

**PROGRAM OBJECTIVE  
MEMORANDUM  
FY 1998 - 2003**

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DEFENSE CONTRACT AUDIT AGENCY

Program Objective Memorandum (POM)

FY 1998 - FY 2003

POM ORGANIZATION

Sections and Topic Areas

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DEFENSE CONTRACT AUDIT AGENCY  
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OFFICE OF THE DIRECTOR

24 MAY 1996

MEMORANDUM FOR SECRETARY OF DEFENSE

SUBJECT: Program Objective Memorandum (POM), Fiscal Years 1998-2003

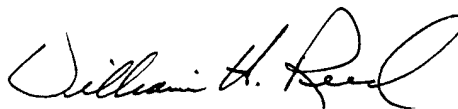
Enclosed is the Defense Contract Audit Agency's (DCAA) POM submission for FY 1998 through 2003. This submission is consistent with the most recent fiscal guidance and the workyear guidance levels (through 2001) provided by the Under Secretary of Defense for Personnel and Readiness. The workyear levels proposed for FY 2002-2003 are based on our assessment of workload requirements.

DCAA's end strength levels reduce incrementally from the agency's highest level of 7,115 in FY 1989, that was needed to cope with the workload associated with the mid 80's defense buildup, to 5,132 for FY 1995, or a 28 percent reduction. This trend continues in our POM requested workyear levels of 4,554 in FY 1998 to 4,335 in FY 2003, or an additional reduction of 16 percent from the FY 1995 level. These levels are consistent with planned changes in DoD procurement levels, departmental acquisition streamlining initiatives, and effort required to complete audits of prior year contract expenditures. DCAA is presently on track to accomplish our congressionally mandated goal of reducing the backlog of incurred cost audits to an acceptable level of approximately one year by FY 1997, and at the requested staffing levels DCAA will be able to maintain reasonable backlog levels through the outyears. In addition, the impact of the Federal Acquisition Streamlining Act (FASA), with its emphasis on acquisition of commercial items and streamlining of the procurement process, has been considered in our workload estimates.

At the reduced staffing levels from FY 1998 through 2003, we will continue to effectively support our military and non-DoD customers while accommodating projected workload increases anticipated to result from the DoD modernization "ramp up" associated with the Department's plans for recapitalization of weapons systems which is planned to begin in FY 1998. By FY 2001 procurement funding levels are planned to increase by approximately 40 percent over FY 1997 levels, while DCAA staffing levels will have declined by approximately 12 percent over the same period. We expect to be able to accomplish this additional work through business process improvements and other productivity enhancing management actions.

DCAA has incorporated the recommendations and goals of the National Performance Review and other DoD initiatives into the agency's Organizational Assessment plan approved by the Under Secretary of Defense (Comptroller) in December 1994. These goals encompass organizational changes and management initiatives through FY 1999 to effect: (1) a 22 percent reduction in Headquarters, region, and field support activities, (2) a 34 percent reduction in the number of field audit offices, and (3) a 42 percent reduction in the number of management and supervisory positions. We plan to conduct similar assessments periodically to ensure that organizational improvement is a continuous process within DCAA.

In summary, as a result of the aggressive business process improvements and other management initiatives, this agency will manage to the available funding and staffing levels .



William H. Reed  
Director

Enclosure  
POM

## DEFENSE CONTRACT AUDIT AGENCY

### A. Overview

The Defense Contract Audit Agency (DCAA) is a worldwide single mission Agency responsible for assisting Department of Defense (DoD) acquisition authorities in achieving sound contract pricing by evaluating contractor forward pricing proposals, providing contracting officers with accounting and financial advisory services useful to "could cost" and "should cost" assessments and negotiations, verifying the propriety and acceptability of costs charged by contractors to flexibly priced Government contracts, and deterring contractors' inefficient practices which, if not detected and corrected, could lead to excessive costs and contract prices.

DCAA's workload originates primarily from the effort required to audit and monitor DoD acquisitions of equipment, materials, and/or services from civilian contractors and universities by the expenditure of Procurement, and Research, Development, Test and Evaluation (RDT&E) funds appropriated by Congress each year. Other factors affecting contract audit workload are (i) DoD procurement policies, (ii) the implementation of existing Cost Accounting Standards (PL 91-379), (iii) audits performed for the military departments in connection with the Foreign Military Sales (FMS) Program, (iv) the increased interest by DoD officials and the Congress in the nature of costs charged to defense contracts, (v) audits for economy and efficiency, (vi) Compensation System Reviews (CSRs), and (vii) requests for contract audit support from the Defense Procurement Fraud Unit and U.S. attorneys during the conduct of investigations and prosecution of perpetrators of contract fraud.

Projected staffing requirements are commensurate with planned changes in DoD procurement levels, departmental acquisition streamlining initiatives, and required effort to complete audits of prior year contract expenditures. Our projections are based on the estimated staffing levels required to remain current on the incurred cost audits through FY 2003. These staffing levels also reflect incorporation of the National Performance Review recommendations and related DoD initiatives into DCAA's organizational assessment goals. These goals encompass organizational changes and management initiatives through FY 1999 to effect (1) a 22 percent reduction in Headquarters, Region and Field Support staffing, (2) a 34 percent reduction in the number of field audit offices, and (3) a 42 percent reduction in the number of management and supervisory positions.

It should be noted that savings to the Government, as a result of contract audit services, far exceed the cost of DCAA operations. For example, in FY 1995 the Agency audited \$117.7 billion of incurred cost and reviewed 13,073 forward pricing proposals amounting to \$160.4 billion. Approximately \$2.9 billion in net savings were reported during the year. When compared to the \$383 million expended for the Agency's operations, the return on taxpayers' investment in DCAA was almost \$8 for each dollar invested.

B. Summary Overview of DCAA FY 1998 - 2003 POM Request

|                        | <u>FY 1998</u>   | <u>FY 1999</u>   | <u>FY 2000</u>   | <u>FY 2001</u>   | <u>FY 2002</u>   | <u>FY 2003</u>   |
|------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <u>WITHIN GUIDANCE</u> |                  |                  |                  |                  |                  |                  |
| Workyears              | 4,554            | 4,437            | 4,318            | 4,232            | 4,136            | 4,335            |
| End Strength           | 4,435            | 4,341            | 4,267            | 4,197            | 4,087            | 4,400            |
| <u>Dollars</u>         |                  |                  |                  |                  |                  |                  |
| O&M                    | \$330.300        | \$334.500        | \$345.300        | \$356.900        | \$364.800        | \$372.900        |
| Procurement            | 4.000            | 4.000            | 5.000            | 5.000            | 5.000            | 5.000            |
| Total                  | <u>\$334.300</u> | <u>\$338.500</u> | <u>\$350.300</u> | <u>\$361.900</u> | <u>\$369.800</u> | <u>\$377.900</u> |

ABOVE GUIDANCE REQUEST

| <u>Dollars</u> |            |            |            |            |            |            |
|----------------|------------|------------|------------|------------|------------|------------|
| O&M            | -0-        | -0-        | -0-        | -0-        | -0-        | -0-        |
| Workyears      | -0-        | -0-        | -0-        | -0-        | -0-        | -0-        |
| Total          | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |

TOTAL THROUGH ABOVE GUIDANCE REQUEST

|                |                  |                  |                  |                  |                  |                  |
|----------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Workyears      | 4,554            | 4,437            | 4,318            | 4,232            | 4,136            | 4,335            |
| End Strength   | 4,435            | 4,341            | 4,267            | 4,197            | 4,087            | 4,400            |
| <u>Dollars</u> |                  |                  |                  |                  |                  |                  |
| O&M            | \$330.300        | \$334.500        | \$345.300        | \$356.900        | \$364.800        | \$372.900        |
| Workyears      | 4.000            | 4.000            | 5.000            | 5.000            | 5.000            | 5.000            |
| Total          | <u>\$334.300</u> | <u>\$338.500</u> | <u>\$350.300</u> | <u>\$361.900</u> | <u>\$369.800</u> | <u>\$377.900</u> |

C. PROGRAM CHANGES (1)

Summary of POM Request and Reconciliation with the March 1996 FYDP

WITHIN FISCAL GUIDANCE

|                      | <u>FY 1998</u>   | <u>FY 1999</u>   | <u>FY 2000</u>   | <u>FY 2001</u>   | <u>FY 2002</u> | <u>FY 2003</u> |
|----------------------|------------------|------------------|------------------|------------------|----------------|----------------|
| TOA (\$ in Millions) |                  |                  |                  |                  |                |                |
| O&M                  | \$330.500        | \$334.700        | \$345.600        | \$357.200        | -0-            | -0-            |
| Procurement          | 4.000            | 4.000            | 5.000            | 5.000            | -0-            | -0-            |
| Total Mar 96 FYDP    | <u>\$334.500</u> | <u>\$338.700</u> | <u>\$350.600</u> | <u>\$362.200</u> | <u>-0-</u>     | <u>-0-</u>     |

DIRECT FUNDING

|                         | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u>   | <u>FY 2003</u>   |
|-------------------------|----------------|----------------|----------------|----------------|------------------|------------------|
| * <u>Program Change</u> |                |                |                |                |                  |                  |
| O&M                     | -0.200         | -0.200         | -0.300         | -0.300         | \$364.800        | \$372.900        |
| Procurement             | -0-            | -0-            | -0-            | -0-            | 5.000            | 5.000            |
| Total                   | <u>-0.200</u>  | <u>-0.200</u>  | <u>-0.300</u>  | <u>-0.300</u>  | <u>\$369.800</u> | <u>\$377.900</u> |

May 1996 POM FYDP Update:

|                              |                  |                  |                  |                  |                  |                  |
|------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| O&M                          | \$330.300        | \$334.500        | \$345.300        | \$356.900        | \$364.800        | \$372.900        |
| Procurement                  | 4.000            | 4.000            | 5.000            | 5.000            | 5.000            | 5.000            |
| Total Within Fiscal Guidance | <u>\$334.300</u> | <u>\$338.500</u> | <u>\$350.300</u> | <u>\$361.900</u> | <u>\$369.800</u> | <u>\$377.900</u> |

\* In accordance with the Fiscal Guidance Memorandum issued 21 March 1996

C. PROGRAM CHANGES (2)

Summary of Program Changes Requested

Direct Funding TOA (in Millions)

|                                | <u>FY 1998</u>   | <u>FY 1999</u>   | <u>FY 2000</u>   | <u>FY 2001</u>   | <u>FY 2002</u>   | <u>FY 2003</u>   |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>TOTAL (WITHIN GUIDANCE)</b> |                  |                  |                  |                  |                  |                  |
| O&M                            | \$330.300        | \$334.500        | \$345.300        | \$356.900        | \$364.800        | \$372.900        |
| Procurement                    | 4.000            | 4.000            | 5.000            | 5.000            | 5.000            | 5.000            |
| Total                          | <u>\$334.300</u> | <u>\$338.500</u> | <u>\$350.300</u> | <u>\$361.900</u> | <u>\$369.800</u> | <u>\$377.900</u> |

**PROGRAM CHANGES REQUESTED**

6

**ABOVE GUIDANCE REQUEST**

|             |            |            |            |            |            |            |
|-------------|------------|------------|------------|------------|------------|------------|
| O&M         | -0-        | -0-        | -0-        | -0-        | -0-        | -0-        |
| Procurement | -0-        | -0-        | -0-        | -0-        | -0-        | -0-        |
| Total       | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |

**TOTAL THROUGH ABOVE GUIDANCE REQUEST**

|             |                  |                  |                  |                  |                  |                  |
|-------------|------------------|------------------|------------------|------------------|------------------|------------------|
| O&M         | \$330.300        | \$334.500        | \$345.300        | \$356.900        | \$364.800        | \$372.900        |
| Procurement | 4.000            | 4.000            | 5.000            | 5.000            | 5.000            | 5.000            |
| Total       | <u>\$334.300</u> | <u>\$338.500</u> | <u>\$350.300</u> | <u>\$361.900</u> | <u>\$369.800</u> | <u>\$377.900</u> |



#### D. General Description of DCAA's Operations:

The workload of DCAA is divided into the major functional categories described below:

A. Forward Pricing Effort. The Federal Acquisition Regulations (FAR) and Public Law 91-379, Cost Accounting Standards (CAS), require Department of Defense (DoD) procurement officials to comply with various administrative procedures before entering into contracts. These procedures include obtaining pertinent accounting and financial advice before making decisions related to prospective contract prices. The ultimate goal of forward pricing audit effort is to provide contracting officers with accounting and financial advisory services during the preaward period of the procurement cycle, and to assist them in determining and negotiating fair and reasonable prices for negotiated Government contracts. Preaward services furnished to contracting officers by DCAA include:

1. Price Proposal Audits. These audits are performed to determine the reasonableness of contractors' price proposals submitted in anticipation of negotiating Government contracts. These reviews are required as a condition of contracting. They are specifically requested by contracting officers and must be accomplished within a short period of time to avoid delaying the procurement process. DCAA has no control over the number or timing of price proposal audits and must respond to each audit request.

2. Could Cost or Should Cost Studies. These studies are initiated by procuring activities who organize a team of specialists and review a contractor's price proposal to determine what a particular procurement could or should cost, depending on which study is being performed. DCAA auditors participate as members of the team of specialists. Such studies usually involve large major weapon system procurements.

3. Forward Pricing Rate Reviews. These reviews are performed to determine the reasonableness of projected labor, overhead, and other indirect expense rates submitted by a contractor prior to submission of price proposals. These rates are normally separately negotiated by a contracting officer and then used by the contractor in subsequent price proposals.

4. System Surveys. These reviews are performed to determine the reliability, propriety, and accuracy of contractors' estimating, accounting, internal control, and other systems relating to or providing the basis for Government contract costs or pricing. Systems surveys may be either a joint team review in which the experience and capabilities of the auditor and technical specialist are combined, or they may be comprehensive reviews performed solely by auditors. Additionally, these reviews include effort to recommend corrective actions on conditions causing deficiencies disclosed in price proposal evaluations or other audit areas which require immediate reporting and resolution. This also includes the effort required to determine the status of corrective actions taken by contractors on previously disclosed deficiencies.

5. Other. This effort includes providing verbal information to procurement officials on labor rates, overhead rates, and similar factors for smaller procurements.

B. Incurring Cost Effort. The FAR requires DCAA to perform audits of claimed costs incurred and submitted by contractors for reimbursement under cost reimbursable, fixed price incentive, and other types of flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, FAR, and when applicable, Cost Accounting Standard (CAS) regulations. Although the performance of these incurred cost audits and CAS compliance audits are normally self-initiated, they must be accomplished in order for the Government to make final payment to the contractor. They include reviews of direct labor and material, indirect expenses, and performance and financial controls. Although the primary purpose of incurred cost audits is to express an opinion on the acceptability of costs claimed under Government contracts, knowledge of contractors' accounting, estimating, and internal control systems gained during these audits is invaluable to the evaluation of contractors' price proposals.

C. Operations Audits. DCAA also performs a variety of economy and efficiency audits of contractor operations. DCAA operations audits are systematic reviews of contractor organizational units and functions to evaluate the reasonableness of methods and practices employed on Government contracts.

D. Special Audits. These audits are normally requested by the contracting officer and include reviews of termination claims, progress payment requests, equitable adjustment claims, hardship claims, escalation claims, and contractor financial capability. When they are specifically requested by contracting officers, they must be accomplished within a short period of time to avoid adverse effects such as additional claims for interest on amounts due or contractor financial failure. DCAA has little control on the number or timing of these reviews and must respond to all such requests.

E. Defective Pricing Reviews. The Truth in Negotiations Act, as codified in 10 USC 2306 (f), assigns DCAA responsibility for performing defective pricing reviews. These reviews are performed to determine whether a contract or subcontract price was unduly increased because the contractor failed to furnish accurate, complete, or current cost or pricing information in negotiating the contract.

F. Cost Accounting Standards. Many contractors are required to follow CAS as a condition of Government contracting. The FAR assigns DCAA responsibility for reviewing contractors' implementation and compliance with CAS.

G. Other Direct Audit Effort. DCAA's audit mission includes other audit related activities such as providing on-site assistance to procurement and contract administration offices, contract audit coordination (CAC) programs, and negotiation support. Testing performed during development of Agency policies and procedures, and follow-up effort related to Congressional, General Accounting Office (GAO), DoD Inspector General (DoD IG), and other external requests, surveys, and reports is also a part of this activity. The major items within this activity are further described below:

1. Procurement Liaison. DoD Directive 5105.36, dated 9 June 1965, authorized the Director, DCAA to establish and maintain liaison auditors, as appropriate, at major procuring and contract administration offices. The primary functions of procurement liaison auditors are to (i) facilitate effective communication and coordination between procurement officers and auditors, (ii) provide on-the-spot personal consultation and advice in connection with contractors' cost representations and related matters, (iii) provide DCAA management with information regarding specific awards, trends in type and volume of awards, and other data impacting on immediate or long range DCAA responsibilities, and (iv) provide DCAA management with information on the adequacy, responsiveness and timeliness of audit services rendered to procurement and contract administration offices.

2. Contract Audit Coordinator (CAC) Program. A CAC program has been established at the largest DoD contractors whose accounting functions, operations, and contract performance occur at multiple locations under the audit cognizance of multiple DCAA field offices. The program is designed to maintain effective communications and audit coordination at these contractor locations. The CAC program includes effort to (i) disseminate information, (ii) monitor and track problem areas to assure uniform resolution, (iii) arrange and attend CAC conferences, and (iv) coordinate with other DCAA personnel, contractor representatives, and cognizant procurement officials on CAC problems.

3. Negotiation Conferences. A fundamental requirement of DCAA's mission is to provide contract audit services and to be the principal accounting and financial advisor to contracting officials. Many times audit results involve complex accounting issues and/or quantitative analyses which dispute contractor's cost estimates or representations. On these occasions, the best interests of the Government are served by having auditors present at negotiations to offer further explanation of the audit position, perform analyses of additional contractor data presented at the negotiation table, and provide any other accounting and/or financial assistance the contracting officer may require during the negotiation process.

4. External Audit Interface. This activity includes effort expended to develop information and comments on reports from the GAO, DoD IG, or other government Inspector Generals. This activity also includes effort related to discussions and conferences, and any interface involving any other government audit organization.

5. Suspected Irregular Conduct (SIC). This activity represents effort expended related to SIC referrals, and responses to requests from investigative agencies or the Department of Justice regarding fraud or other irregular practices. This activity includes the development of evidence for presentation to a U.S. attorney or a grand jury, and/or for use at a trial.

6. Audit Support and Planning. This activity represents effort expended by the field to prepare annual audit requirements and program plan information as well as effort expended on projects and studies requested by the regions or Headquarters. The projects normally relate to new and/or innovative ways of performing DCAA's audit mission, and often add to the body of knowledge needed to enhance Agency mission accomplishment through the development and application of improved audit and/or audit management technology and techniques.

H. Field Support. This category includes support personnel in the five regional offices, the Defense Contract Audit Institute, the Information Technology Division, and the Technical Audit Services Division.

1. Regional Offices. These offices provide technical audit management and supervision, and logistical support in the form of personnel services, payroll, budgeting and accounting, and travel services to field office personnel.

2. Defense Contract Audit Institute (DCAI). DCAI provides both centralized and decentralized training for DCAA's audit staff. The Institute offers contract audit oriented courses. In addition, DCAI's trained instructors provide contract audit training segments in courses and seminars offered by other DoD and non-DoD agencies.

3. Information Technology Division (OIT). OIT is responsible for the development, maintenance, and enhancement of DCAA's management information system hardware and software to meet management, administrative, and audit requirements. It also responsible for operating the Agency-wide telecommunications network, and defining and controlling data management standards.

4. Technical Audit Services Division (OTS). OTS conducts research and distributes information to the field on operations audits, quantitative audit techniques, computer assisted audit techniques, and other auditing topics which have Agency-wide application. OTS also provides technical assistance to auditors in planning reviews of contractor's electronic data processing systems and engineering operations.

5. Field Administrative Support. Field administrative support personnel provide administrative and resource management services to the Field Detachment, the Defense Contract Audit Institute, and the Defense Legal Services staff assigned to DCAA.

6. Other. This category includes personnel from the Defense Legal Service (DLS) and the auditor assigned to the Department of Justice Fraud Unit.

I. Headquarters. DCAA Headquarters performs the work normally associated with the central office of a professional organization. It develops policy and promulgates instructions and operating directives needed to perform the Agency mission. It provides legal counsel, performs oversight reviews of regional and field office operations, and advises regional offices on resource management matters, including the recruitment and training of personnel. In addition, Headquarters personnel interface with other DoD components as well as other Government agencies and Congressional committees on contract audit matters.

E. (1) DEFENSE CONTRACT AUDIT AGENCY  
Major Workload Statistics

Performance Criteria and Evaluation Summary:

|  | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2003</u> | <u>Notes</u> |
|--|----------------|----------------|----------------|----------------|----------------|----------------|--------------|
| Forward Pricing  | 933            | 953            | 1000           | 1013           | 1027           | 1037           | 1            |
| Incurring Cost Effort:   |                |                |                |                |                |                |              |
| Regular Incurred Costs Audits  | 1528           | 1436           | 1293           | 1210           | 1115           | 1321           |              |
| CAS Compliance Audits  | <u>80</u>      | <u>79</u>      | <u>78</u>      | <u>77</u>      | <u>76</u>      | <u>75</u>      |              |
| Total Incurred Cost  | 1608           | 1515           | 1371           | 1287           | 1191           | 1396           | 2            |
| Operations Audits  | 65             | 65             | 65             | 65             | 65             | 65             | 3            |
| Special Audits   | 479            | 467            | 461            | 456            | 451            | 445            | 4            |
| Defective Pricing  | 203            | 198            | 196            | 193            | 191            | 189            | 5            |
| Cost Accounting Standards:<br>Disclosure Statements,<br>Cost Impact Audits, Etc. | 130            | 129            | 129            | 129            | 129            | 129            | 6            |
| Other Direct Audit Effort:   |                |                |                |                |                |                |              |
| Procurement Support  | 305            | 299            | 295            | 292            | 289            | 285            | 7            |
| Audit Support & Planning   | <u>347</u>     | <u>338</u>     | <u>334</u>     | <u>330</u>     | <u>326</u>     | <u>322</u>     | 8            |
| Total Other Direct   | 652            | 637            | 629            | 622            | 615            | 607            |              |
| Field Support:   |                |                |                |                |                |                |              |
| Regional Offices   | 301            | 297            | 296            | 296            | 296            | 296            |              |
| Field Support  | <u>96</u>      | <u>91</u>      | <u>87</u>      | <u>87</u>      | <u>87</u>      | <u>87</u>      |              |
| Total Field Support  | 397            | 388            | 383            | 383            | 383            | 383            | 9            |
| Headquarters   | 87             | 85             | 84             | 84             | 84             | 84             | 10           |
| Total Work Years   | <u>4554</u>    | <u>4437</u>    | <u>4318</u>    | <u>4232</u>    | <u>4136</u>    | <u>4335</u>    |              |

E. (2) DEFENSE CONTRACT AUDIT AGENCY  
Major Workload Statistics

Performance Criteria and Evaluation Summary (Continued):

|   | <u>FY 1998</u> | <u>FY 1999</u> | <u>FY 2000</u> | <u>FY 2001</u> | <u>FY 2002</u> | <u>FY 2003</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|
| <b>A. Incurred Costs (\$ Billions)</b>  |                |                |                |                |                |                |
| On Hand Beginning Of Year               | \$62.6         | \$48.1         | \$38.7         | \$37.8         | \$43.6         | \$55.7         |
| Received During Year (Adv)              | <u>\$72.4</u>  | <u>\$73.4</u>  | <u>\$75.0</u>  | <u>\$77.9</u>  | <u>\$79.6</u>  | <u>\$81.3</u>  |
| Dollars Subject To Audit                | \$135.0        | \$121.5        | \$113.7        | \$115.7        | \$123.2        | \$137.0        |
| Examined During Year                    | <u>\$86.9</u>  | <u>\$82.8</u>  | <u>\$75.9</u>  | <u>\$72.1</u>  | <u>\$67.5</u>  | <u>\$80.1</u>  |
| Ending Inventory                        | <u>\$48.1</u>  | <u>\$38.7</u>  | <u>\$37.8</u>  | <u>\$43.6</u>  | <u>\$55.7</u>  | <u>\$56.9</u>  |
| Workyears                               | 1608           | 1515           | 1371           | 1287           | 1191           | 1396           |
| Examined Per Workyear (\$ M)            | \$54.0         | \$54.7         | \$55.3         | \$56.0         | \$56.7         | \$57.4         |
| <b>B. Forward Pricing (\$ Billions)</b> |                |                |                |                |                |                |
| Amount Examined During Year             | \$163.6        | \$171.3        | \$182.0        | \$186.5        | \$191.3        | \$195.5        |
| Workyears                               | 933            | 953            | 1000           | 1013           | 1027           | 1037           |
| Examined Per Workyear (\$ M)            | \$175.3        | \$179.7        | \$182.0        | \$184.1        | \$186.3        | \$188.5        |

F. EXPLANATORY NOTES TO WORKLOAD STATISTICS  
FY 1998-2003

Note 1 - The estimated forward pricing audit effort is based on an assessment of contracting officials' demand requirements for forward pricing assistance. This assessment includes an analysis of the actual workload accomplishments during the past several years, adjusted for anticipated productivity improvements, published changes in the DoD Procurement and RDT&E budgets, and the estimated impact of applicable acquisition reform initiatives.

Note 2 - The Federal Acquisition Regulations (FAR) require an audit of contractor costs incurred under cost reimbursable, fixed price incentive, and other types of flexibly priced contracts to determine if the costs are acceptable in accordance with contract terms, the FAR, and, when applicable, the Cost Accounting Standards (CAS) regulations. While the timing for performance of these incurred cost audits is normally self-initiated, they must be accomplished to facilitate the Government's final contract payment to contractors on flexibly priced contracts. However, since the incurred cost area is essentially the only major audit area over which DCAA has any control over the initiation of audit performance, budget constraints impact this area more severely than other areas. The estimated work years for incurred cost and CAS compliance testing represent the maximum staff available for this effort after considering higher priority and other demand workload. The proposed budget represents the annual workyears needed to remain current on auditing contractor incurred costs through FY 2003. Workload statistics for incurred cost audits are based on historical data, current field audit requirements, annual field risk assessments, productivity factors, and anticipated changes in the DoD Procurement and RDT&E outlays.

Note 3 - DCAA's Operations audits are designed, in part, to evaluate the economy and efficiency of contractor functions or operations, which are reimbursed through the contractor overhead expense rates. Because of the continuing interest in reducing the risk that excessive contractor overhead costs are priced into or reimbursed on DoD contracts, projected workyears provide staffing levels that will allow DCAA to perform required reviews.

Note 4 - Special audit activity is performed upon requests from contracting officials. Special requests range from simple verification of costs to analyzing complex accounting issues. Contractor claims for contract price adjustments involve accounting issues requiring a high level of audit expertise and oftentimes substantial audit effort. Oversight of DoD contract costs during contract performance by DoD management and Congressional inquiry, contract terminations, progress payment requests, financial capability audits, Cost/Schedule Control System Criteria reviews and other contract claims represent a substantial portion of this workload. Our estimates reflect consideration of our historical experiences as well as expectations for productivity improvements.

Note 5 - The projected workyears will allow DCAA to perform defective pricing reviews at the required levels of effort. Contracts/subcontracts are selected for defective pricing review based on established selection criteria which considers contract types, dollar amounts, contractor



estimating and accounting systems, historical experiences, and audit leads. Our estimates reflect consideration of current required audits as adjusted for anticipated productivity improvements.

Note 6 - Public Law 91-379 as amended by Public Law 94-152 established Cost Accounting Standards for defense contractors. Many contractors covered by these standards are required to submit statements disclosing their accounting practices. In addition, any voluntary or involuntary change in accounting practices requires DCAA review of its propriety and its cost impact on Government contracts. Projected workyears reflect an anticipated level of activity required to perform reviews of disclosure statements for adequacy and audits of cost impact statements during times of a transforming defense industrial base with increased corporate mergers and acquisitions.

Note 7 - Major activities within Procurement Support include negotiation assistance, investigative support, the contract audit coordinator program, and procurement liaison auditor effort. Auditors are frequently asked by contracting officials to attend contract negotiation conferences to provide accounting and financial advice. DCAA is also frequently requested to provide contract audit assistance to investigative organizations from all branches of the Government, in its battle to combat fraud, waste, and mismanagement. Required staffing levels are based on historical performance levels adjusted for anticipated productivity improvements.

Note 8 - The audit support and planning effort includes the development of DCAA's audit requirements and program plans necessary to accomplish the assigned audit mission at contractor locations. This planning effort enhances audit coverage and the quality of information available to DCAA management and higher DoD officials for making resource/staffing decisions. Effort associated with performing process improvement projects and studies, and the processing and approval of contract payments is also included in this category. Workyears required for special projects and studies, and requirements and program planning represent the Agency's continuing efforts to improve audit quality and audit management oversight through data analyses, surveys, and the testing of new policies and operating procedures. The estimated staffing levels are based on historical performance levels adjusted for anticipated productivity improvements.

Note 9 - Estimated staffing levels for DCAA Field Support, include those required for the Agency's regional offices, the Defense Contract Audit Institute (DCAI), the Information Technology and Technical Audit Services divisions, and other field support units. The estimates are based on current staffing levels adjusted for projected reductions due to the implementation of DCAA's organizational assessment initiatives.

Note 10 - Estimated staff levels for DCAA Headquarters are based on current staffing levels adjusted for projected reductions from implementation of DCAA's organizational assessment initiatives, and meet the NPR targeted management headquarters levels established by DoD.