

**DEFENSE CONTRACT AUDIT AGENCY**  
**Management Discussion and Analysis**  
**FY 2024**



**One Agency, One Team, One Direction**

DEFENSE CONTRACT AUDIT AGENCY  
FY 2024 MANAGEMENT DISCUSSION AND ANALYSIS

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## MESSAGE FROM THE DIRECTOR



I am pleased to present the Defense Contract Audit Agency’s Management Discussion and Analysis (MD&A) for FY 2024. Our MD&A provides executive-level information on the Agency’s mission and vision, organization and structure, performance results, financial highlights, systems, controls, and legal compliance.

In FY 2024, DCAA realized a return on investment of \$7.2 per \$1 spent. The Agency examined \$456.7 billion in contract costs, issued 2,465 audit reports, and identified \$5.1 billion in net savings. To guide the Agency’s efforts to continuously improve, DCAA published its 2024-2030 Strategic Plan. The plan’s four goals focus on optimizing value and customer service; cultivating a premier workforce; capitalizing on technological innovation; and influencing the business environment. Accomplishing these goals reinforces DCAA’s vision: *“As the premier leader in DoD contract audit and advisory services, we deliver unparalleled value, agile solutions, and data-driven insights in support of our nation’s defense needs.”*

In FY 2024, DCAA had notable achievements with positive impacts for our customers and our workforce. As the acquisition environment and contracting vehicles continue to evolve, so must DCAA’s products and services. In FY 2024, DCAA assessed its product lines and customers’ needs identifying gaps which will be addressed in FY 2025. This has helped DCAA both gain new customers and retain existing customers, increasing our oversight of DoD contractors. A second effort during the year was to identify additional methods to communicate DCAA’s full value to DoD. Historically, DCAA has relied on monetary metrics to report value; however, certain audit outcomes, such as business systems, do not always align with these metrics and, as a result, may not fully capture our true value to the DoD. This year we reassessed our value proposition and revised metrics to better demonstrate full value of all DCAA’s efforts. Finally, DCAA conducted a thorough review of its audit policy and programs, leading to revisions and realignments aimed at better assessing risk, streamlining audit processes, and reducing steps. These improvements resulted in an average 25 percent reduction in the time required to complete an audit. These efforts expanded DCAA’s reach, improved the efficiency of the audit process and better postured DoD to defend our nation.

I am pleased to announce that DCAA received its 24<sup>th</sup> consecutive unmodified audit opinion on its financial statements reflecting the importance we place in these areas. Continually assessing our processes, leveraging industry best practices, and exceeding our customer’s expectations enables our mission accomplishment and that of DoD.

A handwritten signature in black ink that reads "Jennifer L. Desautel". The signature is fluid and cursive, written in a professional style.

Jennifer L. Desautel  
Director

## **ABOUT DCAA**

DCAA's mission is to conduct contract audits and provide accounting and financial advisory services regarding contracts and subcontracts to all DoD Components responsible for procurement and contract administration. DCAA may also provide contract audit services to other federal agencies, as appropriate. DCAA only audits and provides financial information and advice on proposed or existing contracts and contractors; it has no internal audit responsibilities in DoD. DCAA's role in the financial oversight of government contracts is critical to enable DoD to maximize their buying power in defense contracting. DCAA operates under the authority, direction, and control of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. DCAA has no role in determining which companies are awarded defense contracts.

DCAA's work supports the 2022 National Defense Strategy's key priorities of defending the homeland, deterring strategic attacks and aggression, and building a resilient joint force and defense ecosystem. DCAA audits and financial advisory services enable contracting officials to make necessary investments to deter current and future threats while minimizing the resources required. DCAA's outreach to small business owners strengthens and diversifies the defense ecosystem by enhancing their understanding of requirements and audit processes. Through outreach to industry, we strive to learn their challenges and, when possible, ease the burden of defense contracting.

DCAA has been performing this important mission, to provide cost oversight of Defense contractors, since its founding in 1965. Over the years, the Agency has transformed based on changes in contracting guidance, the contractor base, and technology but maintained its focus on the mission. The Agency's contract audits and advisory services are independent, professional reviews of financial representations made by defense contractors, and DCAA helps determine whether contract costs are allowable, allocable, and reasonable.

## **OVERVIEW**

### **Mission**

DCAA delivers contract audit and advisory services that exceed our customers' expectations to promote timely acquisition decisions and maximize buying power, so DoD has the necessary capabilities to deter current and emerging threats.

### **Organization and Staffing**

**Organizational Structure.** DCAA's organizational structure consists of a Headquarters, four Corporate Audit Directorates organized by major contractors, three geographical Regions primarily focused on other large, mid-sized, and small contractors, and a Field Detachment

focused on classified work. DCAA has about 230 offices located throughout the United States, Europe, and the Middle East.

**Headquarter** is located at Fort Belvoir, Virginia. Principal elements are the Director, Deputy Director, General Counsel, Office of Inspector General, Operations Directorate, Policy, Quality, and Legislative Affairs Directorate, and Human Capital and Resource Management Directorate.

**Regional Offices/Field Detachment** are in Smyrna, Georgia; Irving, Texas; Lone Tree, Colorado; and Reston, Virginia. Each region directs and administers the DCAA audit mission at locations near the contractor base. Each region is staffed with about 600 employees and serves 1,200 to 1,800 contractors. Regions are structured with subordinate branch offices, strategically located to provide audit coverage within their assigned geographical areas. The Field Detachment has nearly 475 employees to serve 600 contractors.

**Corporate Audit Directorates (CAD)** are in Lowell, Massachusetts (General Dynamics/RTX); McLean, Virginia (Northrop Grumman); St. Louis, Missouri (Boeing); and Irving, Texas (Lockheed Martin/BAE). Each CAD is staffed with about 300 employees that serve their designated major defense contractors.

**Resident offices** are established at specific contractor locations of both regions and CADs 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 the government buys from.

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

**Defense Contract Audit Institute**, located in Atlanta, Georgia, provides specialized contract audit training for DCAA's audit staff, and leadership and interpersonal skills training to new supervisors and other Agency employees.

**DCAA's Professional Workforce.** For FY 2024, DCAA had 4,084 authorized personnel. About 88 percent of DCAA employees are auditors and 12 percent are professional support staff in various fields, including administrative support, budget, human resources, information technology, and legal support. Roughly 91 percent of employees have a bachelor's degree, with 44 percent having a master's or higher-level degree. In addition, 25 percent of the workforce have a professional certification such as Certified Public Accountant (CPA), Certified Fraud Examiner (CFE), Certified Internal Auditor (CIA), or Certified Information Systems Auditor (CISA).

## **Management Initiatives**

DCAA completed several initiatives to improve the quality and efficiency of both audit and agency processes. With a focus on our workforce, DCAA updated the auditor rotation program reducing the number of positions subject to rotation by placing only those positions in the program that require a person with current field experience. This change reduces unnecessary turnover and brings continuity to our customers. To bring qualified auditors onboard, DCAA expanded its footprint on college campuses resulting in 50 percent of new hires being recent college graduates and decreasing new auditor attrition. Additionally, improved training and support for new hires, including a pilot new hire training branch, resulted in a reduction in new hire attrition. DCAA's focus is now on programs to improve training and support for new supervisors.

In terms of technology, DCAA continued to adopt new platforms and develop new tools to support the workforce. This year, DCAA adopted a new learning management system seamlessly transitioning training programs, courses, and training records. Additionally, a new information management system was contracted for and configured to meet the Agency's needs. Training for audit staff was completed in September and the system was operational at the start of FY 2025. This new system will enable DCAA to capture additional data, share data with other DoD contracting systems of record, and bring increased visibility of audit status.

To help ensure the quality and efficiency of audit operations, DCAA routinely reviews and updates, as necessary, audit guidance. A major focus in FY 2024 was improving incurred cost audit efficiency. This effort was helped, in part, by the development of the audit interrelationship tool. This tool, developed by a team of auditors, highlights steps in audits that may inform another audit, reducing redundant steps. Use of the tool in incurred cost audits, along with a reduction or streamlining of audit steps and an improved guidebook and training on all of the above, reduced the hours required to complete audits in a pilot program by an average of 25 percent. Finally, a major ongoing effort is a review of DCAA's audit quality management system to ensure compliance with the 2024 GAO Government Auditing Standards (Yellow Book). This effort is well underway and will meet the deadline of full implementation by December 15, 2025.

## **PERFORMANCE**

### **Strategic Plan**

DCAA's 2024-2030 Strategic Plan has four goals focused on optimizing value and customer service, cultivating a premier and diverse workforce, capitalizing on technological innovation and influencing the business environment. This plan acknowledges the ever changing budgetary and security landscape that demands we operate at peak efficiency to reduce the cost of acquisition while increasing speed to ensure our warfighters get what they need when they need it. In FY 2024, Agency executives conducted a holistic review of the Agency to identify strengths, weaknesses, opportunities, and threats, which led to the development of many new initiatives.

### **Goals, Objectives, and Results**

During FY 2024, DCAA examined \$456.7 billion on 2,465 audit reports issued, identified \$5.1 billion in net savings, and produced a return on investment of about \$7.2 per \$1 spent. DCAA also prepared 7,629 memos to assist in procurements valued at \$143.1 billion. Although there are no specific goals for savings and return on investment, the results provide a significant indication of the value of DCAA's audit services to the U.S. taxpayer.

DCAA met the statutory requirement to complete incurred cost audits within one year of submission and continues to find ways of being more efficient in executing these audits. The Agency also placed special emphasis in Forward Pricing Audits.

## **FINANCIAL**

### **Appropriated Funding**

DCAA has five sources of appropriated funding that include Operation and Maintenance (O&M); Defense Acquisition Workforce Development (DAWD); Defense Security Cooperation Agency (DSCA) direct funding; and reimbursable funding provided by non-defense agencies. The total allocated funding for FY 2024 was \$711.9 million.

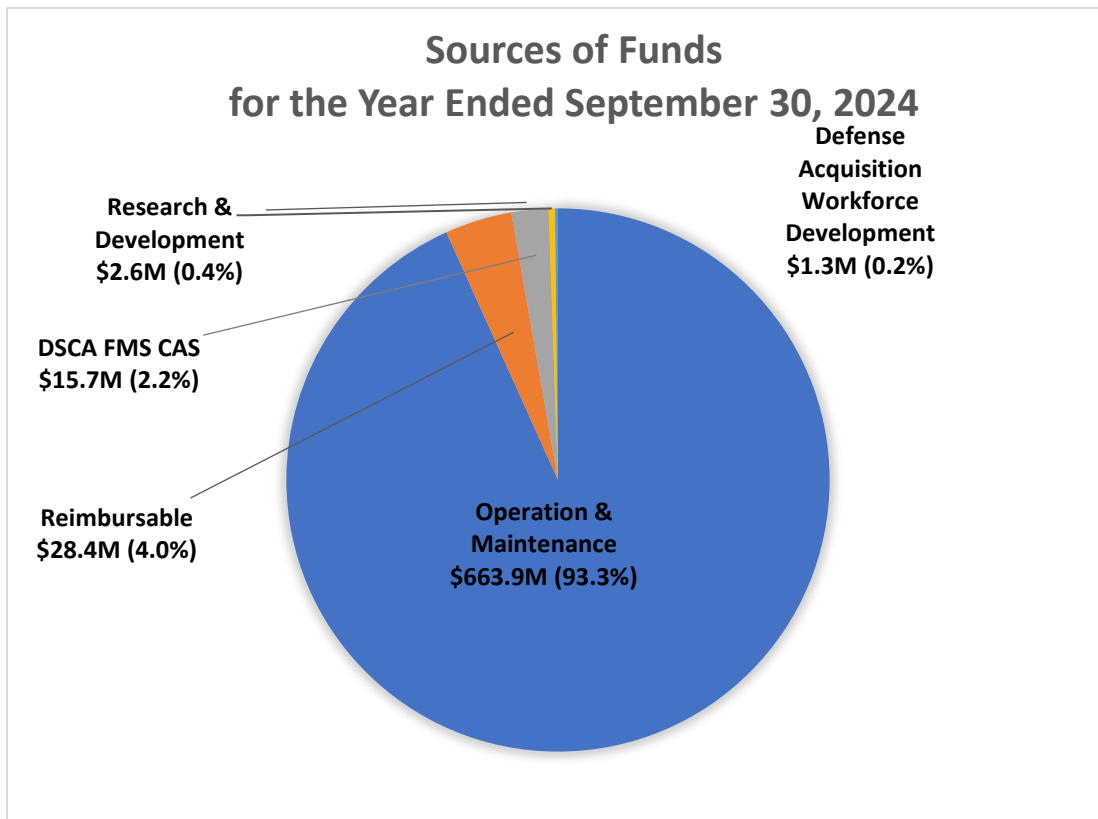
**O&M appropriation** pays for goods and services used during the normal course of business in the fiscal year appropriated. Examples of expenses include civilian salaries and benefits, recruiting, training and education, travel, information technology, leased office space, and business assets.

**R&D appropriation** finances research, development, test, and evaluation efforts performed by contractors in the development of equipment, material, or computer application software. This includes services, equipment, components, materials, end items and weapons used in such efforts.

**DAWDA appropriation** is used to recruit and train acquisition personnel. This appropriation is part of the Office of the Under Secretary of Defense for Acquisition and Sustainment [OUSD (A&S)] financial reporting and is not shown on DCAA’s financial statements. The DAWDA appropriation has been a valuable program for DCAA, allowing us to grow, train, and sustain the audit workforce.

**DSCA’s appropriated fund** is provided directly to DCAA to pay for Foreign Military Sales (FMS) Contract Audit Support (CAS) work accomplished by the Agency. This fund is part of DSCA financial reporting and is not shown on DCAA’s financial statements.

**Reimbursable work** is paid by non-DoD agencies for DCAA’s audit services. DCAA’s largest customers include Foreign Military Sales, Department of Energy, NASA, Department of State, and Department of Homeland Security.



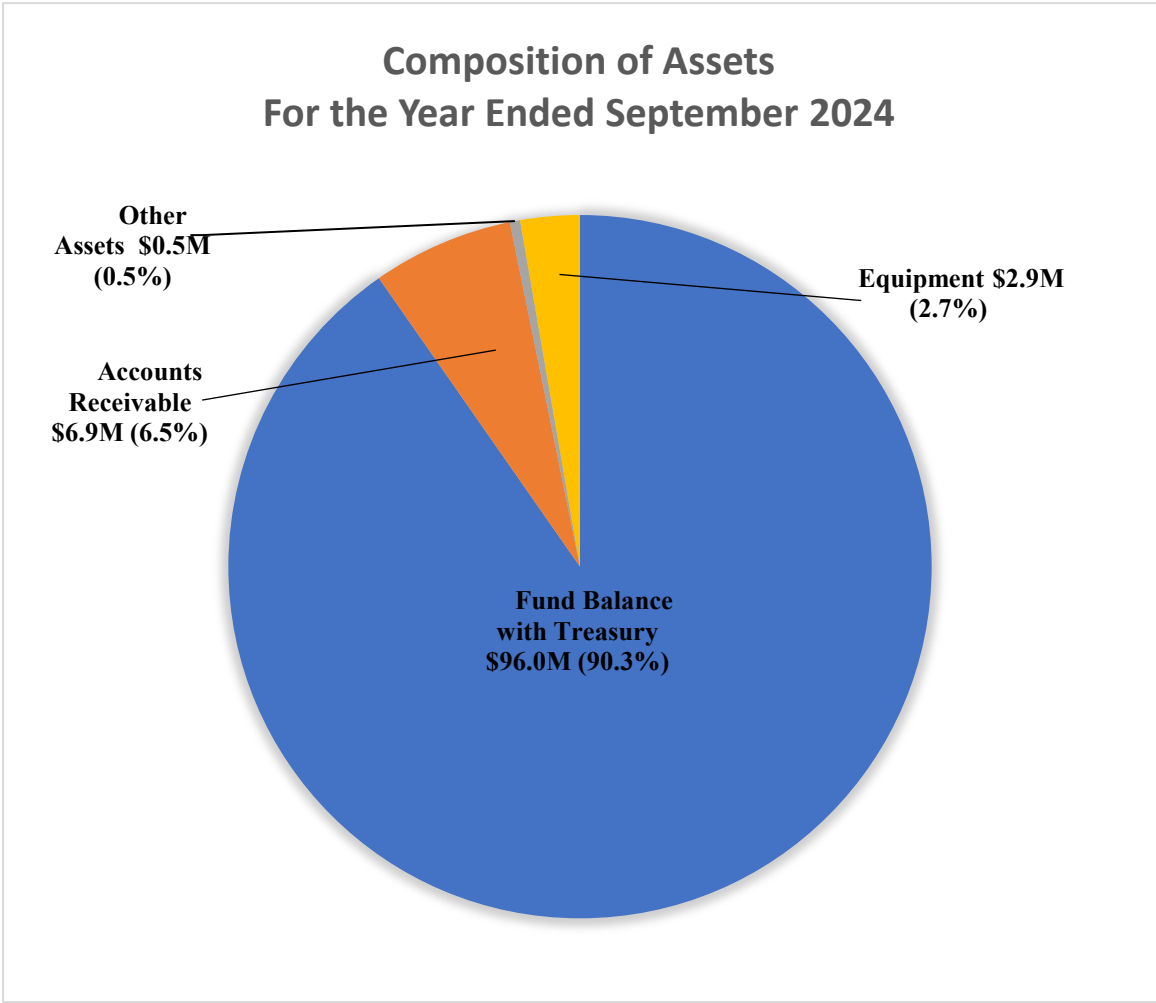


## Analysis of the Financial Statements

The tables and graphs below summarize information regarding the financial statements. The Balance Sheet presents the total amounts available for use by DCAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position). DCAA's total assets are largely composed of Fund Balance with Treasury (FBwT) and accounts receivable. Below is a list of DCAA's major balance sheet categories as of September 30, 2024, September 30, 2023, and a comparison between the two.

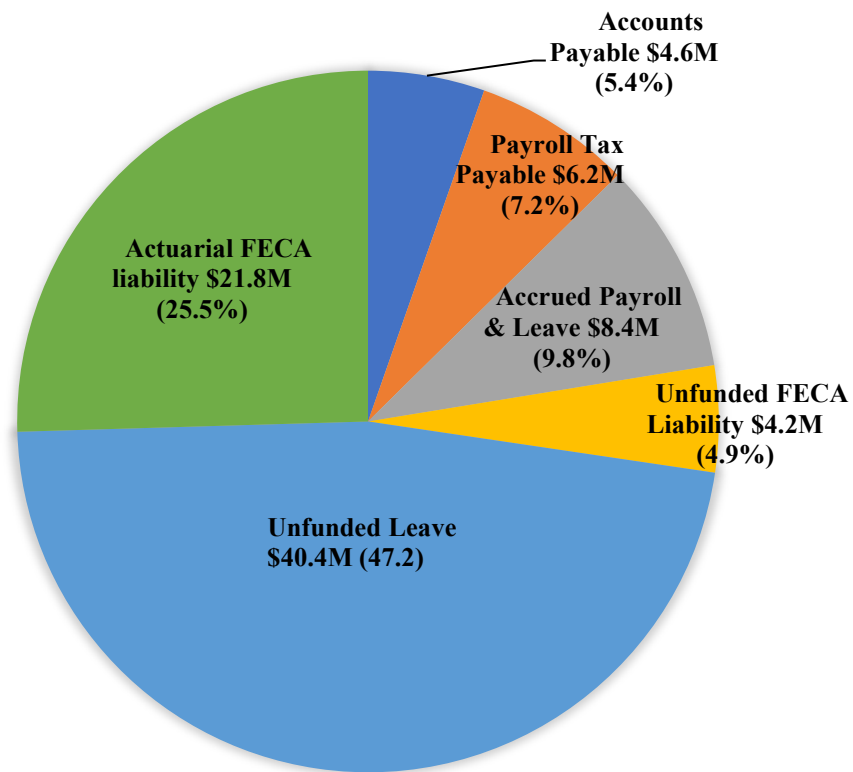
<b>Balance Sheet</b>			
<b>\$ in million</b>			
<b>Assets</b>	<b>FY 2024</b>	<b>FY 2023</b>	<b>\$ Change</b>
Fund Balance with Treasury	\$ 96.0	\$ 102.7	\$ (6.7)
Accounts Receivable	6.9	4.0	2.9
Other Assets	0.5	0.0	0.5
Equipment	2.9	0.0	2.9
<b>Total Assets</b>	<b>\$ 106.3</b>	<b>\$ 106.7</b>	<b>\$ (0.4)</b>
<b>Liabilities</b>			
Accounts Payable	\$ 4.6	\$ 1.9	\$ 2.7
Payroll Tax Payable	6.2	5.1	1.1
Accrued Payroll & Leave	8.4	8.2	0.2
Unfunded FECA Liability	4.2	4.3	(0.1)
Unfunded Leave	40.4	39.4	1.0
Actuarial FECA liability	21.8	22.4	(0.6)
<b>Total Liabilities</b>	<b>\$ 85.6</b>	<b>\$ 81.3</b>	<b>\$ 4.3</b>

**DCAA's Assets** of \$106.3 million are comprised of the FBwT, Accounts Receivable, Other Assets, and Equipment. This amount is \$0.4 million less than last year's balance. The change is mainly attributed to the FBwT. The factors are a net increase of \$41.3 million in fund; offset by a net decrease of \$34.6 million in disbursement; a net decrease of \$10.4 million in collection; and a net decrease of \$2.9 million in transfer out.



**DCAA's Liabilities** of \$85.6 million are classified as either funded (covered by current budgetary resources) or unfunded (covered by future budgetary resources). Funded liabilities include accounts payable, payroll taxes payable, and current accrued payroll. Unfunded liabilities consist primarily of employment benefits, estimated future Federal Employment Compensation Act (FECA) liabilities, and leave earned but not yet taken. DCAA's total liabilities increased by \$4.3 million.

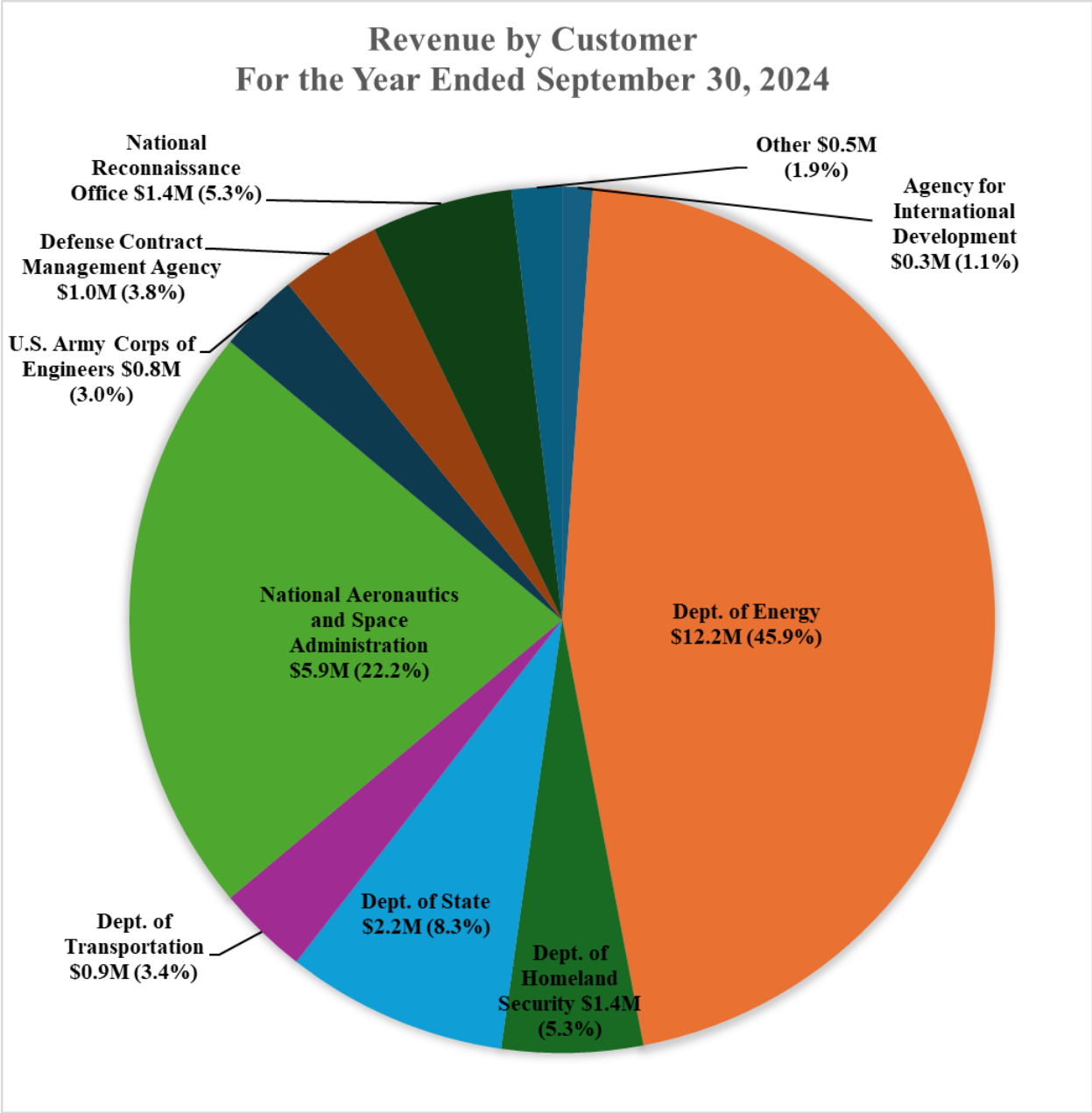
### Composition of Liabilities For the Year Ended September 30, 2024



**The Consolidated Statement of Net Cost** presents the annual costs of operating programs. The net cost of each specific program’s operation equals the program’s gross costs less any earned revenue. The following table presents DCAA’s major cost categories for the fiscal years ended September 30, 2024, and September 30, 2023.

<b>Consolidated Statement of Net Cost</b>			
<b>\$ in Millions</b>			
<b>Gross Cost</b>	<b>FY 2024</b>	<b>FY 2023</b>	<b>\$ Change</b>
Employee Compensation	\$ 425.3	\$ 404.6	\$ 20.7
Employee Benefits	112.3	107.0	5.3
Payroll Taxes	105.7	101.0	4.7
Purchase Goods or Services	98.6	97.3	1.3
<b>Total Gross Cost</b>	<b>\$ 741.9</b>	<b>\$ 709.9</b>	<b>\$ 32.0</b>
Less: Earned Revenue	(26.7)	(28.5)	1.8
<b>Net Cost of Operation</b>	<b>\$ 715.2</b>	<b>\$ 681.4</b>	<b>\$ 33.8</b>

The graph below shows DCAA's FY 2024 revenue by trading partner.



The following table presents comparative data for the Net Position and Results of Operations as of September 30, 2024, and September 30, 2023.

<b>Change in Net Position and Cumulative Results of Operations</b>			
\$ In million			
	FY 2024	FY 2023	\$ Change
Unexpended Appropriations	\$ 86.0	\$ 92.4	\$ (6.4)
Cumulative Results of Operations	(65.4)	(67.0)	1.6
<b>Total Net Position</b>	<b>\$ 20.6</b>	<b>\$ 25.4</b>	<b>\$ (4.8)</b>
Operations Beginning Balance	\$ (67.0)	\$ (60.0)	\$ (7.0)
Financing Sources	716.8	674.4	42.4
Net Operations	715.2	681.4	33.8
Net Change	1.6	(7.0)	8.6
<b>Cumulative Results of Operations</b>	<b>\$ (65.4)</b>	<b>\$ (67.0)</b>	<b>\$ 1.6</b>

**Net Position** represents the difference between assets and liabilities. The net position results from changes that occur within the Cumulative Results of Operations and Unexpended Appropriations. The unexpended appropriations represent the number of undelivered orders and unobligated balances of budgetary authority. Our net position decreased by \$4.7 million; from \$25.4 million in FY 2023 to \$20.7 million in FY 2024. The decrease is attributed to a \$6.4 million change in unexpended appropriation and offset by increases of \$1.6 million change in cumulative results of operations when compared to September 30, 2023.

**Cumulative Results of Operations** represents the net difference between expenses and losses, and financing sources (including appropriations used, imputed financing, transfer in/out, and other adjustments). DCAA had Financing Sources of \$716.9 million and a Net Cost of Operations totaling \$715.2 million. The Net Cost of Operations includes accrued expenses for annual leave liability, employee benefits liability, and actuarial liability; future appropriations will fund these liabilities. The Net Change was \$1.6 million, which is the difference between the Financing Sources and the Net Cost of Operations.

**DCAA's Net Cost of Operations** represents the difference between the costs incurred by programs less associated revenues. Funding is received through Congressional Appropriations and reimbursement for services provided to other federal agencies. Net Cost of Operations for the year ended September 30, 2024, totaled \$715.2 million. The FY 2024 Net Cost of Operations is \$33.8 million this FY. The majority (82.2 percent) of FY 2023 annual net costs relate to Personnel Compensation (\$410.0 million) and Benefits (\$210.2 million).

## **Limitations of the Financial Statements**

The Defense Finance and Accounting Service (DFAS), in collaboration with DCAA, prepares DCAA's financial statements. The principal financial statements report the Agency's financial position and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). DFAS prepares the statements from the Agency's financial records in accordance with Office of Management and Budget (OMB) Circular No. A-136 and uses generally accepted accounting principles for Federal entities. The statements are also used to monitor and control budgetary resources. The statements should be read with the understanding that they are for a component of the U.S. Government.

## **SYSTEMS CONTROLS, AND LEGAL COMPLIANCE**

DCAA uses an enterprise resource planning system, Defense Agencies Initiative (DAI), and DFAS prepared DCAA's financial statements based on data entered in DAI. Departments and agencies under the Executive Branch did not produce annual financial statements until required by the Chief Financial Officers (CFO) Act of 1990.

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires that audit reports state whether Agency financial management systems comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. Federal agencies must fully disclose financial data, including the costs of Federal programs and activities. DCAA continues to develop and implement improved business processes that support the accuracy and auditability of its financial statements.

DCAA's accounting system is adequate to ensure transactions are executed in accordance with applicable appropriations statutes. Reasonable assurance is provided to ensure that assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud.

## **Management Assurance**

In its Annual Statement of Assurance (SoA) for FY 2024, DCAA provided reasonable assurance to the Secretary of Defense that the Agency's internal controls met the objectives of the Federal Managers' Financial Integrity Act (FMFIA) of 1982.

The Agency has a rigorous system of internal financial and administrative controls to ensure effective management of the Agency's resources. This system provides the reasonable assurance required to certify that the objectives of the FMFIA are achieved. The FMFIA requires federal

agencies to assess the effectiveness of internal controls for program, operational, and administrative areas, as well as accounting and financial management.

As an audit organization, DCAA is aware of the importance of management internal controls. As part of its quality control process, DCAA performed specific reviews during the past year to evaluate the adequacy and consistency in implementing audit and procedural guidance. Other objectives of these reviews include identifying areas requiring additional policy coverage and determining the adequacy of existing coverage.

## **Internal Control Assessment and Result**

DCAA continued to evaluate its system of internal accounting and administrative controls in effect during the fiscal year ending September 30, 2024, in accordance with the guidance in OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The objectives of the system of internal accounting and administrative controls for DCAA are to provide reasonable assurances for:

- Effectiveness and efficiency of operations,
- Reliability of financial reporting,
- Compliance with applicable laws and regulations, and
- Financial information systems compliance with the FMFIA.

DCAA and DFAS assessed internal control effectiveness over financial reporting according to the OMB Circular No. A-123, Appendix A, Management of Reporting and Data Integrity Risk, for the following:

- Fund Balance with Treasury
- Accounts Receivable
- Accounts Payable
- Government Purchase Card Program
- Financial Statement Compilation
- Government Travel Card Program
- Property Management Procedures
- Other Liabilities
- Appropriations Received
- Payroll

Financial reporting is not limited to financial statement reporting. Circular No. A-123, Appendix A, included within the definition of "financial reporting" other significant internal and external financial reports that could materially affect spending, budgetary, or other financial decisions. Appendix A prescribed a process for assessing internal controls over financial reporting. The process included:

- Evaluating internal controls by understanding management's attitude, awareness, and



- actions to include:
- Integrity and ethical standards,
  - Commitment to competence,
  - Management philosophy,
  - Organizational structure, and
  - Assignment of authority and responsibility.
- Evaluating internal controls at the process, transaction, and application levels and obtaining knowledge of the organization's key processes by:
    - Performing process risk assessments regarding financial assertions of completeness, obligations and rights, valuation, existence, and occurrence, reporting and presentation, compliance with laws and regulations, and safeguarding of assets from fraud, waste, and abuse.
    - Identifying existing key controls intended to mitigate identified risk.
    - Assessing the agency's new fraud awareness training. Fraud awareness training is essential for preventing and detecting fraudulent activities. By equipping employees with the knowledge to recognize red flags and suspicious behavior, this training helps foster a culture of vigilance and integrity within the organization.
    - Assessing data quality in accordance with Digital Accountability and Transparency Act (DATA Act)
    - Assessing and testing the design and operation of internal controls over financial reporting; and,
    - Issuing an Annual Statement of Assurance on Internal Control over Reporting - Financial Reporting (ICOR-FR) as a subset of the Annual Federal Managers' Financial Integrity Act Statement of Assurance.

We conducted separate tests to assess the effectiveness of internal controls. No material weaknesses surfaced in the design or operation of the internal controls. DCAA reported an unmodified statement of assurance for internal controls over non-financial operations and integrated financial management systems in its annual FMFIA SoA.

The concept of reasonable assurance acknowledges that (1) the cost of implementing internal controls should not surpass the benefits expected, and (2) these benefits include mitigating the risks associated with failing to meet the stated objectives. However, errors or irregularities may still occur and go undetected due to inherent limitations in any system of internal accounting and administrative control. These limitations can stem from factors, such as resource constraints, Congressional restrictions, and other influences.

Our evaluation of internal control processes drew from various sources, including internal reviews and an external audit. A key indicator of our success in implementing these controls is the receipt of 24 consecutive “unmodified opinions” on our financial statements from independent public auditors. For FY 2024, DCAA reported no Anti-Deficiency Action (ADA) violations and had no corrective actions from previous years.

As the Department faces decreasing budgets, DCAA will continue to be an essential component for getting the best value for every dollar spent to ensure the defense of our nation. Our strategic outlook is solid, and our central focus remains on delivering the highest quality products, serving our customers, and supporting our workforce.