Throughout the latter half of FY 2015, we conducted the first phase of Business Process Reengineering (BPR) to analyze and redesign workflows, optimize end-to-end processes, and eliminate non-value-added tasks throughout the audit process. The BPR team, which included business system analysts and auditors from across the Agency, worked hard in FY 2015 to identify all audit activities and create maps that captured our audit processes. In this first phase, the team uncovered activities that could be improved or eliminated to increase efficiencies. Next steps are to prioritize and implement improvements.

C. Defense Contract Audit Institute (DCAI). FY 2015 was a banner year for DCAI, our talent development institute. In May 2015, the Institute relocated from Memphis, Tennessee to a state-of-the-art training facility in Atlanta, Georgia. The institute was restructured into two

academies: Audit and Leadership. The Audit Academy reviewed and updated all its instructor-led audit courses, and it is currently reviewing and revising all E-Learning curricula. Additionally, the Audit Academy developed a New-Hire Training Continuum for onboarding new employees, a method that combines instructor-led, E-Learning and on-the-job training to prepare new auditors for DCAA's mission. The Leadership Academy completed a gap-analysis of training requirements using the Defense Civilian Leader Development Continuum, which will serve as the basis for competency-based leadership courses and continuous progressive development for non-supervisors, supervisors, and managers. Using the Systems Approach to Training (SAT) process, the Institute continued to improve the effectiveness of the DCAI curriculum through performance-based instruction, career mapping, competency alignment, and strategic training plans. Finally, to support a culture of continuous learning, the Academy successfully launched its inaugural Coaching Program training for over 400 coaches.

D. Investigative Support. DCAA's Investigative Support Division (OIS) provides accounting and financial advisory services to investigative agencies including the Defense Criminal Investigative Service, the Air Force Office of Special Investigations, the Naval Criminal Investigative Service, the Army Criminal Investigative Command and the Department of Justice for civil and criminal fraud investigations. During FY 2015, OIS closed 131 investigative support cases, which led to 28 criminal convictions and \$164.2 million in settlement dollars. In FY 2015, OIS began its support of the high profile investigation of the U.S. Navy's Husbandry contracts awarded to Glenn Defense Marine Asia (GDMA). GDMA is being investigated for overcharging the Government and bribery allegations involving U.S. Navy personnel who provided GDMA with classified U.S. Navy ship schedules, submarine schedules, and other proprietary pricing information in exchange for cash, hotel expenses, luxurious vacations, and the services of prostitutes. To date, 10 individuals have been charged in this case and 9 have already pleaded guilty.

E. Federal Employees Viewpoint Survey. The results of the 2015 Federal Employees Viewpoint Survey confirmed that DCAA has a high level of employee satisfaction. The Office of Personnel Management conducts this survey to measure employee views in six major categories: work experience, work unit, agency, supervisor, leadership, and overall satisfaction. About 4,100 DCAA employees received this survey and over 3,100 responded—a response rate of 75 percent. This response rate was the second highest of all the DoD 4th Estate agencies and more than twice the overall DoD response rate. Our consistently high participation indicates 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 were more than 5 percent higher than DoD and the Federal Government overall for all six major categories. DCAA's results for the individual questions were also very impressive, coming in with higher positive responses than DoD and the Federal Government for over 90 percent of the questions.

DCAA's position in the "Best Places to Work" rankings of Federal Government organizations continued to be very positive compared to just a few years ago. The Partnership for Public Service compiles these rankings based on selected data in the Federal Employees Viewpoint Survey. DCAA's rank in 2015 was 122 out of 320. DCAA's average positive response rates over the last three years remained steady at approximately 65% - significantly above the median for the third consecutive year.

OUTLOOK

Even as we face resource constraints, we will continue to make improvements and provide excellent value to the Department and the taxpayer. DCAA's unique mission is an indispensable component of the DoD acquisition community, and we are proud to serve the warfighter and protect the taxpayer. We have a strong foundation, a solid Strategic Plan, and an engaged workforce—we look forward to another productive year and stand ready to meet the challenges 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
NDIA	National Defense Industrial Association
OCO	Overseas Contingency Operations
OSBP	Office of Small Business Programs
OSD	Office of Secretary of Defense
PTAC	Procurement Technical Assistance Centers
SBA	Small Business Association



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