



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

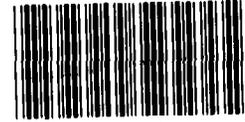
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PROCUREMENT, LOGISTICS,  
AND READINESS DIVISION

July 28, 1982

B- 198620

Charles O. Starrett, Jr.  
Director, Defense Contract  
Audit Agency  
Cameron Station  
Alexandria, VA. 22314



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Dear Mr. Starrett:

Subject: -DCAA Audits of Contractor Compliance  
With Cost Accounting Standards (GAO/PLRD-82-105)

This report summarizes the results of our review of Defense Contract Audit Agency (DCAA) audit efforts to determine contractor compliance with Cost Accounting Standards (CAS).

Over the past several months, the General Accounting Office, in keeping with its oversight responsibilities, has been conducting several reviews relating to CAS and will continue to do so. These reviews will focus on Federal agencies responsible for implementing CAS-covered contracts, DCAA, and Government contractors subject to CAS. Our earlier report "Agency Implementation of Cost Accounting Standards: Generally Good But More Training Needed" (PLRD-82-51), issued March 25, 1982, provided the results of our review of Federal agencies responsible for implementing CAS-covered contracts.

Originally, the objective of this review was to determine whether Government contractors were complying with the Cost Accounting Standards, Rules, and Regulations promulgated by the CAS Board under Public Law 91-379. The Board promulgated 19 standards. We concentrated on two groups of standards: those dealing with fixed assets (Standards 404, 409, 414, and 417); and those dealing with general and administrative expenses (Standards 403, 410, and 420). These two groups were selected because of interest from the Congress, the Department of Defense, and the defense industry.

However, after our initial meeting with DCAA, it was agreed that since DCAA is responsible for monitoring contractor CAS compliance, we would review DCAA's audit procedures and records to determine if this system would provide the confidence GAO needed

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to determine such compliance. It was not intended during this review to select any single noncompliance or potential noncompliance and make a detailed study of the cost impact or other results of such a situation.

To verify DCAA's conclusions that contractors were in compliance with the seven standards selected for review, we examined in detail over 700 provisions and supporting documentation in more than 160 DCAA Cost Accounting Standards Compliance Control Schedules at 35 DCAA audit sites. In addition, for the remaining 12 standards, we performed a limited examination of the schedules. Most of the data necessary to perform our review was contained in DCAA files and, only occasionally, when documents were too voluminous to be retained in DCAA files, did we seek additional records and clarification directly from contractors.

We have concluded that, in general, DCAA's CAS compliance determinations appear to be reasonable. They were supported by such audit evidence as contractor documents, DCAA reports, and DCAA workpapers.

Our review showed, however, that a few of these determinations lacked specific support or were based on weak evidence. For example, at five of eight sites in the DCAA Los Angeles Region, DCAA did not indicate on the CAS Compliance Control Schedules materiality or compliance with certain CAS provisions. Also, at three sites, the compliance schedules for certain standards were left blank. According to DCAA, these control schedules should provide reference to specific documents or assignments which support compliance conclusions. Again, at seven sites in the Los Angeles Region, DCAA noted either general references, such as "overhead reviews" or no references at all on the compliance schedules for some CAS provisions. In addition, at three sites in the DCAA Boston Region, DCAA could not provide support to document that contractor compliance audits had been performed for some CAS 404 and CAS 409 provisions.

These matters were discussed with DCAA officials who provided us with a proposed revision to the Defense Contract Audit Manual which will require more complete documentation of compliance conclusions.

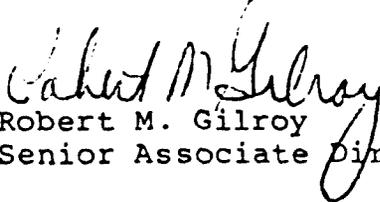
This revision, if followed by DCAA auditors, appears to adequately address the corrective action necessary to eliminate these documentation deficiencies.

We appreciate the cooperation and responsiveness of the DCAA officials with whom we dealt. We will be reporting to you the results of subsequent reviews by GAO which will concentrate in more depth on other Standards or groups of Standards.

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We are sending copies of this report to the Secretary of Defense; the Director, Office of Management and Budget; and the Chairmen of the Senate Committee on Governmental Affairs, the House Committee on Government Operations and the House Committee on Banking, Finance and Urban Affairs.

Sincerely yours,

  
Robert M. Gilroy  
Senior Associate Director