



Highlights of [GAO-08-772T](#), a testimony before the Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

The Defense Base Act (DBA) requires U.S. government contractors and subcontractors to buy workers' compensation insurance for employees working overseas, and the cost of this insurance is then passed on to the government. The Department of Labor oversees the claims process and ensures contractors are aware of DBA insurance requirements. Given the large number of contractor personnel working in Iraq, concerns have been raised over the cost of workers' compensation insurance provided under DBA. Since the Iraq conflict began in March 2003, federal agencies have issued contracts for Iraq reconstruction and to support deployed forces. The Department of Defense (DOD) recently reported it alone has 163,591 contractor personnel working in Iraq.

Based on GAO's 2005 report on DBA insurance, Congress directed DOD to address challenges identified. This testimony is based on the 2005 report and GAO's analysis of recent agency efforts. As requested, it provides an update on (1) DOD's efforts to reduce DBA insurance rates; (2) DOD's ability to calculate its total DBA insurance costs; and (3) the progress toward addressing prior DBA implementation challenges.

In preparation for this testimony, GAO reviewed related reports to identify agency efforts to address prior findings and interviewed officials from DOD, State, Labor, and USAID. GAO discussed this testimony with agency officials.

To view the full product, including the scope and methodology, click on [GAO-08-772T](#). For more information, contact John Needham at (202) 512-4841 or needhamjk1@gao.gov.

DEFENSE CONTRACTING

Progress Made in Implementing Defense Base Act Requirements, but Complete Information on Costs Is Lacking

What GAO Found

While DOD has taken steps to reduce DBA insurance rates through the U.S. Army Corps of Engineers' (Army Corps) single-insurer pilot program, it has not yet implemented similar efforts departmentwide. GAO previously reported that eight DOD prime contractors paid from \$10 to \$21 per \$100 of salary cost, a rate that was significantly higher than the rates paid by State and USAID contractors—\$2 to \$5 per \$100 of salary cost—through the agencies' respective single-insurer programs. Since the Army Corps implemented its single-insurer program in December 2005, its insurance rates have decreased from what DOD was previously paying. For example, the Army Corps is now paying from \$3.50 to \$7.25 per \$100 of salary cost for service and construction contracts.

DOD continues to lack reliable aggregate data on the total cost of DBA insurance. Based on GAO's 2005 report, Congress directed DOD to identify methods to collect data on DBA insurance costs. While State, USAID, and Army Corps can obtain aggregate DBA cost data for their respective single-insurer programs, DOD reported that it has not collected this data departmentwide. As GAO has previously reported, agencies can analyze financial data to leverage their buying power, reduce costs, and better manage suppliers of goods and services.

Labor officials told GAO they have taken steps to address several of the DBA insurance implementation challenges GAO identified in its 2005 report. For example, GAO found there was uncertainty among agency officials regarding when DBA insurance was required as well as problems in processing claims and monitoring compliance. Labor officials told GAO they have been receiving fewer questions after holding seven seminars through 2006 on DBA insurance for contractors, insurance companies, agency officials, and attorneys in order to clarify DBA insurance requirements. While Labor officials also noted improvements in processing insurance claims, they still face challenges in verifying that subcontractors in Iraq have obtained DBA insurance.