

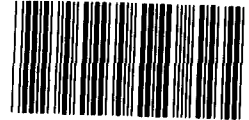
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United States  
General Accounting Office  
Washington, D.C. 20548

Resources, Community, and  
Economic Development Division

B-251196



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November 19, 1992

The Honorable William Lehman  
Chairman, Subcommittee on  
Transportation and Related Agencies  
Committee on Appropriations  
House of Representatives

Dear Mr. Chairman:

Earlier this year, we began reviewing for your Subcommittee the centralized oversight of contracting at the Department of Transportation (DOT). We focused on determining what controls over contract management were in place at DOT and its operating administrations. These controls included DOT's use of a key contract oversight mechanism--the audits performed for DOT by the Defense Contract Audit Agency (DCAA). Specifically, we tried to (1) identify the controls in place designed to ensure that contract charges are appropriate and (2) determine what DOT is doing to improve those controls and what more needs to be done. Our work on these issues, however, has been largely superseded by a recent report by DOT and a draft report by the Office of Management and Budget (OMB), which address the same issues. This letter summarizes the recommendations of those reports; discusses our audit findings, which are consistent with those in the DOT and OMB reports; and communicates our decision to discontinue audit work at this time.

The DOT report examined contracting practices in DOT's 10 operating administrations, focusing on problems and inefficiencies in identifying and eliminating unallowable costs.<sup>1</sup> For example, the DOT report found that contractors rely on DCAA audits to identify unallowable costs in contract proposal submissions, and this places the burden

<sup>1</sup>Final Report on the Department of Transportation SWAT Review of Civilian Agency Contracting, Aug. 21, 1992, prepared primarily by the Offices of the Inspector General and the Assistant Secretary for Administration.

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B-251196

of proof on the government to find and question unallowable costs. The report recommended that the government study alternative methods, including penalties, to discourage contractors from putting unallowable costs in contract proposals.

The DOT report includes 17 findings and makes 29 recommendations for improving DOT's contracting practices. The recommendations involve administering contracts; documenting price negotiations; identifying and avoiding unallowable costs; training staff; standardizing policies for approving contract invoices before payments are made; establishing limitations on the authority of contracting officer representatives; and clarifying the process for determining, disseminating, and controlling indirect cost rates.

Representatives from DOT also participated in an OMB review of contract auditing by civilian agencies, requested by the Subcommittee on Oversight and Investigations, House Committee on Energy and Commerce. To conduct this review, OMB established an interagency task force to analyze the contract audit activities of the nine civilian agencies with the largest procurement budgets, including DOT. Chaired by OMB, the task force was comprised of representatives from seven offices of inspector general (including DOT's OIG), DCAA, the Department of Defense, and procurement officials from eight federal departments (including DOT's Office of Acquisition and Grant Management).

According to an August 14, 1992, draft of the OMB report, the task force found, among other things, that some agencies (1) lack criteria for determining when cost-incurred or closeout audits are needed, (2) inadequately estimate or communicate their audit needs to the cognizant audit agency, (3) inadequately define the specific information they want an audit to cover, and (4) lack a funding mechanism to ensure that funds are available to pay for contract audit services. The draft makes several recommendations to civilian agencies to correct these problems. According to an OMB official, the report is undergoing final review and will be issued later this year.

In our work to date, we have identified problems related to DOT's contract management and oversight that are consistent with the findings of the DOT and OMB reports. Specifically, we found that

- DOT's operating administrations have relied primarily on DCAA audits to assess the appropriateness of contract charges;
- DOT does not have a centralized system to track requests for DCAA audits, audit findings, and the actions taken to resolve audit recommendations;
- the Federal Aviation Administration and the Coast Guard, which submit annual estimates of their DCAA audit needs to DOT and initiate requests for the audits, have not been notified when funds budgeted for contract audits were reprogrammed for other purposes;
- the Federal Aviation Administration and the Coast Guard have failed to request audits needed to close and deobligate funds on some completed contracts;
- DOT's backlog of unfilled requests for DCAA audits, including cost and closeout audits, grew by over 70 percent (from about 340 to about 590) between 1989 and 1992; and
- DOT and DCAA, in memorandums dated September 16 and October 6, 1992, agreed that DCAA would provide and DOT would fund sufficient audit resources to complete the audits in that backlog by the end of fiscal year 1993.

In the course of conducting our work, we met with officials from the Office of the Secretary of Transportation, the Federal Aviation Administration, the Coast Guard, the Federal Railroad Administration, the OIG, and DCAA to discuss and review the procedures used to (1) oversee contractors, (2) conduct a cost/price analysis of the contracts and determine the allowable costs, (3) estimate the need for DCAA audit assistance, (4) implement recommendations made by DCAA, and (5) follow up on audit resolution. We analyzed nearly 200 DCAA audit reports on DOT contractors and conducted a case study of a sample of indirect cost charges at one DOT contractor. We also analyzed trends in (1) DOT's rates of procurement, (2) the requests by DOT and the operating administrations for DCAA contract audits and the funding of those audits, and (3)

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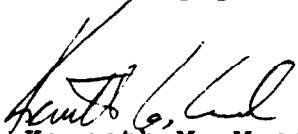
the growth and composition of the backlog of audit requests.

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We have discussed our work with your staff and provided you with copies of the DOT report and the OMB draft for the Subcommittee. As agreed, we are discontinuing our audit work at this time so that DOT can take action on the OMB and DOT recommendations.

We are sending copies of this letter to DOT's Assistant Secretary for Administration and DOT's Inspector General. Please contact me at (202) 275-1000 if you or your staff have any questions.

Sincerely yours,



Kenneth M. Mead  
Director, Transportation Issues

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