CONTINGENCY CONTRACTING

Improved Planning and Management Oversight Needed to Address Challenges with Closing Contracts

Why GAO Did This Study
Since 2002, DOD obligated at least $166.6 billion on contracts supporting reconstruction and stabilization efforts in Iraq and Afghanistan. Many of these contingency contracts, in particular those awarded in Iraq, need to be closed. Contract closeout is a key step to ensure the government receives the goods and services it purchased at the agreed upon price and, if done timely, provides opportunities to use unspent funds for other needs and reduces exposure to other financial risks.

To assess DOD’s efforts to close its Iraq contracts, GAO examined the (1) number of contracts that are eligible for closeout and the extent to which they will be closed within required time frames, (2) factors contributing to contracts not being closed within required time frames, (3) steps DOD took to manage the financial risks associated with not closing contracts within required time frames, and (4) extent to which DOD captured and implemented lessons learned from closing its Iraq contracts. GAO reviewed contingency contracting guidance, analyzed contract and closeout data for contracts awarded between fiscal years 2003 and 2010, and interviewed DOD officials from six organizations responsible for awarding or closing out these contracts.

What GAO Found
DOD does not have visibility into the number of its Iraq contracts eligible for closeout, but available data indicate that DOD must still review and potentially close at least 58,000 contracts awarded between fiscal years 2003 and 2010. GAO’s analysis indicates that relatively few of its contracts will be closed within required time frames. For example, about 90 percent of the limited number of contracts for which DOD could provide closeout data are already over age for closeout. The U.S. Central Command’s Contracting Command (C3) and its predecessors, which awarded many of DOD’s Iraq contracts, did not have sufficient internal controls to ensure that contracting data were accurate and complete. C3’s management visibility was further affected by limitations of its information systems, staff turnover, and poor contract administration.

DOD’s ability to close its contracts has been hindered by the lack of advance planning, workforce shortfalls, and contractor accounting challenges. For example, DOD’s contingency contracting doctrine and guidance do not specifically require advanced planning for contract closeouts. DOD took steps in 2008 to address its backlog of contracts needing to be closed but such actions came too late to make significant difference in closing contracts within required time frames. DOD is now transitioning responsibility for closing out C3’s contracts to the Army Contracting Command. Staffing challenges, however, during this transition have hindered efforts to close these contracts. Efforts to close large, cost-type contracts have been further hindered by Defense Contract Audit Agency staffing shortages and unresolved issues with contractors’ accounting practices, which have delayed audits of the contractors’ incurred costs.

DOD’s efforts to identify unspent contract funds and improper payments—two examples of financial risks that timely closeout of contracts may help identify—are hindered by limited visibility into its Iraq contracts. DOD identified at least $135 million in unspent funds that could potentially not be available to meet other DOD needs. If not used, these funds will be returned to the U.S. Treasury at the end of fiscal year 2011. Should DOD identify a need to pay for an unanticipated cost on these contracts, it will need to use other funds that are currently available. Additionally, instances of improper payments and potential fraud were sometimes found years after final contract deliveries were made, making it harder for DOD to recover funds owed to it and increasing the risk that it may need to pay contractors interest fees on late payments.

DOD has identified and addressed some of the problems related to the closeout of Iraq contracts, but the growing backlog of over 42,000 Afghanistan contracts that need to be closed suggests the underlying causes have not been resolved. DOD officials noted that the lessons learned in Iraq highlight the need to improve contract data, increase the emphasis on contract administration and closeout, and improve contingency contracting doctrine and guidance. DOD officials reported that actions are underway to correct these deficiencies in future contingencies, but fully implementing these initiatives may take several years.

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Highlights

Why GAO Did This Study

What GAO Found

What GAO Recommends

GAO is making three recommendations to ensure DOD has sufficient resources to close its Iraq and Afghanistan contracts and to better plan for and improve visibility of closeout efforts in future contingencies. DOD concurred with each of the recommendations.

View GAO-11-891 for key components. For more information, contact John P. Hutton at (202) 512-4841 or huttonj@gao.gov.