

DCAA Reorganization & What It Means for Government Contractors

(What's Going On with DCAA?)



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Director

- **35+ Years with Defense Contract Audit Agency**
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 - Regional Special Programs Manager
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 - Branch Manager (CONUS & OCONUS), Supervisory Auditor, Technical Specialist, Auditor
- **36 Years as Air Force Reservist-last duty: Chief, Contracting Inspections, Air Force Reserve Command, Robins AFB, Georgia**
- **3 –plus years with Redstone**
 - Business Systems, CAS, FAR, DFARS, Forward Pricing Proposals, Claims

BS in Accounting, State University of NY at Buffalo; MS, Accounting – Western New England College (now University); Graduate of Department of Defense Executive Leadership Development Program; CPA (Active Licenses) –Alabama, Georgia, & North Carolina; Certified Fraud Examiner (CFE)



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Learning Objectives

- ✓ Change is **THE** “Word” in Government
 - Recognize the key elements of DCAA’s organizational restructuring and why it is occurring
- ✓ Changes to Agencies – DCAA Org Changes
 - Identify how recent and upcoming changes may affect audit processes and contractor interactions
- ✓ Impacts to DCAA Audits?
 - Evaluate the potential benefits and challenges created by centralization, “tiger teams,” and virtual audits
- ✓ Takeaways
 - Anticipate the implications for specific audit categories, including incurred cost, forward pricing, business systems, and CAS compliance

“Change” is the WORD in Government This Year



Department of Government Efficiency

The people voted for major reform.

- Overall Change Perhaps is **THE** “Word”
 - Policy Issue changes: extending tax cuts, boarder security, clean energy, etc.
 - Impacts to Federal Agencies
 - Significant Reductions in spending
 - Significant reductions in federal workers
 - Federal Contracting:
 - FAR Overhaul
 - Implementing numerous Executive Orders
 - Changes to auditors - DCAA

DCAA Organization Prior to 2025

What Used to
Be...

DCAA Organization

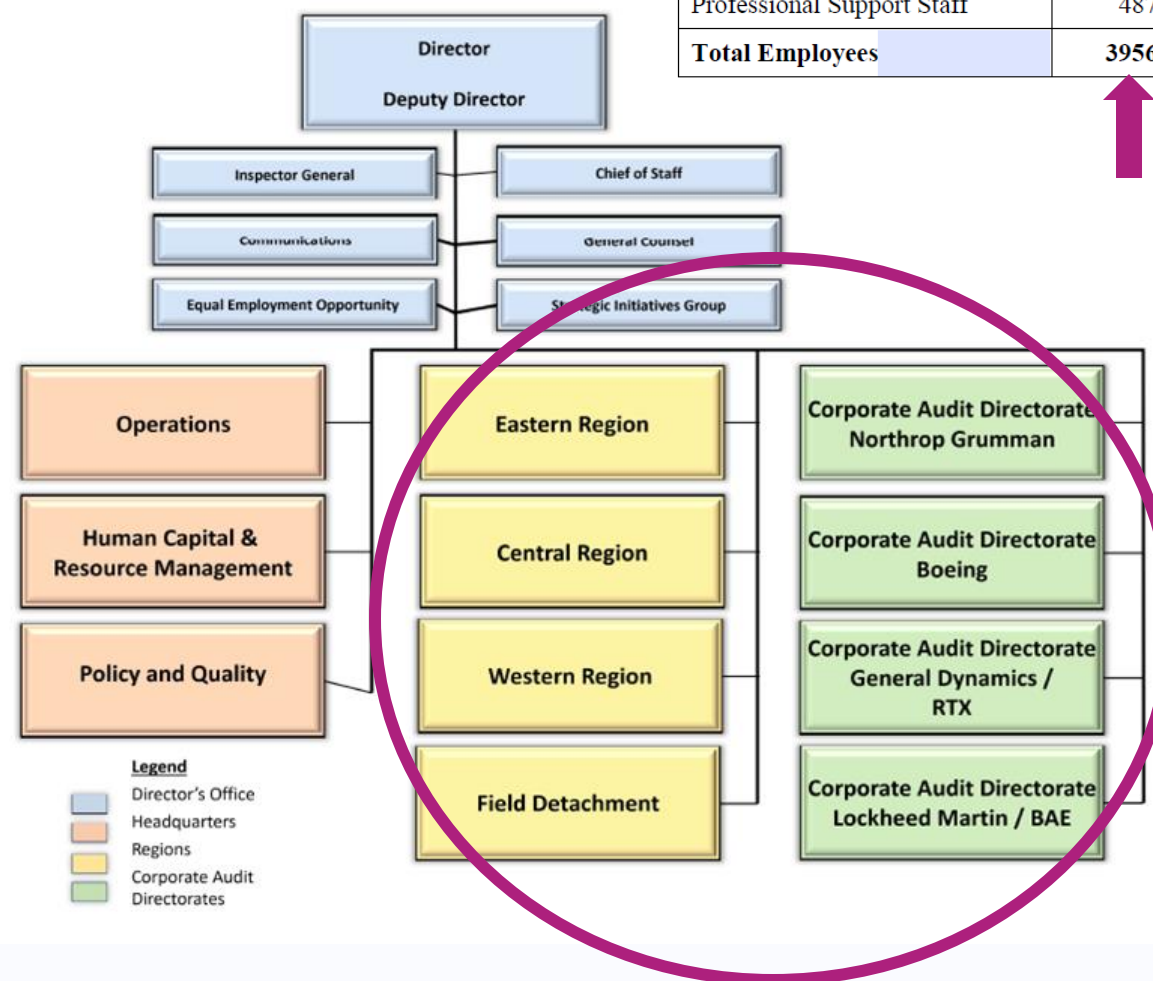
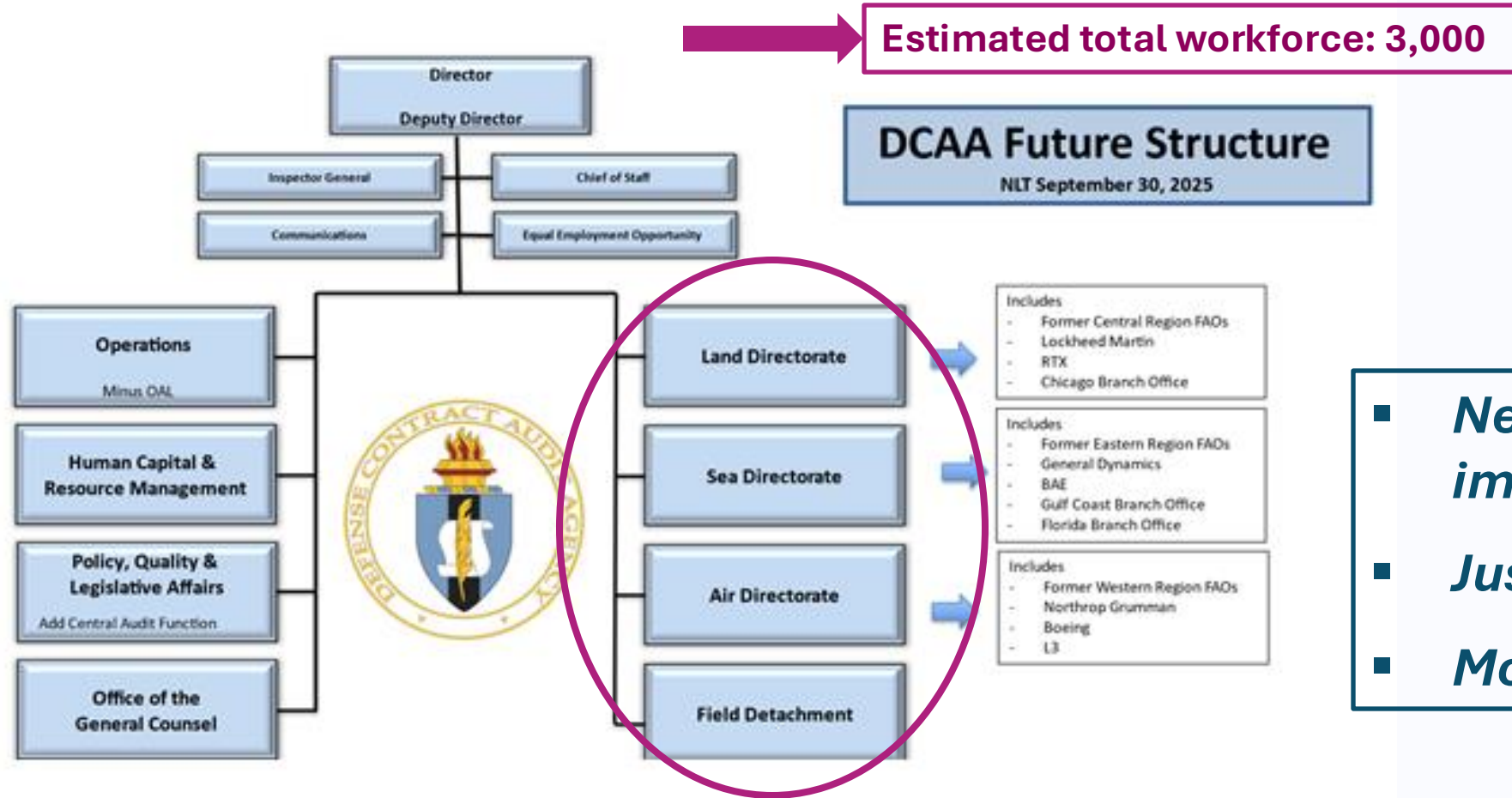


Table 1 – DCAA Workforce

Employee	Number	Percent
Auditors	3469	89%
Professional Support Staff	487	11%
Total Employees	3956	100%



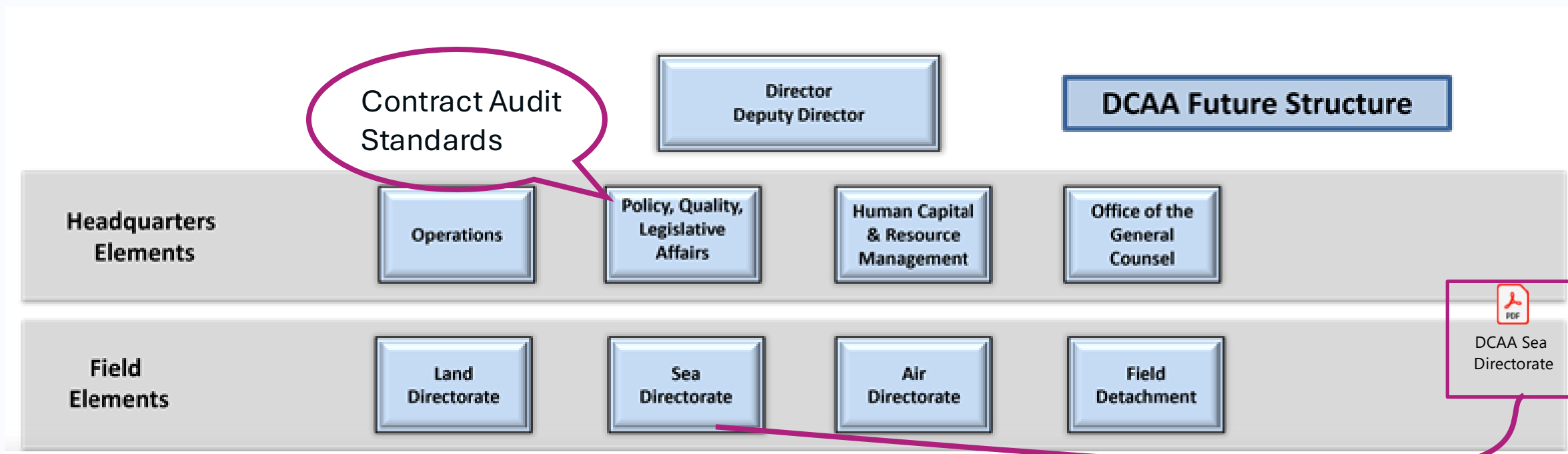
“Future” DCAA Organization as of 9/30/2025



- *New and improved?*
- *Just re-packaged?*
- *More efficient?*

Another Depiction of “Future” DCAA

This may be more appealing since it looks flattering – actual org chart for Sea is embedded



DCAA Reorganization Announcement – April 7, 2025



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- Elimination of CADs and regions to reduce costs and improve operational efficiency.
- Implementation of the new org **no later than September 30, 2025, ...is pretty much done.**
- Introduction of a central headquarters and **three primary Directorates – Land, Sea, and Air.** The new structure will align with contractors' products **[best fit?]**.
- Implementation of a new *Centralized* Audit Function (CAF) where the *CAF will focus on specialized audits* and projects, offering a more centralized and targeted approach ... for example, **“tiger teams.”**
- Reassignment of Financial Liaison Auditors to the Directorate that best supports their customer base. **New title: Sr. Customer Representatives.**

DCAA Office Consolidations



- Consolidating 40 smaller audit suboffices, with 10 or fewer personnel.
- Combining physical offices, *streamlining* the physical footprint and cutting back on leases and associated costs. Impacting about 160 personnel.
- Reducing physical workspace with a goal of *terminating at least 30% of its leases* over the next three years with an aim of better collaboration.

DCAA Closed Offices

Offices that were
10 in number or
Less

Office Name	State	Office Name	State
Camarillo Suboffice	CA	Naval Weapons Station Earle Suboffice	NJ
NG Redondo Beach Azusa Suboffice	CA	Glenville NY Suboffice	NY
SRI International Suboffice	CA	New York Suboffice	NY
NG Redondo Beach Suboffice	CA	Battelle Memorial Suboffice	OH
Fort Lauderdale Suboffice	FL	Piketon Suboffice	OH
Jacksonville Suboffice	FL	Penn State University Suboffice	PA
DRS Suboffice	FL	Charleston Suboffice	SC
Georgia Tech Suboffice	GA	Tullahoma Suboffice	TN
RTX Collins Aerospace Iowa Suboffice	IA	BAE Ordnance Systems Kingsport Suboffice	TN
Boise Suboffice	ID	West Knoxville Suboffice	TN
Rolls-Royce Corp. Suboffice	IN	Austin Suboffice	TX
Baton Rouge Suboffice	LA	El Paso Suboffice	TX
New Orleans Suboffice	LA	LM Aeronautics Fort Worth Suboffice	TX
Mitre Corporation Suboffice	MA	LM M&FC Grand Prairie Suboffice	TX
BAE Electronic Systems Lexington Suboffice	MA	CACI Inc, Federal Suboffice	VA
Baltimore Suboffice	MD	Serco Inc Suboffice	VA
Grand Rapids Suboffice	MI	BAE Radford Army Ammunition Plant Suboffice	VA
Kansas City Suboffice	MO	Burlington VT Suboffice	VT
Vertex Suboffice	MS	Ft. Vancouver Suboffice	WA
IBM Suboffice	NY	Oshkosh Suboffice	WI

DCAA Org Changes

In Conclusion

- Changes in organization will create **some confusion** at least in the short-term with DCAA and auditees alike
- Continued use of “**video audits**”
- Needed effort to find the right DCAA office (put this info on proposals, forward year billing rates, etc.)
- Use of your previously experienced auditor may be replaced with a newer auditor that is not familiar with your company
- **Be patient** with this change and what overall audit impact it will have

Impact to DCAA Audits

DCAA Audit Categories

- Incurred Cost (*Includes External Oversight*)
- Forward Pricing
- Business Systems (Accounting, Estimating, MMAS)
- Truthful Cost or Pricing Data Statue (formerly known as TINA or DP)
- Cost Accounting Standards
- Claims and Terminations
- Non-Audit Services (DCAA Activity Code 49800)

Impacts on DCAA Audits- Incurred Cost- FY 2018 NDAA

Public Law 115–91
115th Congress

An Act

To authorize appropriations for fiscal year 2018 for military activities of the Department of Defense, for military construction, and for defense activities of the Department of Energy, to prescribe military personnel strengths for such fiscal year, and for other purposes.

Dec. 12, 2017
[H.R. 2810]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “National Defense Authorization Act for Fiscal Year 2018”.

SEC. 2. ORGANIZATION OF ACT INTO DIVISIONS; TABLE OF CONTENTS.

(a) DIVISIONS.—This Act is organized into four divisions as follows:

- (1) Division A—Department of Defense Authorizations.
- (2) Division B—Military Construction Authorizations.
- (3) Division C—Department of Energy National Security Authorizations and Other Authorizations.
- (4) Division D—Funding Tables.

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

- Sec. 1. Short title.
Sec. 2. Organization of Act into divisions; table of contents.
Sec. 3. Congressional defense committees.
Sec. 4. Budgetary effects of this Act.

DIVISION A—DEPARTMENT OF DEFENSE AUTHORIZATIONS

TITLE I—PROCUREMENT

Subtitle A—Authorization Of Appropriations

Sec. 101. Authorization of appropriations.

Subtitle B—Army Programs

- Sec. 111. Authority to expedite procurement of 7.62mm rifles.
Sec. 112. Limitation on availability of funds for Increment 2 of the Warfighter Information Network-Tactical program.
Sec. 113. Limitation on availability of funds for upgrade of M113 vehicles.

National Defense
Authorization
Act for Fiscal
Year 2018.

Implementation of **Section 803 of the FY 2018 NDAA required** the use of non-federal auditors (Independent Public Accountants or IPAs) so DCAA could complete incurred costs audits **within 1 year** and eliminate DCAA’s incurred cost backlog

SEC. 803. PERFORMANCE OF INCURRED COST AUDITS.

(a) IN GENERAL.—Chapter 137 of title 10, United States Code, is amended by inserting after section 2313a the following new section:

“§ 2313b. Performance of incurred cost audits

10 USC 2313b

“(a) COMPLIANCE WITH STANDARDS OF RISK AND MATERIALITY.—Not later than October 1, 2020, the Secretary of Defense shall

Impacts on DCAA Audits - Incurred Cost Oversight - GAO

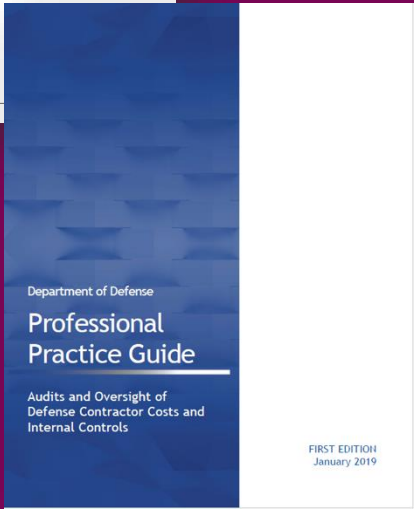
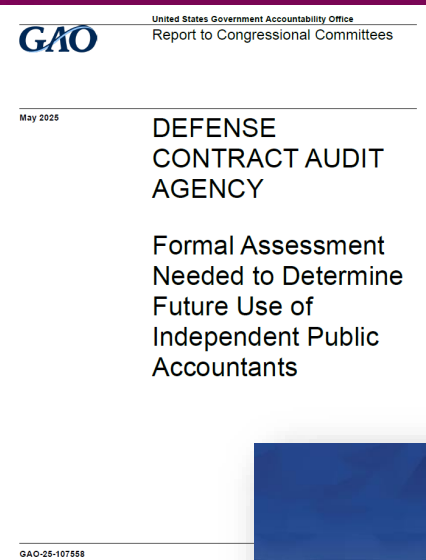
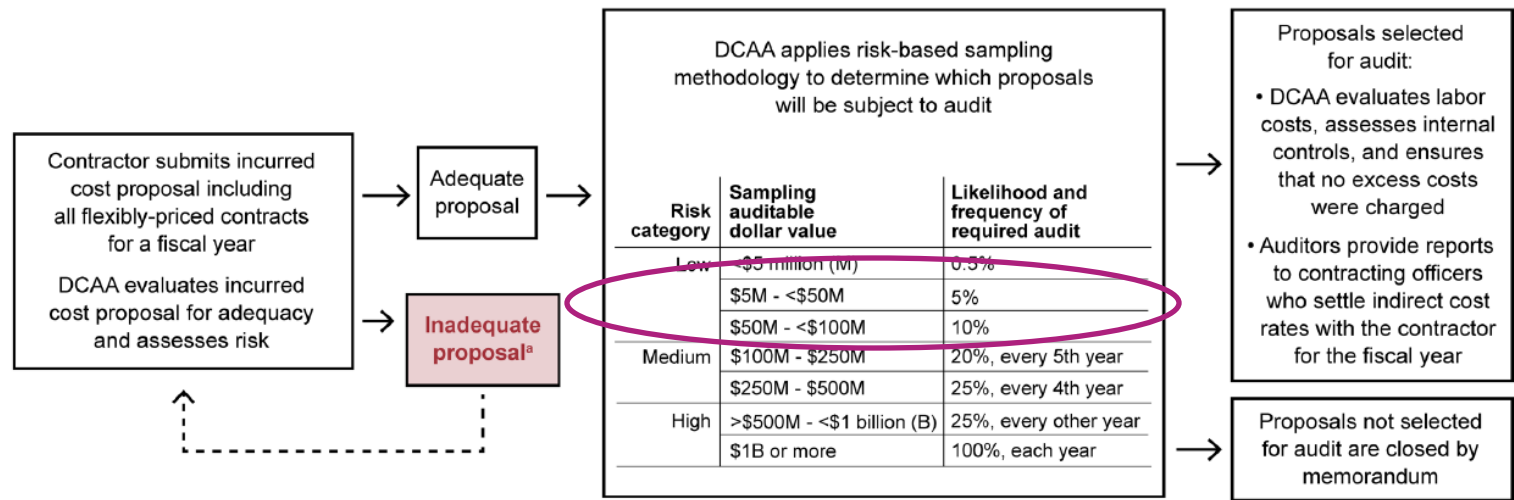


Figure 2: DCAA's Risk Based Methodology for Selecting Incurred Cost Proposals for Audit



Source: GAO; Defense Contract Audit Agency (DCAA) information. | GAO-25-107558

^aDCAA uses a checklist to assess the adequacy of contractors' incurred cost submissions. DCAA may determine that a contractor's incurred cost proposal is inadequate for a variety of reasons, such as incomplete or inaccurate information, and request that the contractor revise and resubmit the incurred cost proposal. This process may take several iterations before the proposal is deemed adequate, at which point DCAA applies its risk-based sampling methodology to determine which proposals will be subject to audit.

Summary of DCAA's risk-based approach and selection for audit either by DCAA or an IPA under contract with DoD.



Impacts on DCAA Audits - Incurred Cost Oversight - GAO

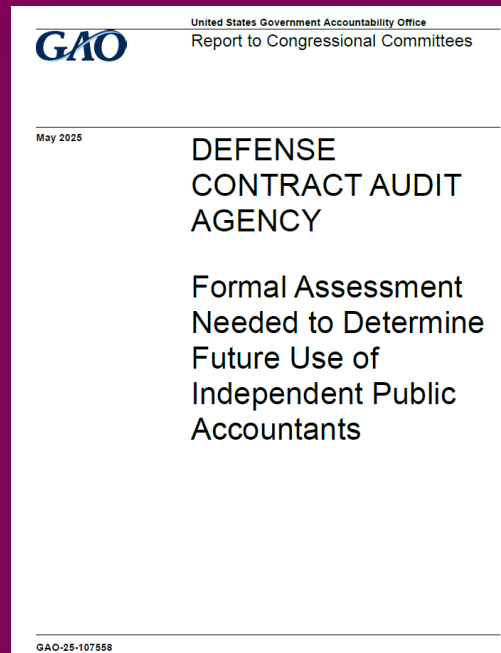
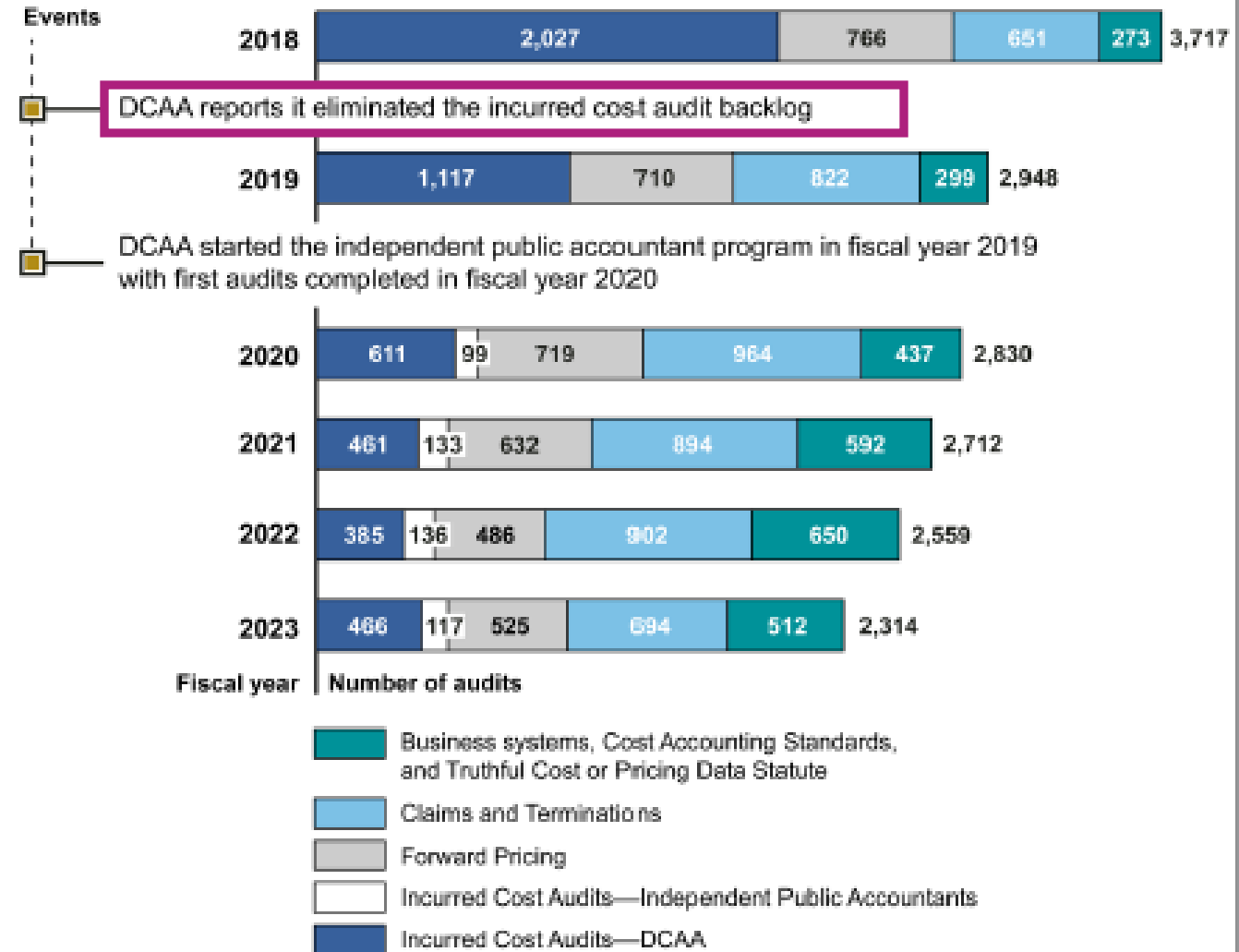


Figure 1: Audits Completed by DCAA and Independent Public Accountants, Fiscal Years 2018-2023



Source: GAO analysis of Defense Contract Audit Agency (DCAA) data. | GAO-25-107558

Impacts on DCAA Audits - Incurred Cost Oversight - GAO

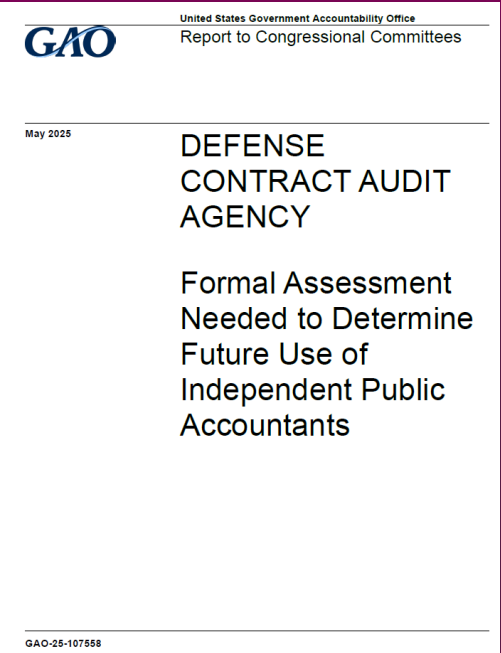
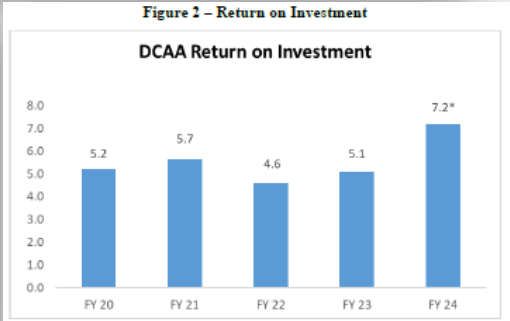
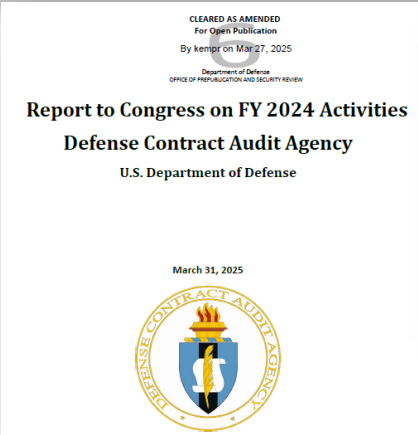


Table 3: Cost, Timeliness, and Return on Investment for DCAA- and Independent Public Accountant-led Incurred Cost Audits, Fiscal Years 2020-2023

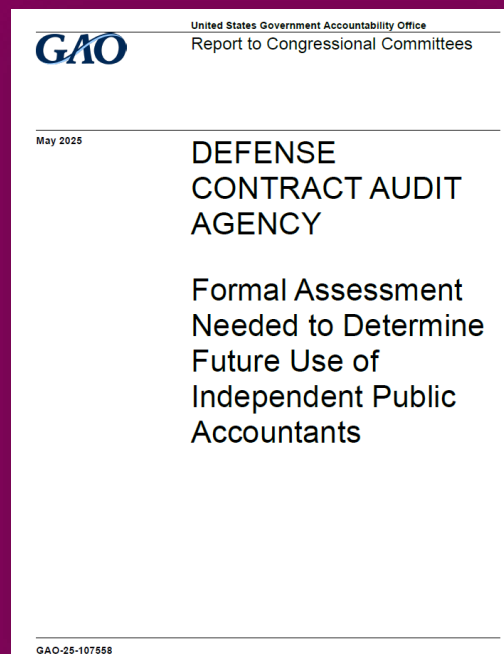
Fiscal year	Estimated cost per audit	Number of audits	Number of audits subject to NDAA timeliness requirements ^{a,b}	Number of audits completed on time	Estimated return on investment ^a
DCAA-led Incurred Cost Audits					
2020	\$338,001	611	467	467	\$1.27
2021	\$390,543	461	323	323	\$2.03
2022	\$414,191	385	285	284	\$1.94
2023	\$396,191	466	352	352	\$4.27
Average	\$384,731	481	357	357	\$2.38
Independent Public Accountant-led Incurred Cost Audits					
2020	\$45,591	99	96	96	\$0.04
2021	\$44,497	133	126	126	\$0.10
2022	\$44,043	136	134	134	\$0.46
2023	\$46,897	117	114	114	\$0.83
Average	\$45,257	121	118	118	\$0.35

Source: GAO analysis of Defense Contract Audit Agency (DCAA) data. | GAO-25-107558

Note the significantly lower Estimated Return on Investment (ROI): IPA audits cost more than its ROI. For an Agency that uses ROI for its justification, this is counter to what it wants to report to Congress.



Impacts on DCAA Audits - Incurred Cost Oversight - GAO



GAO DRAFT REPORT DATED APRIL 1, 2025
GAO-25-107558 (GAO CODE 107558)

**“DEFENSE CONTRACT AUDIT AGENCY: FORMAL ASSESSMENT NEEDED TO
DETERMINE FUTURE USE OF INDEPENDENT PUBLIC ACCOUNTANTS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

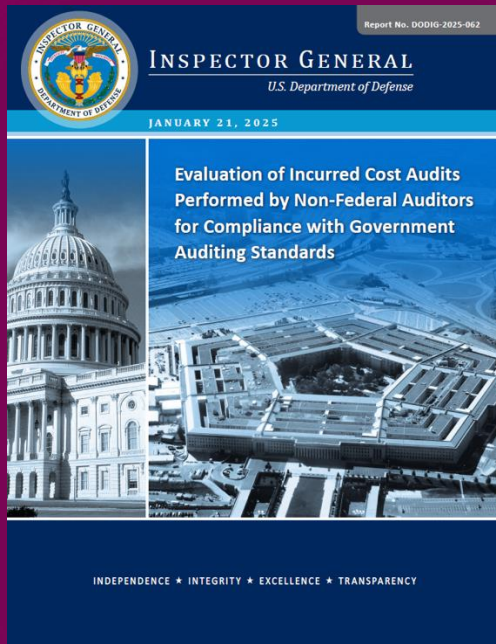
RECOMMENDATION 1: The GAO recommends the Secretary of Defense should ensure that the Defense Contract Audit Agency formally assesses the future use of independent public accountants and communicates its plans to Congress.

DoD RESPONSE: Concur. DCAA agrees with the GAO’s recommendation to formally assess the future use of independent public accountants. DCAA recognizes the importance of this assessment and is committed to conducting a thorough evaluation. We will present the plan to Congress by April 30, 2026.

DCAA agrees with the GAO to assess the future need of IPAs conducting incurred cost audits for DCAA and will present a plan to Congress by April 30, 2026.

Accordingly, future use of IPAs by DCAA for incurred cost audits may be phased out.

Impacts on DCAA Audits - Incurred Cost Oversight – DoD IG



Completed incurred cost audits during FYs 2019-2023 period required by Section 803

- DCAA – \$892.3 Billion in contract dollars (96.68%)
- IPAs – \$ 30.6 Billion in contract dollars (3.32%)

Findings

For 11 of 16 (69 percent) audits we reviewed, we identified noncompliances with Government Auditing Standards. We identified 34 total instances of noncompliance among the 11 audits where non-Federal auditors did not:

- ✓ 8 – obtain sufficient evidence
- ✓ 4 – use sufficient sampling methodology
- ✓ 11 – document the work in sufficient detail
- ✓ 11 – make required inquiries of management



DoD IG Report on IPAs

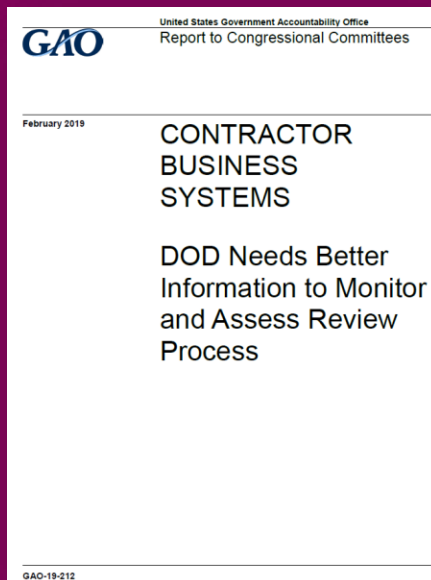
Overall Impact on IC Audits

- Continued use of the risk-based approach has been operationalized – no change expected
- Use of the risk-based approach **could** be “**tweaked**” to perform fewer incurred cost audits at the lower dollar value strata and lower government participation levels to lower DCAA’s overall incurred cost hours. This could happen, but do not expect it.
- ***Increased IC audits performed by DCAA*** to make-up for what IPAs have done in the last few years if IPA performed audits are phased out or eliminated – ***something then has to give for DCAA to do this work ...***

Forward Pricing Audits

- Evaluates a contractor's proposal of how much it will cost the contractor to provide goods or services to the government and whether these costs are fair, reasonable, and comply with federal regulations as applicable
- Generally completed before contract award
- Completion can take months & hundreds of hours
- GAGAS audit requirements may be an obstacle where GAGAS compliance needs more hours
- Use of non audit services (not IAW GAGAS) where an audit opinion is **NOT** rendered is a potential savings in hours and quicker completion

Business Systems (Accounting, Estimating, MMAS)



- Oversight from GAO found DCAA was not doing timely business system audits
 - GAO Report dated February 2019 noted DCAA was not timely in performing these audits
- Implements a contract required audit
- Using risk assessments
 - Perform high risk contractor business system audits
 - Defer non-high risk contractor business system audits
- Potential for audits to be deferred to future years

Cost Accounting Standards (CAS)

- Contract required audits
- Performed in some other DCAA audits
- Performed under separate audit assignments for CAS Standards
 - Non-Modified CAS coverage: 403, 404, 407, 408-418, & 420
- Requested CAS disclosure statements & revisions will have higher priority
- Potential for separate CAS standard audits to be deferred to future years

Claims & Contract Terminations

- Requested audits
 - Higher priority
 - More complex
- Performance of audit can take months and is a resource drain to Agency overall
- Performance could be done via “*tiger teams*” from the Directorates
 - Centralized performance
 - More experienced auditors
- Look for performance in at *least 6 months* and not to be deferred to future years but will be carried over from one FY to another
 - Potential for these to be *more closely monitored by management for timeliness and number of hours*

Non-Audit Services

(DCAA Activity Code 49800)

- Available non-audit services
 - No audit opinion
 - No master audit program
- Utilized at large contractors
 - Potential increased utilization for lowering hours and quicker audit turnaround/completion
- Utilize for shortfall in audit staff?
- Not necessarily a “secret audit weapon”

What's the Impact?



DCAA is going to settle with fewer auditors – less than 3,000 total staff and adjust as needed – lowest it has had since its early DCAA years



Will probably not impact its incurred cost



Audit priorities have already been established



Impact to audit process – unclear if any changes



DCAA could “readjust” frequency of contract required (non-demand requested audits - other than proposals, claims, terminations and time sensitive audits) audit effort



DCAA will use virtual meetings more to save travel costs

What's the Impact?



DCAA's most **experienced** audit management and staff have left; hundreds of administrative support staff positions eliminated



Brain Drain – What is left behind is less experienced

What's the Impact?

For the GOOD

- DCAA may monitor its audits better and decrease elapsed audit days
- Improve operations through centralization to garner more efficiencies
- Centralization of “tiger teams” that have no geographic boundaries for audits such as claims, terminations, incurred cost adequacy determinations, and TINA [stated that will be led from DCAA HQ]
- Less in-person meetings and utilizing virtual meetings such as Zoom

What's the Impact?

NOT for the GOOD

- Less experienced audit and management staff
- Less office visits
- Centralization of “tiger teams” that have no geographic boundaries for audits such as claims, terminations, incurred cost adequacy determinations, and TINA [stated that will be led from DCAA HQ]
- Less in-person meetings and utilizing virtual meetings such as Zoom

Takeaways

- Experienced auditors will be shifted to tiger teams
- Be patient with newer and lesser experienced auditors
- Expect virtual audit visits
- Be prepared for audits and know what is expected and challenge what may not be needed for audit
- Keep a request for information (RFI) log since audits may be shifted from one auditor to another and you do not want to furnish the same information multiple times
- Expect DCAA audits that cannot be deferred to future years
- Know your local DCAA office and try to keep them on your side

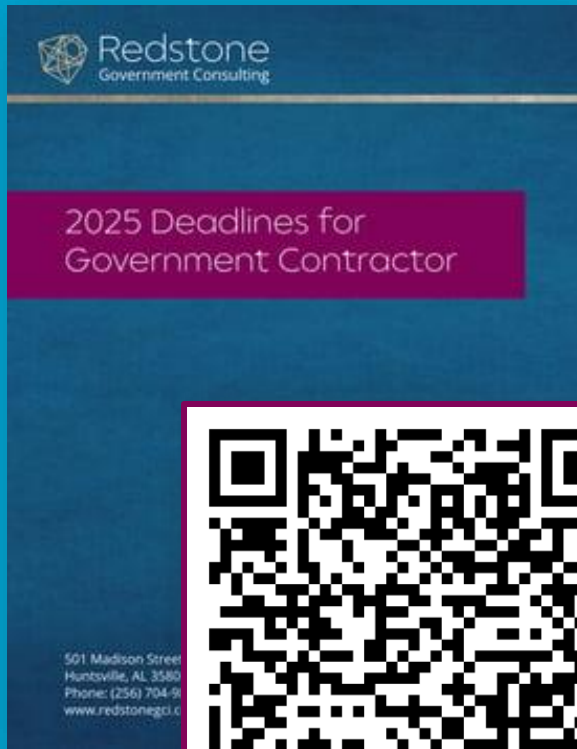
Questions and Discussion



2025 Critical Deadlines for Government Contractors

This guide provides you with all of the essential information and dates you need to know, including:

- Important deadlines for your internal departments
 - Accounting,
 - Human Resources,
 - Contracts & Subcontracts, and
 - Government Compliance
- Contract performance and delivery deadlines
- Deadlines for reporting and compliance requirements
- Deadlines for audits and reviews



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