

Why GAO Did This Study

Closing contracts is a key step in the contracting process. GAO and others have previously reported that large numbers of contracts were not closed within time frames set by federal regulations, which can expose the government to financial risk. DCAA's backlog of audits of contractors' incurred cost proposals contribute to the delays in closing out flexibly-priced contracts.

GAO was asked to review the extent of the contract closeout backlog at federal agencies. In addition, a House Armed Services Committee report included a provision for GAO to assess DCAA's incurred cost audit backlog. This report addresses the extent to which (1) selected federal agencies effectively manage contract closeout, and (2) DCAA effectively manages its incurred cost audit backlog.

GAO selected five agencies based on the number of contracts awarded and dollars obligated in fiscal year 2015. GAO analyzed documents and interviewed acquisition officials to assess how contract closeout is managed. GAO also analyzed data on DCAA's incurred cost audit backlog.

What GAO Recommends

GAO is making seven recommendations, including to each of the five agencies to develop means to track critical elements on contract closeout efforts and to DCAA to assess its efforts to reduce its backlog and establish related performance measures. Four agencies concurred, and DHS identified planned actions that could address the intent of the recommendation.

View [GAO-17-738](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or dinapolit@gao.gov.

FEDERAL CONTRACTING

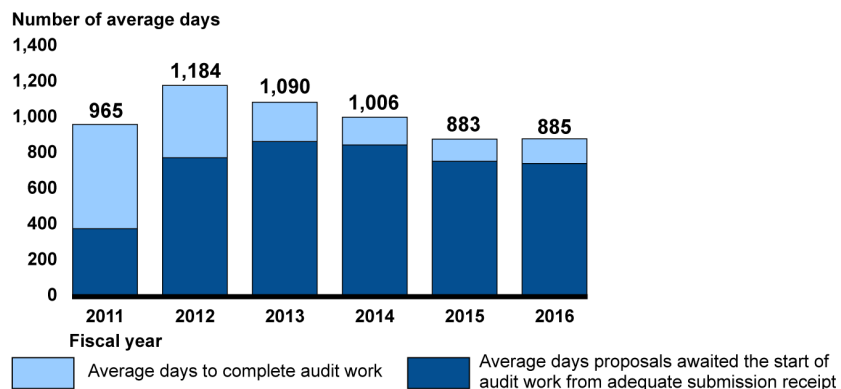
Additional Management Attention and Action Needed to Close Contracts and Reduce Audit Backlog

What GAO Found

The effectiveness of management efforts to reduce the number of contracts overdue for closeout varied across five agencies GAO reviewed—the Departments of Defense, Health and Human Services, Homeland Security (DHS), Justice, and State. None of the agencies had critical elements agency-wide that would help track and oversee contract closeout processes—the number and type of contracts to be closed, where the contracts were in the process, and goals and performance measures. Having such information could help management address the causes as to why contracts remain open and reduce the contract closeout backlog.

Since 2011 the Defense Contract Audit Agency (DCAA) has reduced its inventory of contractors' incurred cost proposals awaiting audit by about half to 14,208, and DCAA has significantly reduced its backlog of older proposals—those for 2013 and prior—as of September 2016. To do so, DCAA used a risk-based approach to reduce the number of audits and began conducting multi-year audits, in which two or more incurred cost proposals are closed under a single audit. Nevertheless, DCAA did not meet its initial goal of eliminating its backlog by fiscal year 2016, and DCAA officials stated that they are unlikely to meet its revised goal by the end of fiscal year 2018. Further, GAO found that in fiscal year 2016, DCAA averaged 885 days from when a contractor submitted an adequate incurred cost proposal to when the audit was completed. The lag was due to limited availability of DCAA staff to begin audit work, as it took DCAA an average of 138 days to complete the actual audit work (see figure).

Average Number of Days for the Defense Contract Audit Agency to Complete Incurred Cost Audits



Source: GAO analysis of Defense Contract Audit Agency data. | GAO-17-738

DCAA may be missing opportunities to help identify additional ways to reduce its inventory. For example, DCAA has not assessed options to reduce time to initiate audit work or comprehensively assessed how the use of multi-year audits could be improved and has not established related performance measures for both.