



Highlights of [GAO-09-468](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

The Defense Contract Audit Agency (DCAA) under the Department of Defense (DOD) Comptroller plays 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. Last year, GAO found numerous problems with DCAA audit quality at three locations in California, including the failure to meet professional auditing standards. This report addresses audit quality issues at DCAA offices nationwide. GAO was asked to (1) conduct a broad assessment of DCAA’s management environment and audit quality assurance structure, (2) evaluate DCAA actions to date to correct previously identified problems, and (3) identify potential legislative and other actions for improving DCAA effectiveness and independence. To achieve these objectives, GAO analyzed DCAA’s mission, strategic plan, audit policies, and quality assurance program; conducted interviews; reviewed selected audits at DCAA offices; and analyzed legislative and other actions.

## What GAO Recommends

GAO makes 17 recommendations to DOD and the DOD Inspector General (IG) to improve DCAA’s management environment, audit quality, and oversight. GAO also discusses matters that Congress should consider to enhance the effectiveness and independence of DCAA contract audits. DOD and DOD IG generally agreed with GAO’s recommendations, concurring with all but two.

[View GAO-09-468 or key components.](#)  
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## DCAA AUDITS

### Widespread Problems with Audit Quality Require Significant Reform

#### What GAO Found

GAO found audit quality problems at DCAA offices nationwide, including compromise of auditor independence, insufficient audit testing, and inadequate planning and supervision. GAO’s conclusions stem from a review of 69 audit assignments supporting contract award and administrative decisions; an assessment of DCAA’s audit quality assurance structure, which found similar audit quality problems but gave satisfactory ratings to deficient audits; and DCAA’s rescission of 80 problem audit reports. The rescinded audits supported decisions on pricing and contract awards and impacted the planning and reliability of hundreds of other DCAA audits, representing billions of dollars in DOD expenditures. GAO findings include the following.

#### Selected Details of Audits GAO Reviewed

Contractor	Audit	Significant case study issues
Research and development grantee	Billing system	<ul style="list-style-type: none"> <li>DCAA auditors spent 530 hours to support an audit of a nonexistent billing system and reported adequate system controls.</li> <li>Instead, DCAA should have relied on the Single Audit Act report on the grantee’s cash management system. DCAA agrees.</li> </ul>
Combat systems	Billing system	<ul style="list-style-type: none"> <li>This was a new system and therefore high risk, but auditors deleted key audit steps related to contractor policies and internal controls over progress payments without explanation.</li> <li>One auditor told GAO he did not perform detailed tests because “the contractor would not appreciate it.”</li> <li>DCAA allowed the contractor 7 months to address 6 significant deficiencies, dropping 2 and downgrading the other 4.</li> <li>DCAA rescinded this audit report following GAO’s review.</li> </ul>
Iraq reconstruction	Accounting system	<ul style="list-style-type: none"> <li>Contractor objected to draft report, which included 8 significant deficiencies in the accounting system.</li> <li>Auditors dropped 5 significant deficiencies and downgraded 3 others to suggestions to improve without performing new work.</li> <li>Supervisory auditors directed audit staff to delete some audit documents, generate others, and in one case, copy the signature of a prior supervisor onto new documents making it appear that the prior supervisor had approved a revised risk assessment.</li> <li>Supervisory auditor who approved altered documents was later promoted to western region quality assurance manager, where he served as quality control check over thousands of audits.</li> </ul>

Source: GAO.

GAO found DCAA’s management environment and quality assurance structure were based on a production-oriented mission that put DCAA in the role of facilitating DOD contracting without also protecting the public interest. DCAA has taken several positive steps. However, DOD and DCAA have not yet addressed fundamental weaknesses in DCAA’s mission, strategic plan, metrics, audit approach, and human capital practices that had a detrimental effect on audit quality.

To improve DCAA oversight, the DOD Comptroller requested Defense Business Board and “tiger team” reviews and established a DCAA Oversight Committee. In addition, in the short-term, Congress could provide DCAA with certain legislative protections and authorities similar to those available to IGs. In the longer term, Congress may wish to consider organizational changes to elevate DCAA to a component agency reporting to the Deputy Secretary or to establish an independent governmentwide contract audit agency.