



Highlights of [GAO-06-1132](#), a report to Congressional Committees

## Why GAO Did This Study

The government has hired private contractors to provide billions of dollars worth of goods and services to support U.S. efforts in Iraq. Faced with the uncertainty as to the full extent of rebuilding Iraq, the government authorized contractors to begin work before key terms and conditions were defined. This approach allows the government to initiate needed work quickly, but can result in additional costs and risks being imposed on the government. Helping to oversee their work is the Defense Contract Audit Agency (DCAA), which examined many Iraq contracts and identified costs they consider to be questioned or unsupported.

The Conference Report on the National Defense Authorization Act for Fiscal Year 2006 directed GAO to report on audit findings regarding contracts in Iraq and Afghanistan. As agreed with the congressional defense committees, GAO focused on Iraq contract audit findings and determined (1) the costs identified by DCAA as questioned or unsupported; and (2) what actions DOD has taken to address DCAA audit findings, including the extent funds were withheld from contractors. To identify DOD actions in response to the audit findings, GAO selected 18 audit reports representing about 50 percent of DCAA's questioned and unsupported costs on Iraq contracts.

GAO requested comments from DOD on a draft of this report, but none were provided.

[www.gao.gov/cgi-bin/getrpt?GAO-06-1132](http://www.gao.gov/cgi-bin/getrpt?GAO-06-1132).

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Hutton at (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov).

## IRAQ CONTRACT COSTS

### DOD Consideration of Defense Contract Audit Agency's Findings

#### What GAO Found

Defense Contract Audit Agency audit reports issued between February 2003 and February 2006 identified \$2.1 billion in questioned costs and \$1.4 billion in unsupported costs on Iraq contracts. DCAA defines questioned costs as costs that are unacceptable for negotiating reasonable contract prices, and unsupported costs as costs for which the contractor has not provided sufficient documentation. This information is provided to DOD for its negotiations with contractors. Based on information provided by DCAA, DOD contracting officials have taken actions to address \$1.4 billion in questioned costs. As a result, DOD contracting officials negotiated contract cost reductions of \$386 million according to DCAA. Based on the information provided by DCAA, as of July 2006, the remaining \$700 million in questioned costs is still in process. Because unsupported costs indicate a lack of contractor information that is needed to assess costs, DCAA cannot and does not render an opinion on those costs. Therefore, DCAA does not track the resolution of unsupported costs.

For the 18 audit reports selected for this review, GAO found that DOD contracting officials took a variety of actions to address DCAA's audit findings, including not allowing some contractor costs. In the contract documentation GAO reviewed, DOD contracting officials generally considered DCAA's questioned and unsupported cost findings when negotiating with the contractor. GAO found DOD contracting officials were more likely to use DCAA's advice when negotiations were timely and occurred before contractors had incurred substantial costs. For example, in three audit reports related to a logistics support task order negotiated prior to the onset of work, DCAA questioned \$204 million. According to DCAA's calculations, \$120 million of these questioned costs was removed from the contractor's proposal as a result of its audit findings. In contrast, DOD officials were less likely to remove questioned costs from a contract proposal when the contractor had already incurred these costs. For example, in five audit reports comprising about \$600 million of questioned costs reviewed, GAO found that the DOD contracting officials determined that the contractor should be paid for all but \$38 million of the questioned costs, but reduced the base used to calculate the contractor's fee by \$205 million. By reducing the base, the DOD contracting official reduced the contractor's fee by approximately \$6 million. In addition to identifying questioned and unsupported costs, DCAA has the option of withholding funds from the contractor and chose to withhold a total of \$236 million for eight cases included in this review.