



Better Auditing for Better Contracting

Eight Recommendations to Reform the Defense Contract Audit Agency and other Federal Government Audit Departments

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Introduction and summary

The federal government needs to strengthen auditing of the \$530 billion in taxpayer money that is awarded annually to contractors in order to make sure that the public gets value for dollars spent.¹ The agency with the greatest share of this work is the Defense Contract Audit Agency, which despite its name and location within the Pentagon is responsible for the lion's share of auditing government contracts. The Defense Contract Audit Agency recovered \$2.7 billion in 2010, but it could increase this substantially if it was fully and properly staffed and given more funding together with sufficient authority and independence.

Three years ago, as many as 30,000 audits of government contracts a year were conducted annually.² That number has now plunged to 10,000 audits per year despite the fact that the dollar value of contracts issued has remained steady. The time taken to check up on proposed prices before a contract is awarded now stands at 72 days, up from 28 days only two years ago.³ These dramatic changes were spurred on by a series of reports by the Government Accountability Office, the investigative arm of Congress, that suggested the auditors were doing their work too quickly, and in the process failing to document their work in accordance with government auditing guidelines.

DCAA responded to these criticisms by emphasizing additional work documentation, but now questions are being raised if the agency isn't placing too much emphasis on following questionable practices that add little to the quality of audits, to the detriment of conducting hard hitting audits. "In a time of scarce government resources and an inadequate contracting workforce, the government must evaluate where it is most vulnerable and focus resources where they can most effectively protect taxpayer dollars," said Sen. Claire McCaskill (D-MO) at a recent congressional hearing on fixing the existing auditing system.⁴

The Defense Contract Audit Agency is in charge of auditing all military contracting, about \$367 billion or 70 percent of all government contracting in fiscal year 2010.⁵ In addition, an astonishing 76 percent of civilian audits were also

performed by the agency in 2009, according to data collected by the staff of the Subcommittee on Contracting Oversight of the Senate Committee on Homeland Security and Governmental Affairs.⁶

The Defense Contract Audit Agency is proud of its work—with good reason. In the past the agency has claimed a return on investment as high of \$50 for each dollar spent,⁷ although that number has gone down over the years to \$5.10 per dollar today, according to the agency’s own estimates.⁸ That is to say for every dollar that the government spends on the agency today, it generates five times as much in recovered funds and lowered costs.

The Defense Contract Audit Agency has also come under fire from whistleblowers, who complain that the agency is not doing a good enough job. And it’s not just angry workers: The agency first faced attacks in congressional hearings for an obsession with “metrics” or finishing as many audits as possible in the shortest possible time but contractors are now berating the agency for taking too long.

In response to the critical GAO report and Congressional hearings, the Defense Contract Audit Agency has attempted difficult shifts in its bureaucratic culture over the past three years. However, many believe that these changes have not been for the better, but have actually lessened oversight of government contractors. In particular, DCAA now seems to be focusing on fewer contracts, and this is clearly not good enough. Consequently this paper recommends that Congress should strengthen this federal auditing system by:

- Hiring more qualified auditors at the Defense Contract Audit Agency and other agencies with auditing responsibilities, such as the Department of Energy
- Giving auditors authority to subpoena contractor records, which they cannot do now
- Naming and shaming companies that do not have adequate financial systems
- Withholding 10 percent of contractor fees if they do not have adequate business systems in place to create a financial incentive to improve accounting systems
- Moving to risk-based audits and random checks rather than excluding certain types of contracts such as limiting proposal audits to fixed-price contracts over \$10 million and cost-type contracts over \$100 million, as is now the practice

- Completing pricing reviews within a set number of days so that the contracting agencies can issue contracts in a timely manner
- Providing the Defense Contract Audit Agency with its own independent general counsel so that it does not face a conflict of interest by relying on the Pentagon's lawyers
- Evaluating whether the Defense Contract Audit Agency should report directly to Congress rather than to the Pentagon as is presently the case.

In the pages that follow, this report will profile the different reasons audits by the Defense Contract Audit Agency sometimes fail, and what's been done to correct these failures in the past. This analysis will put in perspective the important set of detailed recommendations that conclude this report.

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