

**GAO**

Testimony

Before the Subcommittee on Defense,  
Committee on Appropriations, House of  
Representatives

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# DEFENSE ACQUISITIONS

## Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services

Statement of John P. Hutton, Director  
Acquisition and Sourcing Management





Highlights of [GAO-07-832T](#), a testimony before the Subcommittee on Defense, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

The Department of Defense (DOD) is relying more and more on contractors to provide billions of dollars in services. Congress has pushed DOD to employ sound business practices when using the private sector for services.

This testimony discusses DOD's (1) increasing reliance on contractors; (2) efforts to follow sound business practices when acquiring services; and (3) actions to improve its management and oversight of services.

This testimony is based on GAO's work spanning several years as well as recent reports issued by the Inspectors General.

## What GAO Recommends

While GAO is making no recommendations in this testimony, GAO has made numerous recommendations through the years to help improve DOD's contract management. DOD has generally concurred with these recommendations and is taking, or plans to take, action to improve the acquisition of services, but much remains to be done.

[www.gao.gov/cgi-bin/getrpt?GAO-07-832T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-832T).

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

## DEFENSE ACQUISITIONS

# Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services

## What GAO Found

Over the past decade, DOD has increasingly relied on contractors to provide a range of mission-critical services from operating information technology systems to providing logistical support on the battlefield. The growth in spending on services clearly illustrates this point. DOD's obligations on service contracts, expressed in constant fiscal year 2006 dollars, rose from \$85.1 billion in fiscal year 1996 to more than \$151 billion in fiscal year 2006, a 78 percent increase. While obligations increased, the size of the civilian workforce decreased. Moreover, DOD carried out this downsizing without ensuring that it had the requisite skills and competencies needed to manage and oversee service acquisitions. Overall, our work found that to a large degree, this growth in spending on services simply happened and was not a managed outcome.

The lack of sound business practices—poorly defined requirements, inadequate competition, the lack of comprehensive guidance and visibility on contractors supporting deployed forces, inadequate monitoring of contractor performance, and inappropriate use of other agencies' contracts and contracting services—expose DOD to unnecessary risk, waste resources, and complicate efforts to hold contractors accountable for poor service acquisition outcomes. For example, DOD awarded contracts for security guard services supporting 57 domestic bases, 46 of which were done on an authorized, sole-source basis. The sole-source contracts were awarded by DOD despite recognizing it was paying about 25 percent more than previously paid for contracts awarded competitively. Further, the lack of sufficient surveillance on service contracts placed DOD at risk of being unable to identify and correct poor contractor performance in a timely manner and potentially paying too much for the services it receives. Overall, DOD's management structure and processes overseeing service acquisitions lacked key elements at the strategic and transactional levels.

DOD has taken some steps to improve its management of services acquisition, including developing a competency model for its contracting workforce; issuing policies and guidance to improve its management of contractors supporting deployed forces and its use of interagency contracts; and developing an integrated assessment of how best to acquire services. DOD leadership will be critical for translating this assessment into policy and, most importantly, effective frontline practices. At this point, DOD does not know how well its services acquisition processes are working, which part of its mission can best be met through buying services, and whether it is obtaining the services it needs while protecting DOD's and the taxpayer's interests.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss challenges the Department of Defense (DOD) faces in acquiring services to support its operations. Although many of these challenges are long-standing, they have become more apparent in recent years as the department's reliance on contractors has grown in size and scope. In fiscal year 2006, DOD obligated more than \$151 billion on service contracts, a 78 percent real increase since fiscal year 1996. As you know, however, DOD does not always use sound contracting practices when acquiring these services, and the department is operating with a deficit of people with the right skills to support its acquisitions. Consequently, DOD may not have always obtained good value when buying billions of dollars of services at a time when serious budget pressures face the nation.

The challenges faced by DOD in acquiring services are not new, but rather are emblematic of a range of systemic and long-standing issues. In this regard, we identified DOD contract management to be high risk because of its vulnerability to fraud, waste, abuse, and mismanagement 15 years ago<sup>1</sup> and have reported on DOD's long-standing problems with management and oversight of support contractors since 1997. In January 2005, we added the management of interagency contracting to our high-risk list. DOD is the largest user of interagency contracts. In a report issued in July 2006, we concluded that with awards to contractors large and growing, DOD will continue to be vulnerable to contracting fraud, waste, or misuse of taxpayer dollars, and abuse.<sup>2</sup> While DOD has acknowledged its vulnerabilities and taken some actions to address them, many of the initiatives are still in their early stages, and it is too soon to tell what impact they may have.

Today, I would like to discuss DOD's (1) increasing reliance on contractors, (2) efforts to follow sound business practices when acquiring services, and (3) actions to improve its management and oversight of services. My statement is based on work that GAO has completed over the past decade, which was conducted in accordance with generally accepted government auditing standards. Additionally, my statement draws on

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007).

<sup>2</sup>GAO, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, [GAO-06-838R](#) (Washington, D.C.: July 7, 2006).

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recent reports issued by the DOD Inspector General and the General Services Administration (GSA) Inspector General.

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## Summary

Numerous persistent problems have resulted in reduced effectiveness and have exposed DOD to unnecessary risks when acquiring services. The growth in obligations on service contracts—from \$85.1 billion in fiscal year 1996 to more than \$151 billion in fiscal year 2006—reflects a growing reliance on contractors to provide a range of mission-critical services. At the same time, DOD’s civilian workforce was downsized without sufficient attention to requisite skills and competencies.

Within this environment, our work, as well as that of some agency Inspectors General, have identified numerous instances of weak business practices—poorly defined requirements, inadequate competition, insufficient guidance and leadership, inadequate monitoring of contractor performance, and inappropriate uses of other agencies’ contracts and contracting services. Collectively, these problems expose DOD to unnecessary risk, complicate efforts to hold DOD and contractors accountable for poor acquisition outcomes, and increase the potential for fraud, waste, or abuse of taxpayer dollars.

DOD’s structure and processes for managing services do not position the department to make service acquisitions a managed outcome. DOD has taken some actions to improve its management of services, including developing a competency model for its contracting workforce; issuing policies and guidance to improve DOD’s management of contractors supporting deployed forces and its use of interagency contracts; and developing an integrated assessment of how best to acquire services. DOD leadership will be critical for translating this assessment and other actions into effective frontline practices. At this point, however, DOD does not know how well its services acquisition processes are working and whether it is obtaining the services it needs while protecting DOD’s and the taxpayer’s interests.

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## DOD Increasingly Relies on Contractor-Provided Services

Over the past decade, DOD has increasingly relied on contractors to provide a range of mission-critical services from operating information technology systems to providing logistical support on the battlefield. The growth in spending on services clearly illustrates this point. DOD’s obligations on service contracts, expressed in constant fiscal year 2006 dollars, rose from \$85.1 billion in fiscal year 1996 to more than \$151 billion in fiscal year 2006, a 78 percent increase. More than \$32 billion—or

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21 percent—of DOD’s obligations on services in fiscal year 2006 were for professional, administrative, and management support contracts. Overall, according to DOD, the amount obligated on service contracts exceeded the amount the department spent on supplies and equipment, including major weapon systems.

Several factors have contributed to the growth in service contracts. For example, after the September 2001 terrorist attacks, increased security requirements and the deployment of active duty and reserve personnel resulted in DOD having fewer military personnel to protect domestic installations. For example, the U.S. Army awarded contracts worth nearly \$733 million to acquire contract guards at 57 installations. Growth was also caused by changes in the way DOD acquired certain capabilities. For example, DOD historically bought space launch vehicles, such as the Delta and Titan rockets as products. Now, under the Evolved Expendable Launch Vehicle program, the Air Force purchases launch services using contractor-owned launch vehicles. Similarly, the Air Force and Army turned to service contracts for simulator training primarily because efforts to modernize existing simulator hardware and software had lost out in the competition for procurement funds. Buying training as a service meant that operation and maintenance funds could be used instead of procurement funds.<sup>3</sup> Overall, however, our work found that to a large degree, this growth simply happened and was not a managed outcome.

As the amount and complexity of contracting for services have increased, the size of the civilian workforce has decreased. More significantly, DOD carried out this downsizing without ensuring that it had the requisite skills and competencies needed to manage and oversee service acquisitions. Consequently, DOD is challenged in its ability to maintain a workforce with the requisite knowledge of market conditions, industry trends, and the technical details about the services they procure; the ability to prepare clear statements of work; and the capacity to manage and oversee contractors.

Participants in an October 2005 GAO forum on Managing the Supplier Base for the 21st Century commented that the current federal acquisition workforce significantly lacks the new business skills needed to act as contract managers. In June 2006, DOD issued a human capital strategy that acknowledged that DOD’s civilian workforce is not balanced by age or

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<sup>3</sup>Various funds can be used to acquire services, depending on the nature of the service.

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experience. DOD's strategy identified a number of steps planned over the next 2 years to more fully develop a long-term approach to managing its acquisition workforce. For example, DOD's Director of Defense Procurement and Acquisition Policy testified in January 2007 that DOD has been developing a model that will address the skills and competencies necessary for DOD's contracting workforce. That model will be deployed this year. The Director stated that this effort would allow DOD to assess the workforce in terms of size, capability, and skill mix, and to develop a comprehensive recruiting, training, and deployment plan to meet the identified capability gaps.

A report we issued in November 2006 on DOD space acquisition provides an example of downsizing in a critical area—cost estimating.<sup>4</sup> In this case, there was a belief within the government that cost savings could be achieved under acquisition reform initiatives by reducing technical staff, including cost estimators, since the government would be relying more on commercial-based solutions to achieve desired capabilities. According to one Air Force cost-estimating official we spoke with, this led to a decline in the number of Air Force cost estimators from 680 to 280. According to this official, many military and civilian cost-estimating personnel left the cost-estimating field, and the Air Force lost some of its best and brightest cost estimators. In turn, because of the decline in in-house resources, space program offices and Air Force cost-estimating organizations are now more dependent on support from contractors. For example, at 11 space program offices, contractors accounted for 64 percent of cost-estimating personnel. The contractor personnel now generally prepare cost estimates while government personnel provide oversight, guidance, and review of the cost-estimating work. Reliance on support contractors raises questions from the cost-estimating community about whether numbers and qualifications of government personnel are sufficient to provide oversight of and insight into contractor cost estimates.

Turning to Iraq, DOD has relied extensively on contractors to undertake major reconstruction projects and provide support to troops in Iraq. DOD is responsible for a significant portion of the more than \$30 billion in appropriated reconstruction funds and has awarded and managed many of the large reconstruction contracts, such as the contracts to rebuild Iraq's oil, water, and electrical infrastructure, as well as to train and equip Iraqi

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<sup>4</sup>GAO, *Space Acquisitions: DOD Needs to Take More Action to Address Unrealistic Initial Cost Estimates of Space Systems*, GAO-07-96 (Washington, D.C.: Nov. 17, 2006).

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security forces. Further, U.S. military operations in Iraq have used contractors to a far greater extent than in prior operations to provide interpreters and intelligence analysts, as well as more traditional services such as weapons systems maintenance and base operations support. These services are often provided under cost-reimbursement-type contracts, which allow the contractor to be reimbursed for reasonable, allowable, and allocable costs to the extent prescribed in the contracts. Further, these contracts often contain award fee provisions, which are intended to incentivize more efficient and effective contractor performance.<sup>5</sup> If contracts are not effectively managed and given sufficient oversight, the government's risk is likely to increase. For example, we have reported that DOD needs to conduct periodic reviews of services provided under cost-reimbursement contracts to ensure that services are being provided and at an appropriate level and quality. Without such a review, the government is at risk to pay for services it no longer needs.

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## DOD Does Not Consistently Use Sound Business Practices to Acquire Services

Our work, along with that of the Inspectors General, has repeatedly found problems with the practices DOD uses to acquire services. Too often, the department obtains services based on poorly defined requirements and inadequate competition. Further, DOD's management and use of contractors supporting deployed forces suffers from the lack of clear and comprehensive guidance, among other shortfalls. Similarly, DOD does not always oversee and manage contractor performance, in part due to capacity issues, once a contract is in place. Many of these problems show up in the department's use of other agencies' contracts. Collectively, these problems expose DOD to unnecessary risk, complicate efforts to hold DOD and contractors accountable for poor acquisition outcomes, and increase the potential for fraud, waste, or abuse of taxpayer dollars.

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## Poorly Defined Requirements

Poorly defined or broadly described requirements have contributed to undesired service acquisition outcomes. To produce desired outcomes within available funding and required time frames, DOD and its contractors need to clearly understand acquisition objectives and how they translate into the contract's terms and conditions. The absence of

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<sup>5</sup>In December 2005, we reported that DOD programs engage in award fee practices that undermine efforts to motivate contractor performance and that do not hold contractors accountable for achieving desired acquisition outcomes. See GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, [GAO-06-66](#) (Washington, D.C.: Dec. 19, 2005).

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well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset needed to control costs and facilitate accountability. This situation is illustrated in the following examples:

- In June 2004, we found that during Iraqi reconstruction efforts, when requirements were not clear, DOD often entered into contract arrangements that introduced risks. We reported that DOD often authorized contractors to begin work before key terms and conditions, such as the work to be performed and its projected costs, were fully defined. In September 2006, we reported that, under this approach, DOD contracting officials were less likely to remove costs questioned by auditors if the contractor had incurred these costs before reaching agreement on the work's scope and price.<sup>6</sup> In one case, the Defense Contract Audit Agency questioned \$84 million in an audit of a task order for an oil mission. In that case, the contractor did not submit a proposal until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms of the contract until more than a year after the contractor had completed the work. We will issue a report later this year on DOD's use of undefinitized contract actions.
- In July 2004, we noted that personnel using the Army's Logistics Civil Augmentation Program (LOGCAP) contract in Iraq, including those who may be called upon to write statements of work and prepare independent government cost estimates, had not always received the training needed to accomplish their missions.<sup>7</sup> We noted, for example, the statement of work required the contractor to provide water for units within 100 kilometers of designated points but did not indicate how much water needed to be delivered to each unit or how many units needed water. Without such information, the contractor may not be able to determine how to meet the needs of the Army and may take unnecessary steps to do so. Further, we have reported that contract customers need to conduct periodic reviews of services provided under

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<sup>6</sup>GAO, *Rebuilding Iraq: Continued Progress Requires Overcoming Contract Management Challenges*, [GAO-06-1130T](#) (Washington, D.C.: Sept. 28, 2006); and GAO, *Iraq Contract Costs: DOD Consideration of Defense Contract Audit Agency's Findings*, [GAO-06-1132](#) (Washington, D.C.: Sept. 25, 2006).

<sup>7</sup>GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

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cost-reimbursable contracts to ensure that services provided are supplied at an appropriate level. Without such a review, the government is at risk of paying for services it no longer needs. For example, the command in Iraq lowered the cost of the LOGCAP contract by \$108 million by reducing services and eliminating unneeded dining facilities and laundries.

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## Inadequate Competition

Competition is a fundamental principle underlying the federal acquisition process. Nevertheless, we have reported on the lack of competition in DOD's acquisition of services since 1998. We have reported that DOD has, at times, sacrificed the benefits of competition for expediency. For example, we noted in April 2006 that DOD awarded contracts for security guard services supporting 57 domestic bases, 46 of which were done on an authorized, sole-source basis.<sup>8</sup> The sole-source contracts were awarded by DOD despite recognizing it was paying about 25 percent more than previously paid for contracts awarded competitively. In this case, we recommended that the Army reassess its acquisition strategy for contract security guards, using competitive procedures for future contracts and task orders. DOD agreed and is in the process of revising its acquisition strategy.

In Iraq, the need to award contracts and begin reconstruction efforts quickly contributed to DOD's using other than full and open competition during the initial stages of reconstruction. While full and open competition can be a tool to mitigate acquisition risks, DOD procurement officials had only a relatively short time—often only weeks—to award the first major reconstruction contracts. As a result, these contracts were generally awarded using other than full and open competition. We recently reported that DOD competed the vast majority of its contract obligations between October 1, 2003, through March 31, 2006.<sup>9</sup> We were able to obtain data on \$7 billion, or 82 percent, of DOD's total contract obligations during this period. Our ability to obtain complete information, however, on DOD reconstruction contract actions was limited because not all DOD components consistently tracked or fully reported this information.

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<sup>8</sup>GAO, *Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach*, [GAO-06-284](#) (Washington, D.C.: Apr. 3, 2006).

<sup>9</sup>GAO, *Rebuilding Iraq: Status of Competition for Iraq Reconstruction Contracts*, [GAO-07-40](#) (Washington, D.C.: Oct. 6, 2006).

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## Insufficient Guidance and Leadership to Manage Contractors Supporting Deployed Forces

Since the mid-1990s, our reports have highlighted the need for clear and comprehensive guidance for managing and overseeing the use of contractors that support deployed forces. As we reported in December 2006, DOD has not yet fully addressed this long-standing problem.<sup>10</sup>

Such problems are not new. In assessing LOGCAP implementation during the Bosnian peacekeeping mission in 1997, we identified weaknesses in the available doctrine on how to manage contractor resources, including how to integrate contractors with military units and what type of management and oversight structure to establish.<sup>11</sup> We identified similar weaknesses when we began reviewing DOD's use of contractors in Iraq. For example, in 2003 we reported that guidance and other oversight mechanisms varied widely at the DOD, combatant command, and service levels, making it difficult to manage contractors effectively. Similarly, in our 2005 report on private security contractors in Iraq, we noted that DOD had not issued any guidance to units deploying to Iraq on how to work with or coordinate efforts with private security contractors.<sup>12</sup> Further, we noted that the military may not have a clear understanding of the role of contractors, including private security providers, in Iraq and of the implications of having private security providers in the battle space.

In our view, establishing baseline policies for managing and overseeing contractors would help ensure the efficient use of contractors in places such as Iraq. DOD addressed some of these issues when it issued new guidance in October 2005 on the use of contractors who support deployed forces.<sup>13</sup> However, as our December 2006 report made clear, DOD's guidance does not address a number of problems we have repeatedly raised—such as the need to provide adequate contract oversight personnel, to collect and share lessons learned on the use of contractors supporting deployed forces, and to provide DOD commanders and contract oversight personnel with training on the use of contractors

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<sup>10</sup>GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: Dec. 18, 2006).

<sup>11</sup>GAO, *Contingency Operations: Opportunities to Improve the Logistics Civil Augmentation Program*, [GAO/NSIAD-97-63](#) (Washington, D.C.: Feb. 11, 1997).

<sup>12</sup>GAO, *Rebuilding Iraq: Actions Needed to Improve Use of Private Security Providers*, [GAO-05-737](#) (Washington, D.C.: July 28, 2005).

<sup>13</sup>Department of Defense Instruction 3020.41, Contractor Personnel Authorized to Accompany the U.S. Armed Forces (Oct. 3, 2005).

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overseas before deployment. Since our December 2006 report was issued, DOD officials indicated that DOD was developing a joint publication entitled *Contracting and Contractor Management in Joint Operations*, which is expected to be distributed in May 2007.

Our work has also highlighted the need for DOD components to comply with departmental guidance on the use of contractors. For example, in our June 2003 report we noted that DOD components were not complying with a long-standing requirement to identify essential services provided by contractors and develop backup plans to ensure the continuation of those services during contingency operations should contractors become unavailable to provide those services. Other reports highlighted our concerns over DOD's planning for the use of contractor support in Iraq, including the need to comply with guidance to identify operational requirements early in the planning process. When contractors are involved in planning efforts early and given adequate time to plan and prepare to accomplish their assigned tasks, the quality of the contractor's services improves and contract costs may be lowered.

DOD's October 2005 guidance on the use of contractor support to deployed forces went a long way to consolidate existing policy and provide guidance on a wide range of contractor issues. However, as of December 2006, we found little evidence that DOD components were implementing that guidance, in part because no individual within DOD was responsible for reviewing DOD's and the services' efforts to ensure the guidance was being consistently implemented. In our 2005 report on LOGCAP we recommended DOD designate a LOGCAP coordinator with the authority to participate in deliberations and advocate the most effective and efficient use of the LOGCAP contract. Similarly, in 2006 we recommended that DOD appoint a focal point within the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics—at a sufficiently senior level and with the appropriate resources—dedicated to leading DOD's efforts to improve its contract management and oversight. DOD agreed with these recommendations. In October 2006, DOD established the office of the Assistant Deputy Under Secretary of Defense for Program Support to serve as the office of primary responsibility for contractor support issues, but the office's specific roles and responsibilities have not yet been clearly defined.

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## Inadequate Management and Assessment of Contractor Performance

GAO has reported on numerous occasions that DOD did not adequately manage and assess contractor performance to ensure that the business arrangement was properly executed. Managing and assessing post-award performance entails various activities to ensure that the delivery of services meets the terms of the contract and requires adequate surveillance resources, proper incentives, and a capable workforce for overseeing contracting activities. If surveillance is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner and potentially paying too much for the services it receives.

Our work has found, however, that DOD is often at risk. In March 2005, for example, we reported instances of inadequate surveillance on 26 of 90 DOD service contracts we reviewed.<sup>14</sup> In each instance, at least one of the key factors to ensure adequate surveillance did not take place. These factors are (1) training personnel in how to conduct surveillance, (2) assigning personnel at or prior to contract award, (3) holding personnel accountable for their surveillance duties, and (4) performing and documenting surveillance throughout the period of the contract. Officials we met with during our review expressed concerns about support for surveillance. The comments included those of Navy officials who told us that surveillance remains a part-time duty they did not have enough time to undertake and, consequently, was a low-priority task.

More recently, in December 2006 we reported that DOD does not have sufficient numbers of contractor oversight personnel at deployed locations, which limits its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively.<sup>15</sup> For example, an Army official acknowledged that the Army is struggling to find the capacity and expertise to provide the contracting support needed in Iraq. A LOGCAP program official noted that if adequate staffing had been in place, the Army could have realized substantial savings on the LOGCAP contract through more effective reviews of new requirements. A Defense Contract Management Agency official responsible for overseeing the LOGCAP contractor's performance at 27 locations noted that he was unable to visit all of those locations during his 6-month tour to determine the extent to which the contractor was meeting contract requirements.

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<sup>14</sup>GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, [GAO-05-274](#) (Washington, D.C.: Mar. 17, 2005).

<sup>15</sup>[GAO-07-145](#).

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The lack of visibility on the extent of services provided by contractors to deployed forces contributes to this condition. Without such visibility, senior leaders and military commanders cannot develop a complete picture of the extent to which they rely on contractors to support their operations. We first reported the need for better visibility in 2002 during a review of the costs associated with U.S. operations in the Balkans.<sup>16</sup> At that time, we reported that DOD was unaware of (1) the number of contractors operating in the Balkans, (2) the tasks those contractors were contracted to do, and (3) the government's obligations to those contractors under the contracts. We noted a similar situation in 2003 in our report on DOD's use of contractors to support deployed forces in Southwest Asia and Kosovo.<sup>17</sup> Our December 2006 review of DOD's use of contractors in Iraq found continuing problems with visibility over contractors. For example, when senior military leaders began to develop a base consolidation plan, officials were unable to determine how many contractors were deployed and therefore ran the risk of over- or under-building the capacity of the consolidated bases.

DOD's October 2005 guidance on contractor support to deployed forces included a requirement that the department develop or designate a joint database to maintain by-name accountability of contractors deploying with the force and a summary of the services or capabilities contractors provide. The Army has taken the lead in this effort, and recently DOD designated a database intended to provide improved visibility over contractors deployed to support the military in Iraq, Afghanistan, and elsewhere. According to DOD, in January 2007, the department designated the Army's Synchronized Predeployment & Operational Tracker (SPOT) as the departmentwide database to maintain by-name accountability of all contractors deploying with the force. According to DOD, the SPOT database includes approximately 50,000 contractor names. Additionally, in December 2006, the Defense Federal Acquisition Regulation Supplement was amended to require the use of the SPOT database by contractors supporting deployed forces.

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<sup>16</sup>GAO, *Defense Budget: Need to Strengthen Guidance and Oversight of Contingency Operations Costs*, [GAO-02-450](#) (Washington, D.C.: May 21, 2002).

<sup>17</sup>GAO, *Military Operations: Contractors Provide Vital Services to Deployed Forces but Are Not Adequately Addressed in DOD Plans*, [GAO-03-695](#) (Washington, D.C. June 24, 2003).

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## Inappropriate Use of Interagency Contracts

In January 2005, we identified management of interagency contracts as a high-risk area because of their rapid growth, limited expertise of users and administrators, and unclear lines of accountability. Since DOD is the largest user of interagency contracts in the government, it can ill-afford to expose itself to such risks. Relying on other agencies for contracting support requires sound practices. For example, under an interagency arrangement, the number of parties in the contracting process increases, and ensuring the proper use of these contracting arrangements must be viewed as a shared responsibility that requires agencies to define clearly who does what in the contracting process. However, the problems I discussed previously regarding defining requirements, ensuring competition, and monitoring contractor performance are frequently evident in interagency contracting. Additionally, DOD pays a fee to other agencies when using their contracts or contracting services, which could potentially increase DOD costs.

Our work, as well as that of the Inspectors General, found competition-related issues on DOD's use of interagency contracting vehicles. DOD is required to foster competition and provide all contractors a fair opportunity to be considered for each order placed on GSA's multiple-award schedules, unless certain exceptions apply.<sup>18</sup> DOD officials, however, have on numerous occasions avoided the time and effort necessary to award individual orders competitively and instead awarded all the work to be performed to a single contractor. We found that this practice resulted in the noncompetitive award of many orders that have not always been adequately justified.

In April 2005, we reported that a lack of effective management controls—in particular insufficient management oversight and a lack of adequate training—led to breakdowns in the issuance and administration of task orders for interrogation and other services in Iraq by the Department of the Interior on behalf of DOD.<sup>19</sup> These breakdowns included:

- issuing 10 out of 11 task orders that were beyond the scope of underlying contracts, in violation of competition rules;

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<sup>18</sup>10 U.S.C. 2304c.

<sup>19</sup>GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: Apr. 29, 2005).

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- not complying with additional DOD competition requirements when issuing task orders for services on existing contracts;
  - not properly justifying the decision to use interagency contracting;
  - not complying with ordering procedures meant to ensure best value for the government; and
  - not adequately monitoring contractor performance.

Because officials at Interior and the Army responsible for the orders did not fully carry out their responsibilities, the contractor was allowed to play a role in the procurement process normally performed by government officials. Further, the Army officials responsible for overseeing the contractor, for the most part, lacked knowledge of contracting issues and were not aware of their basic duties and responsibilities.

In July 2005, we reported on various issues associated with DOD's use of franchise funds at the departments of the Interior and the Treasury—GovWorks and FedSource—that acquired a range of services for DOD.<sup>20</sup> For example, GovWorks did not receive competing proposals for work and added substantial work to the orders without determining that prices were fair and reasonable. FedSource generally did not ensure competition for work, did not conduct price analyses, and sometimes paid contractors higher prices for services than were specified in the contracts, with no justification in the contract files. At both funds, we found that the files we reviewed lacked clear descriptions of requirements the contractor was supposed to meet. For its part, DOD did not analyze contracting alternatives and lacked information about purchases made through these arrangements. We also found DOD and franchise fund officials were not monitoring contracts and lacked criteria against which contractor performance could be measured to ensure that contractors provided quality services in a timely manner.

We identified several causes for the lack of sound practices. In some cases, there was a lack of clear guidance and contracting personnel were insufficiently trained on the use of interagency contracting arrangements. In many cases, DOD users chose the speed and convenience of an

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<sup>20</sup>GAO, *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD Is Not Demonstrated*, [GAO-05-456](#) (Washington, D.C.: July 29, 2005).

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interagency contracting arrangement to respond and meet needs quickly. Contracting service providers, under a fee-for-service arrangement, sometimes inappropriately emphasized customer satisfaction and revenue generation over compliance with sound contracting policies and procedures. These practices put DOD at risk of not getting required services at reasonable prices and unnecessarily wasting resources. Further, DOD does not have useful information about purchases made through other agencies' contracts, making it difficult to assess the costs and benefits and make informed choices about the alternatives methods available.

Similarly, the DOD Inspector General recently reported on issues with DOD's use of contracts awarded by the departments of the Interior and the Treasury, GSA, and the National Aeronautics and Space Administration (NASA). For example, in November 2006, the Inspector General reported that DOD contracting and program personnel did not comply with acquisition rules and regulations when using contracts awarded by NASA, such as not always complying with fair opportunity requirements or not adequately justifying the use of a non-DOD contracting vehicle. As a result, the Inspector General concluded that funds were not used as intended by Congress, competition was limited, and DOD had no assurance that it received the best value.<sup>21</sup> Additionally, the Inspector General found that DOD used Interior and GSA to "park" funds that were expiring. The agencies then subsequently placed contracts for DOD using the expired funds, thereby circumventing appropriations law. The Inspector General concluded that these problems were driven by a desire to hire a particular contractor, the desire to obligate expiring funds, and the inability of the DOD contracting workforce to respond to its customers in a timely manner.

DOD and other agencies have taken steps to address some of these issues, including issuing an October 2006 memorandum intended to strengthen internal controls over the use of interagency contracts and signing a December 2006 memorandum of understanding with GSA to work together on 22 basic contracting management controls, including ensuring that sole-source justifications are adequate, that statements of work are complete, and that interagency agreements describe the work to be

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<sup>21</sup>Department of Defense, Office of the Inspector General. *Acquisition: FY 2005 DOD Purchases Made Through the National Aeronautics and Space Administration*. Report No. D-2007-023. (Arlington, Va. Nov. 13, 2006).

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performed. Similarly, GSA has worked with DOD to identify unused and expired DOD funds maintained in GSA accounts. Further, according to the Inspector General, Interior has withdrawn numerous warrants in response to these findings.

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## DOD Needs a Management Structure to Oversee Service Acquisition Processes and Outcomes

Congress and GAO have identified the need to improve DOD's overall approach to acquiring services for several years. In 2002, we noted that DOD's approach to buying services was largely fragmented and uncoordinated. Responsibility for acquiring services was spread among individual military commands, weapon system program offices, or functional units on military bases, and with little visibility or control at the DOD or military department level. Despite taking action to address the deficiencies and implement legislative requirements, DOD's actions to date have not equated with progress. DOD's current approach to acquiring services suffers from the absence of key elements at the strategic and transactional levels and does not position the department to make service acquisitions a managed outcome.

Considerable congressional effort has been made to improve DOD's approach to acquiring services. For example, in 2001, Congress passed legislation to ensure that DOD acquires services by means that are in the best interest of the government and managed in compliance with applicable statutory requirements. In this regard, sections 801 and 802 of the National Defense Authorization Act for Fiscal Year 2002 required DOD to establish a service acquisition management approach, including developing a structure for reviewing individual service transactions based on dollar thresholds and other criteria.<sup>22</sup> Last year, Congress amended requirements pertaining to DOD's service contracting management structure, workforce, and oversight processes, among others.<sup>23</sup>

We have issued several reports that identified shortcomings in DOD's approaches and its implementation of legislative requirements. For example, we issued a report in January 2002 that identified how leading commercial companies took a strategic approach to buying services and recommended that DOD evaluate how a strategic reengineering approach, such as that employed by leading companies, could be used as a

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<sup>22</sup>Pub. L. No. 107-107, §§ 801, 802 (2001)(section 801 added new sections 2330 and 2330a to title 10, U.S. Code).

<sup>23</sup>Pub. L. No. 109-163, § 812 (2006)(section 812 amended 10 U.S.C. § 2330).

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framework to guide DOD's reengineering efforts.<sup>24</sup> In September 2003, we reported that DOD's actions to implement the service acquisition management structure required under Sections 801 and 802 did not provide a departmentwide assessment of how spending for services could be more effective and recommended that DOD give greater attention to promoting a strategic orientation by setting performance goals for improvements and ensuring accountability for achieving those results.<sup>25</sup>

Most recently, in November 2006, we issued a report that identified a number of actions that DOD could take to improve its acquisition of services.<sup>26</sup> We noted that DOD's overall approach to managing services acquisitions suffered from the absence of several key elements at both a strategic and transactional level. The strategic level is where the enterprise, DOD in this case, sets the direction or vision for what it needs, captures the knowledge to enable more informed management decisions, ensures departmentwide goals and objectives are achieved, determines how to go about meeting those needs, and assesses the resources it has to achieve desired outcomes. The strategic level also sets the context for the transactional level, where the focus is on making sound decisions on individual service acquisitions. Factors for good outcomes at the transactional level include valid and well-defined requirements, appropriate business arrangements, and adequate management of contractor performance.

DOD's current approach to managing the acquisition of services tended to be reactive and did not fully address the key factors for success at either the strategic or the transactional level. At the strategic level, DOD had not developed a normative position for gauging whether ongoing and planned efforts can best achieve intended results. Further, DOD lacked good information on the volume and composition of services, perpetuating the circumstance in which the acquisition of services tended to happen to DOD, rather than being proactively managed. For example, despite implementing a review structure aimed at increasing insight into service transactions, DOD was not able to determine which or how many

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<sup>24</sup>GAO, *Best Practices: Taking A Strategic Approach Could Improve DOD's Acquisition of Services*, [GAO-02-230](#) (Washington, D.C.: Jan. 18, 2002).

<sup>25</sup>GAO, *Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition*, [GAO-03-935](#) (Washington, D.C.: Sept. 10, 2003).

<sup>26</sup>GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington, D.C.: Nov. 9, 2006).

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transactions had been reviewed.<sup>27</sup> The military departments had only slightly better visibility, having reviewed proposed acquisitions accounting for less than 3 percent of dollars obligated for services in fiscal year 2005. Additionally, most of the service acquisitions the military services review involved indefinite delivery/indefinite quantity contracts. DOD's policy for managing service acquisitions had no requirement, however, to review individual task orders that were subsequently issued even if the value of the task order exceeded the review threshold.

Further, the reviews tended to focus more on ensuring compliance with applicable statutes, regulations, and other requirements, rather than on imparting a vision or tailored method for strategically managing service acquisitions. Our discussions with officials at buying activities that had proposed service acquisitions reviewed under this process revealed that, for the most part, officials did not believe the review significantly improved those acquisitions. These officials indicated that the timing of the review process—which generally occurred well into the planning cycle—was too late to provide opportunities to influence the acquisition strategy. These officials told us that the reviews would be more beneficial if they were conducted earlier in the process, in conjunction with the program office or customer, and in the context of a more strategic approach to meeting the requirement, rather than simply from a secondary or tertiary review of the contract.

At the transactional level, DOD tended to focus primarily on those elements associated with awarding contracts, with much less attention paid to formulation of service acquisition requirements and to assessment of the actual delivery of contracted services. Moreover, the results of individual acquisitions were generally not used to inform or adjust strategic direction. As a result, DOD was not in a position to determine whether investments in services are achieving their desired outcomes. Further, DOD and military department officials identified many of the same problems in defining requirements, establishing sound business

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<sup>27</sup>The management structure has three review levels: (1) review by the Under Secretary of Defense (Acquisition, Technology, and Logistics) for services acquisitions valued over \$2 billion; (2) review by the component or designated acquisition executive for service acquisitions valued between \$500 million and \$2 billion; and (3) review by a component-designated official for the acquisition of services valued at less than \$500 million. The Air Force, Army, and Navy each developed review processes and authorities to support the DOD review requirements.

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arrangements, and providing effective oversight that I discussed previously, as the following examples show:

- DOD and military department officials consistently identified poor communication and the lack of timely interaction between acquisition and contracting personnel as key challenges to developing good requirements.
- An Army contracting officer issued a task order for a product that the contracting officer knew was outside the scope of the service contract. The contracting officer noted in an e-mail to the requestor that this deviation was allowed only because the customer needed the product quickly and cautioned that no such allowances would be granted in the future.
- Few of the commands or activities could provide us reliable or current information on the number of service acquisitions they managed, and others had not developed a means to consistently monitor or assess, at a command level, whether such acquisitions were meeting the performance objectives established in the contracts.

To address these issues, we made several recommendations to the Secretary of Defense. DOD concurred with our recommendations and identified actions it has taken, or plans to take, to address them. In particular, DOD noted that it is reassessing its strategic approach to acquiring services, including examining the types and kinds of services it acquires and developing an integrated assessment of how best to acquire such services. DOD expects this assessment will result in a comprehensive, departmentwide architecture for acquiring services that will, among other improvements, help refine the process to develop requirements, ensure that individual transactions are consistent with DOD's strategic goals and initiatives, and provide a capability to assess whether service acquisitions are meeting their cost, schedule, and performance objectives.

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In closing, I would like to emphasize that DOD has taken, or is in the process of taking, action to address the issues we identified. These actions, much like the assessment I just mentioned, however, will have little meaning unless DOD's leadership can translate its vision into changes in frontline practices. In our July 2006 report on vulnerabilities to fraud, waste, and abuse, we noted that leadership positions are sometimes

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vacant, that the culture to streamline acquisitions for purposes of speed may have not been balanced with good business practices, and that even in newly formed government-industry partnerships, the government needs to maintain its oversight responsibility. Understanding the myriad causes of the challenges confronting DOD in acquiring services is essential to developing effective solutions and translating policies into practices. While DOD has generally agreed with our recommendations intended to improve contract management, much remains to be done. At this point, DOD does not know how well its services acquisition processes are working, which part of its mission can best be met through buying services, and whether it is obtaining the services it needs while protecting DOD's and the taxpayer's interests.

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Mr. Chairman and members of the subcommittee, this concludes my testimony. I would be happy to answer any questions you might have.

In preparing this testimony, we relied principally on previously issued GAO and Inspectors General reports. We conducted our work in May 2007 in accordance with generally accepted government auditing standards.

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## Contact and Staff Acknowledgments

For further information regarding this testimony, please contact John P. Hutton at (202) 512-4841 or [huttonj@gao.gov](mailto:huttonj@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this testimony. Key contributors to this testimony were Theresa Chen, Timothy DiNapoli, Kathryn Edelman, and John Krump.

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