



Highlights of [GAO-08-993T](#), testimony before 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. DCAA has elected to follow generally accepted government auditing standards (GAGAS). These standards provide guidelines to help government auditors maintain competence, integrity, objectivity, and independence in their work.

GAO investigated hotline complaints it received related to alleged failures to comply with GAGAS on 14 DCAA audits. Specifically, it was alleged that (1) working papers did not support reported opinions, (2) supervisors dropped findings and changed audit opinions without adequate evidence, and (3) sufficient work was not performed to support audit conclusions and opinions. GAO also investigated issues related to the quality of certain forward pricing audit reports.

GAO investigators interviewed over 50 individuals, reviewed working papers and related documents for 14 audits issued from 2003 through 2007 by two DCAA offices, and reviewed documentation on audit issues at a third DCAA office. GAO did not reperform the audits to validate the completeness and accuracy of DCAA's findings. DCAA did not agree with the "totality" of GAO's findings, but it did acknowledge shortcomings with some audits and agreed to take certain corrective actions.

To view the full product, including the scope and methodology, click on [GAO-08-993T](#). For more information, contact Gregory D. Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## DCAA AUDITS

### Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated

#### What GAO Found

GAO substantiated the allegations. Although DCAA policy states that its audits are performed according to GAGAS, GAO found numerous examples where DCAA failed to comply with GAGAS in all 13 cases. For example, contractor officials and the DOD contracting community improperly influenced the audit scope, conclusions, and opinions on three cases—a serious independence issue. At two DCAA locations, GAO found evidence that (1) working papers did not support reported opinions, (2) DCAA supervisors dropped findings and changed audit opinions without adequate evidence for their changes, and (3) sufficient audit work was not performed to support audit opinions and conclusions. GAO also substantiated allegations of inadequate supervision of certain audits at a third DCAA location. The table below contains selected details about three cases GAO investigated.

#### Selected Details of Audits GAO Investigated

DOD contractor	Audit type	Significant case study issues
Major aerospace company (DCAA location 1)	Estimating system	<ul style="list-style-type: none"> <li>DCAA made an up-front agreement with the contractor to limit the scope of work and basis for audit opinion.</li> <li>Contractor was unable to develop compliant estimates, leading to a draft opinion of "inadequate in part."</li> <li>Contractor objected to draft findings, and DCAA management assigned a new supervisory auditor.</li> <li>Management threatened the senior auditor with personnel action if he did not delete findings from the report and change the draft audit opinion to "adequate."</li> </ul>
Company produces and supports military and satellite systems (DCAA location 2)	Billing system	<ul style="list-style-type: none"> <li>Draft audit report identified six significant deficiencies, one of which led the contractor to overbill the government by \$246,000 and another which may have led to \$3.5 million in overbillings.</li> <li>First supervisory auditor and auditor were replaced by other auditors who dropped the findings and changed the draft audit opinion from "inadequate," to "adequate."</li> <li>Sufficient testing was not performed to support an opinion that controls were adequate.</li> <li>DOD Inspector General recommended that DCAA rescind the final audit report. Over a year later, at the end of GAO's investigation, DCAA rescinded the final report.</li> </ul>
Major weapons system contractor (DCAA location 3)	Forward pricing	<ul style="list-style-type: none"> <li>Two supervisors responsible for 62 forward pricing audits of over \$6.4 billion in government contract negotiations did not review working papers before report issuance.</li> <li>Inexperienced trainee auditors were assigned to 18 of the 62 audits without proper supervision.</li> <li>An internal DCAA audit quality review found 28 systemic deficiencies in 9 of 11 selected forward pricing audits.</li> <li>The DCAA field office lost control of final working papers because trainee auditors did not always properly enter them in the electronic workpaper system.</li> </ul>

Source: GAO.

Throughout GAO's investigation, auditors at each of the three DCAA locations told us that the limited number of hours approved for their audits directly affected the sufficiency of audit testing. Moreover, GAO's investigation identified a pattern of frequent management actions at two locations that served to intimidate auditors, discourage them from speaking with investigators, and create a generally abusive work environment.