



Highlights of [GAO-09-591](#), a report to congressional committees

Why GAO Did This Study

Until recently, ethics programs and practices of defense contractors were self-policed. Given the significant sums spent to acquire goods and services, the Federal Acquisition Regulation (FAR) was amended twice starting in December 2007 to first mandate and later amplify contractor ethics program rules. Before FAR changes were finalized in December 2008, Congress required GAO to report in 2009 on the ethics programs of major defense contractors. This report (1) describes the extent that contractors had ethics programs before the finalization of the FAR rules that included practices consistent with standards now required by the FAR and (2) assesses the impact the new FAR rules have on Department of Defense (DOD) oversight of contractor ethics programs. To do this work, in September 2008 GAO surveyed all 57 contractors—those receiving more than \$500 million in 2006 DOD contract awards—and interviewed DOD contractor oversight agency officials on the impact of the new FAR rules on oversight.

What GAO Recommends

GAO recommends four actions aimed at improving oversight of ethics programs during contract administration and DOD hotline poster requirements for contractors to ensure that whistleblower protections are communicated. DOD concurs with GAO's recommendations.

View [GAO-09-591](#) or [key components](#). For more information, contact John Needham at (202) 512-4841 or needhamjk1@gao.gov. To view the e-supplement online, click [GAO-09-646SP](#)

DEFENSE CONTRACTING INTEGRITY

Opportunities Exist to Improve DOD's Oversight of Contractor Ethics Programs

What GAO Found

All 57 contractors responded to GAO's survey, and 55 reported having ethics programs that include many of the practices consistent with standards now required for compliance with the FAR. The ethics practices information GAO obtained was from before the FAR rules were finalized and thus was not designed to test contractor compliance with the rules that came later.

Contractor Responses on Ethics Practices Now Required by the FAR

FAR standard	Contractors reporting these practices
Code of business ethics and conduct	- 55 have written codes - 54 provide copies to employees
Ethics awareness and compliance program	- 55 have ongoing programs - 51 require ethics training for employees and managers working on DOD contracts - 55 use other mechanisms to communicate employee ethics awareness and compliance
Internal control system	
High level of management oversight	- 52 have an office or individual charged with implementing the ethics program - 25 report quarterly top management oversight of ethics program managers
Periodic reviews, audits, or both	- 52 have internal reviews or audits to test ethics program - 47 periodically assess risks of improper or criminal conduct
Mechanisms for reporting misconduct	- 55 have internal reporting mechanisms, such as hotlines - 54 have a policy for employees to report anonymously or confidentially
Disciplinary systems	- 52 have codes that provide examples of disciplinary consequences, such as counseling and termination
Timely disclosure	- Before FAR rule, 34 had a formal policy for voluntary disclosure to DOD of contract-related violations - After FAR rule, 4 contractors GAO visited changed disclosure policy to comply with new mandatory disclosure requirement

Source: GAO analysis of contractor survey.

In response to the new FAR rules, DOD has made two key oversight improvements by revising its contract audit guidance to cover the new ethics requirements and establishing the Contractor Disclosure Program to implement the mandatory disclosure requirement. However, opportunities exist to improve DOD's oversight in two other key areas. For example, in verifying implementation of contractor ethics programs during contract administration, the impact of the FAR rules on oversight at this point is negligible. GAO found that DOD had no plans to change contract administration offices' oversight because authority for oversight is not explicit nor is organizational responsibility clear. Also, with regard to contractors' hotline poster displays, the new FAR rules could reduce DOD's awareness of potential violations. The rules exempt contractors with ethics programs that include their own hotlines from the requirement to display DOD hotline posters. If contractor employees report violations to company hotlines instead of DOD hotlines, the employees do not receive the same protections from whistleblower laws. Whistleblower protections for employees unaware of the DOD hotline could be jeopardized.