

Defense Contract Audit Agency

DLA Enterprise Supplier Conference and Exhibition

June 29, 2011

Protecting the Taxpayer



Supporting the Warfighter



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AGENDA

- Role and Priorities
- Current Initiatives
- Contracting Officer's Role
- Contractor Role
- Way Ahead



DCAA Mission Statement

The DCAA, while serving the public interest as its primary customer, shall perform all necessary contract audits for the Department of Defense and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD components responsible for procurement and contract administration. These services shall be provided in connection with negotiation, administration, and settlement of contracts and subcontracts to ensure taxpayer dollars are spent on fair and reasonable contract prices. DCAA shall provide contract audit services to other Federal agencies, as appropriate.



DCAA FY 2010 Audit Results Contributing to Reducing Contract Costs

Audit Area	Number of Audits	Dollars Audited (in Billions)	Exception Dollars (in Billions)
1. Incurred Cost	6,217	\$ 34.20	\$ 0.1
2. Forward Pricing	5,689	\$ 185.10	\$ 12.3
3. Special & Other	6,035	\$ 12.20	\$ 1.3
Total	17,941	\$ 231.50	\$ 13.7

- 1. Incurred Cost.** Includes audits of historical costs, internal control systems, and final contract closings.
- 2. Forward Pricing.** Includes audits of price proposals, estimating systems, and forward pricing rate agreements.
- 3. Special & Other Audits.** Includes audits of terminations proposals, other claims, progress payments, financial capability, earned value management systems, Cost Accounting Standards, Operations audits, and Truth-in-Negotiations (Defective Pricing).



Agency Priorities

- Strengthening DCAA's Talented Workforce
- Delivering High Quality Services and Products
- Requirements/Workload and Resources
- Supporting Overseas Contingency Operations
- Improve Communications and Working Relationships with Stakeholders





Current Issues/Actions

Deliver High Quality Services and Products

- Issued extensive changes to audit guidance, procedures and processes to ensure sufficient testing based on risk
- Agency-wide Audit Training Initiative
- Authorized additional management/supervisory position to allow more time on audits
- Held Agency-wide FAO Managers Conference to communicate one agency message
- Initiated Raytheon CAC pilot project



Current Issues/Action

Audit Quality and Timeliness

DCAA Actions

- Established contractor proposal walk-through process
- Emphasizing a more collaborative contract audit approach
- Designated core team to monitor high risk proposal activity
- Established ad hoc to review forward pricing rate audit process
- Prioritizing follow-up audits of contractor business system deficiencies when corrected



Current Issues/Actions

Balancing Resources with Requirements

- Working with Stakeholders to defer or divest low risk workload - will allow DCAA to focus on higher risk work with larger payback to Warfighter/Taxpayer.
- Added 500 new employees over the last 2 years
- DPAP Memorandum (1/4/2011), “Better Buying Power: Guidance for Obtaining Greater Efficiency and Productivity in Defense Spending: ‘Align DCMA and DCAA Processes to Ensure Work is Complementary’”
 - ➔ Increased Thresholds for Price Proposal Audits
 - ➔ Forward Pricing Rate Agreements/Forward Pricing Rate Recommendations
 - ➔ Financial Capability Reviews
 - ➔ Purchasing System Reviews
 - ➔ Contractor Business Systems Rule



Incurring Cost Audits

- Working with DPAP to balance resources with requirements
- Increasing staffing
- Assisting to ensure risks of canceling funds are mitigated
- Establishing a task force to develop actions to address backlog



Current Issues/Actions

Auditor Relationships with Stakeholders

Making a concerted effort to engage with stakeholders:

- Issued “Rules of Engagement”
- Initiated regular high level meetings with contracting community
- Executives participated at speaking engagements with DoD Procurement and Contractor Associations
- Issued Joint DCAA/DCMA Directors Memorandums
 - ➔ Established MOU on EVMS
- Issued Guidance in support of DPAP Memorandum – Resolving Contract Audit Recommendations



Contracting Officer 's Role in Assisting DCAA

- Early communication and sufficient lead time on audit requests
- Coordination with DCAA cognizant of prime contractor on subcontract assist audit requests
- Support in obtaining:
 - ➔ adequate contractor submissions
 - ➔ adequate contractor supporting data in a timely manner
 - ➔ real-time DCAA access to contractor systems
- Communicate with DCAA before, during and after the audit
- Invite DCAA to negotiations



Contractor Role in the Audit Process

Contractor Actions to Contribute to More Timely Audit Process

- Effective contractor proposal walk-throughs
- Adequate contractor submissions and assertions
- Adequate supporting data in a timely manner and timely access to **key** contractor personnel responsible for contractor support
- Real-time DCAA access to contractor systems



Contractor Role in the Audit Process

Contractor Areas of Focus - Adequate Contractor Proposals Facilitate Effective Audits

- Proposed amounts supported by detailed basis of estimate and supporting documentation
- Supporting justification/explanation provided for significant variances between prior buy actual cost data and proposed amounts
- Consolidated Bill of Material
- Detailed support for additive factors applied to various elements of costs
- Rates supported by contractor budgetary or trend data
- Adequate Support for Subcontract Proposals
 - ➔ Adequate prime contractor cost or price analysis
 - ➔ Adequate subcontract proposal
- Proposal reflects anticipated cost accounting changes



WAY AHEAD

- Continue to build on professionally developing our workforce
- Reducing learning curve with our new processes and guidance
- Build on the changes to increase quality of services and products
- Reduce Incurred Cost audit backlog to support contract close-out
- Continue to broaden relationship and communication with our stakeholders



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Additional information on DCAA
and Points of Contact available at
www.dcaa.mil

