



Highlights of [GAO-10-163T](#), a testimony before the Panel on Defense Acquisition Reform, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

In fiscal year 2008, the Department of Defense (DOD) obligated over \$380 billion to federal contractors, more than doubling the amount it obligated in fiscal year 2002. With hundreds of billions of taxpayer dollars at stake, the government needs strong controls to provide reasonable assurance that contract funds are not being lost to fraud, waste, abuse, and mismanagement.

The Defense Contract Audit Agency (DCAA) is charged with a critical role in contractor oversight by providing auditing, accounting, and financial advisory services in connection with DOD and other federal agency contracts and subcontracts. However, last year GAO found numerous problems with DCAA audit quality at three locations in California, including the failure to meet professional auditing standards. In a follow-up audit issued this September, GAO found that these problems existed agencywide.

Today's testimony describes widespread audit quality problems at DCAA and provides information about continuing contract management challenges at DOD, which underscore the importance of DCAA audits that meet professional standards. It also discusses some of the corrective actions taken by DCAA and DOD and key GAO recommendations to improve DCAA audit quality.

In preparing this testimony, GAO drew from issued reports and testimonies. These products contained statements regarding the scope and methodology GAO used.

View [GAO-10-163T](#) or [key components](#). For more information, contact Gregory D. Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## DEFENSE MANAGEMENT

### Widespread DCAA Audit Problems Leave Billions of Taxpayer Dollars Vulnerable to Fraud, Waste, Abuse, and Mismanagement

#### What GAO Found

GAO found substantial evidence of widespread audit quality problems at DCAA. In the face of this evidence, DOD, Congress, and American taxpayers lack reasonable assurance that billions of dollars in federal contract payments are being appropriately scrutinized for fraud, waste, abuse, and mismanagement. An initial investigation of hotline allegations at three DCAA field office locations in California revealed that all 14 audits and 62 forward pricing reports GAO examined were not performed in accordance with professional auditing standards. For example, while auditing the satellite launch proposal for a major U.S. defense contractor, a DCAA manager experienced pressure from the contractor and the DOD buying command to drop adverse findings. The manager directed his auditors to drop the findings, and DCAA issued a more favorable opinion, allowing the contractor to win a contract that improperly compensated the contractor for hundreds of millions of dollars in commercial business losses. Specifically, of \$271 million in unallowable costs related to commercial losses, the contractor has already been paid \$101 million. This incident is under criminal investigation by the DOD Inspector General (IG).

In September of this year, GAO followed up on its initial investigation and identified audit quality problems agencywide at DCAA. Audit quality problems included insufficient audit testing, inadequate planning and supervision, and the compromise of auditor independence. For example, of the 69 audits and cost-related assignments GAO reviewed, 65 exhibited serious deficiencies that rendered them unreliable for decisions on contract awards, management, and oversight. DCAA has rescinded 81 audit reports to date as a result of GAO's and DOD IG's work. Because the rescinded reports were used to assess risk in planning subsequent audits, they affect the reliability of hundreds of other audits and contracting decisions covering billions of dollars in DOD contract expenditures. GAO determined that quality problems are widespread because DCAA's management environment and quality assurance structure were based on a production-oriented mission that prevented DCAA from protecting the public interest while also facilitating DOD contracting.

GAO has designated both contract management and weapon systems acquisition as high-risk areas since the early 1990s. DOD acquisition and contract management weaknesses create vulnerabilities to fraud, waste, abuse, and mismanagement that leave hundreds of billions of taxpayer dollars at risk, and underscore the importance of a strong contract audit function.

In response to GAO's findings and recommendations, DCAA has taken several steps to improve metrics, policies, and processes, and the DOD Comptroller has established a DCAA oversight committee. To ensure quality audits for contractor oversight and accountability, DOD and DCAA will also need to address the fundamental weaknesses in DCAA's mission, strategic plan, metrics, audit approach, and human capital practices that have had a detrimental effect on audit quality.