

NAVAL POSTGRADUATE SCHOOL Monterey, California



THESIS

**AN ANALYSIS OF CURRENT AND PROPOSED
OVERSIGHT PROCESSES FOR THE ACQUISITION OF
LARGE-SCALE SERVICES AS SEEN THROUGH THE
EYES OF THE NAVY MARINE CORPS INTRANET
PROGRAM**

by

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December 2002

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FOR THE ACQUISITION OF LARGE-SCALE SERVICES AS SEEN THROUGH
THE EYES OF THE NAVY MARINE CORPS INTRANET PROGRAM**

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Submitted in partial fulfillment of the
requirements for the degree of

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from the

**NAVAL POSTGRADUATE SCHOOL
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ABSTRACT

At approximately \$6.9 billion, The Navy-Marine Corps Intranet (NMCI) was the largest service contract that DoD had ever awarded. The U.S. Navy viewed it as a typical multi-year, Performance Based Services Contract (PBSC) and not a new acquisition program. Congress took a different view. Congress attached milestones, conditions, a requirement for rigorous testing, and limited funding. This all had the effect of delaying the implementation of NMCI. At approximately \$60 billion per year and growing, acquisition of services is a major part of DoD acquisitions and it is expected to only grow in the future. The mechanics for implementing these types of acquisitions are well understood, the U.S. Navy's experience with NMCI suggests that the amount and type of oversight required are not as well defined. Realizing this, both DoD and the U.S. Congress are scrambling to create laws and policies to bridge this gap. The commercial section has considerable experience in this area, as acquisition of services is a growing endeavor there too. This thesis examines current and proposed policy and procedures for the oversight of the acquisition of large-scale services by the DoD, along with a brief analysis of and comparison to other best practices regarding service acquisition.

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I. INTRODUCTION

A. BACKGROUND DISCUSSION

...Congress' perception was that we were somehow pulling a fast one. We were getting ready to issue the largest contract in the Department of Defense's (DoD) history, and we hadn't asked for Congress' permission, we weren't treating it like a traditional acquisition program, and we hadn't asked for any new money to do this. (Emery, Feb 2002).

This quote by Ron Turner, then Deputy Chief Information Officer for Plans, Policy, Performance, Infrastructure, Systems and Technology for the Navy, summarizes the concerns that the U.S. Congress had with the Navy-Marine Corps Intranet (NMCI) contract. At approximately \$6.9 billion (Hoffmann, July 2002), this was easily the largest service contract that DoD had ever awarded. The U.S. Navy viewed it as a Performance Based Services Contract (PBSC) and not a new acquisition program. Congress took a different view. In the 2002 Defense Authorization Act, Congress, along with providing \$582 million for NMCI, attached milestones, conditions and a requirement for rigorous testing. This has had the effect of delaying the implementation of NMCI (Capaccio, July 2002). Yet, for all of the fan-fare that the U.S. Navy is getting over NMCI, it is not the first or only contract to raise the issue of oversight of PBSCs and Performance Based Services Acquisitions (PBSAs).

Acquisition of services has become an increasingly significant component of procurements in the Department of Defense. From 1992 through 1999, DoD procurement of services increased from \$39.9 billion to \$51.8 billion. In 1999, total dollars spent on services equaled the amount spent on supplies [and] systems...this trend is expected to continue.... (Gansler, Jan 2001).

The trend is clear. Acquisition of services is already a major activity and is an expanding one for the future. The rapidly growing dollar amounts suggest that the mechanics and techniques of PBSA are well defined. However, the U.S. Navy's experience with NMCI suggests that the amount and type of oversight required on such acquisitions is decidedly less well defined. Realizing this, both

DoD and the U.S. Congress are scrambling to create laws and policies to bridge this gap.

In the FY 2002 National Defense Authorization Act, the U.S. Congress directed DoD to “establish and implement a management structure for the procurement of services for the Department of Defense...achieve savings in expenditures for procurements of services through the use of performance-based services contracting...[and] promulgate in the Department of Defense Supplement to the Federal Acquisition Regulation regulations [regarding] the purchase of services by the Department of Defense...” (Public Law 107-107, Dec 2001). In March of 2002, U.S. Congressman Tom Davis of Virginia introduced HR-3832, the Services Acquisition Reform Act (SARA). In addition, the Under Secretary of Defense for Acquisition, Technology, and Logistics directed each of the Military Components to draft and submit by August 2002 a Services Contracts Oversight Process (SCOP) (Aldridge, May 2002).

B. AREA AND PURPOSE OF RESEARCH

This thesis examines current and proposed policy and procedures for the oversight of the acquisition of large-scale services by the DoD. It is intended to benefit DoD acquisition offices and activities with regards to the drafting and implementation of policy governing supervision of large service contracts.

C. RESEARCH QUESTIONS

1. PRIMARY RESEARCH QUESTION

Are the current and proposed policies and procedures associated with the supervision of acquisition of services, such as the Navy-Marine Corps Intranet, effective and consistent with best practices?

2. SECONDARY RESEARCH QUESTIONS

a. How does the DoD currently manage the acquisition of large-scale systems and services?

b. What policies and procedures are being proposed for DoD’s management of large-scale services?

c. What are the best practices, both commercial and federal, for the acquisition of large-scale services?

D. SCOPE AND RESEARCH METHOD

The scope of this thesis includes: (1) a review of the regulation regarding traditional product acquisition, Performance Based Services Acquisition and a history of NMCI; (2) an examination of current regulation and policy oversight of services acquisition and proposed regulation from the U.S. Congress; (3) the presentation of issues and concerns associated with the supervision of large scale services contracts; and (4) analysis of the impact of current regulation upon NMCI.

The methodology employed in researching this thesis was a literature search; a thorough search of applicable books, reports, journal and newspaper articles, policies, regulations, and other information sources. Determinations are made based upon research analysis.

E. ORGANIZATION OF THESIS

This thesis consists of five chapters. Chapter I is an introduction to the thesis. It provides an initial background to the thesis topic along with the purpose, and scope of the research. Chapter I also reveals the research questions involved and highlights the over all thesis organization.

Chapter II discusses how traditional product acquisition is conducted and the scale and nature of service acquisitions. Besides a general discussion of performance based service contracts, the history and recent status of the Navy-Marine Corps Intranet contract will be reviewed.

Chapter III is a collection of existing and proposed policy and legislation governing the acquisition of services. Offices and sources involved include the Under Secretary of Defense, Acquisition, Technology and Logistics, the Department of the Navy, the U.S. Navy, the U.S. Marine Corps, the U.S. House of Representatives, and the U.S. Senate. As a basis of comparison, the best practices from the commercial sector and from other Federal agencies for the acquisition of services are examined in this chapter.

Chapter IV is the analysis of existing and proposed oversight approaches for large-scale services as they apply to an acquisition such as NMCI.

Chapter V summarizes the answers to the primary and secondary research questions and provides the author's recommendations, conclusions, and areas requiring further research.

II. BACKGROUND

A. TRADITIONAL WEAPON ACQUISITION

The Defense Acquisition System exists to secure and sustain the nation's investments in technologies, programs, and product support necessary to achieve the National Security Strategy and support the United States Armed Forces. (DOD Directive 5000.1, 2002).

1. Divisions of Defense Acquisition Programs

Defense acquisition generally applies to the obtaining of weapons and/or information technology products. Acquisition programs are divided into several categories, depending on their dollar value and who the milestone decision authority is. A Major Defense Acquisition Program (MDAP) is defined as "an acquisition program...designated by the Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)) as an MDAP, or estimated by the USD(AT&L) to require an eventual total expenditure for research, development, test and evaluation of more than \$365 million in fiscal year (FY) 2000 constant dollars or, for procurement, of more than \$2.190 billion in FY 2000 constant dollars." (DOD Instruction 5000.2, 2002).

Acquisition programs are further divided into various acquisition categories or ACATs. All MDAPs are ACAT I and vary only by the delegation of the milestone decision authority. (See Table 1.)

Table 1. MDAP Divisions

| | | | |
|----------------------------------------------------------|----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| Major Defense Acquisition Programs | ACAT ID: ACAT IC: | <ul style="list-style-type: none"> • Designated by USD(AT&L) • Defense Acquisition Board Review • Decision by USD(AT&L) <ul style="list-style-type: none"> • Designated by USD(AT&L) • Component-level Review • Decision by Component Acquisition Executive | \$365M RDT&E or \$2.19B Procurement (FY2000 Constant \$) |
| Major Automated Information Systems Acquisition Programs | ACAT IAM: ACAT IAC: | <ul style="list-style-type: none"> • Designated by ASD(C3I) • Information Technology OIPT Review • Decision by ASD(C3I) <ul style="list-style-type: none"> • Designated by ASD(C3I) • Component-level Review • Decision by Component Chief Information Officer | \$378M Life Cycle Cost or \$126M Total Prog. Cost or \$32M Prog. Cost in any single year (FY2000 Constant \$) |
| Major Systems | ACAT II: | <ul style="list-style-type: none"> • Designated by Component Acquisition Executive • Component-level Review • Decision by Component Acquisition Executive | \$140M RDT&E or \$660M Procurement (FY2000 Constant \$) |
| All Other Systems (except for Army, Navy, USMC) | ACAT III: | <ul style="list-style-type: none"> • Designated IAW Component Policy • Does not meet criteria for ACAT I, IA or II • Review and decision at lowest appropriate level | No Fiscal Criteria |
| Army Navy USMC | ACAT IV: | <ul style="list-style-type: none"> • Designated IAW Component Policy • Does not meet criteria for ACAT I, IA, II or III • Review and decision at lowest appropriate level | See AR 70-1 (Army) and SECNAVINST 5000.2B (Navy and Marine Corps) |

(From: Defense Systems Management College, 2001)

2. Management of a Major Defense Acquisition Program

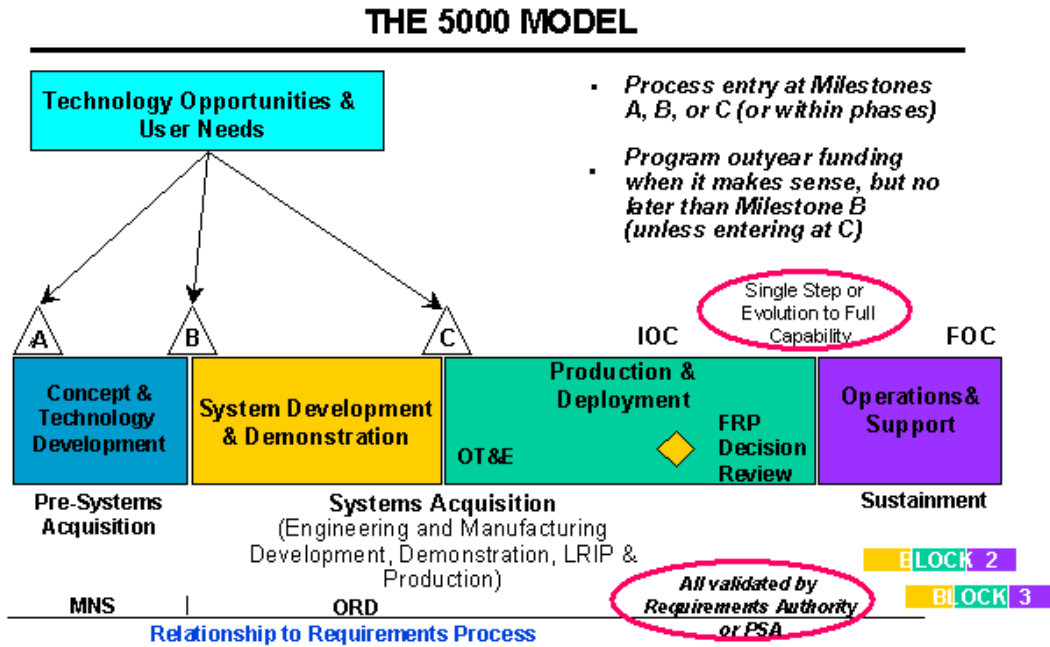


Figure 1. Major Acquisition Model
(From: DOD Instruction 5000.2, 2002)

A new MDAP follows the general path depicted in Figure 2. A typical starting point is at Milestone B but a program can begin at a variety of points within the process depending on the maturity of the technology and/or concept involved.

Once begun, a MDAP crosses milestones in order to proceed. Milestones are "[those] points at which a recommendation is made and approval sought regarding starting or continuing an acquisition program." (Defense Systems Management College, 2001). The milestone decision authority (MDA) provides the approval or rejection, which for a MDAP is the USD (AT&L). Milestone review and approval are a key method of oversight of a MDAP. The Component Acquisition Executive is the Milestone Decision Authority for ACAT IC programs.

"The position of Program Executive Officer (PEO) was established in 1986 based on the Packard Commission Report. A PEO is typically a one or two star general officer or senior executive service civilian equivalent responsible for the first line supervision of a group of like programs, each managed by a program

manager.”(Defense Systems Management College, 2001). All acquisition programs have a Program Manager (PM) designated who reports to a Program Executive Officer, who reports to an acquisition executive, who in turn reports to the USD (AT&L). The PM is the lead for an integrated product team of individuals responsible for bringing a program from conception through deployment to disposal. The PM’s reporting chain is depicted in Figure 2.

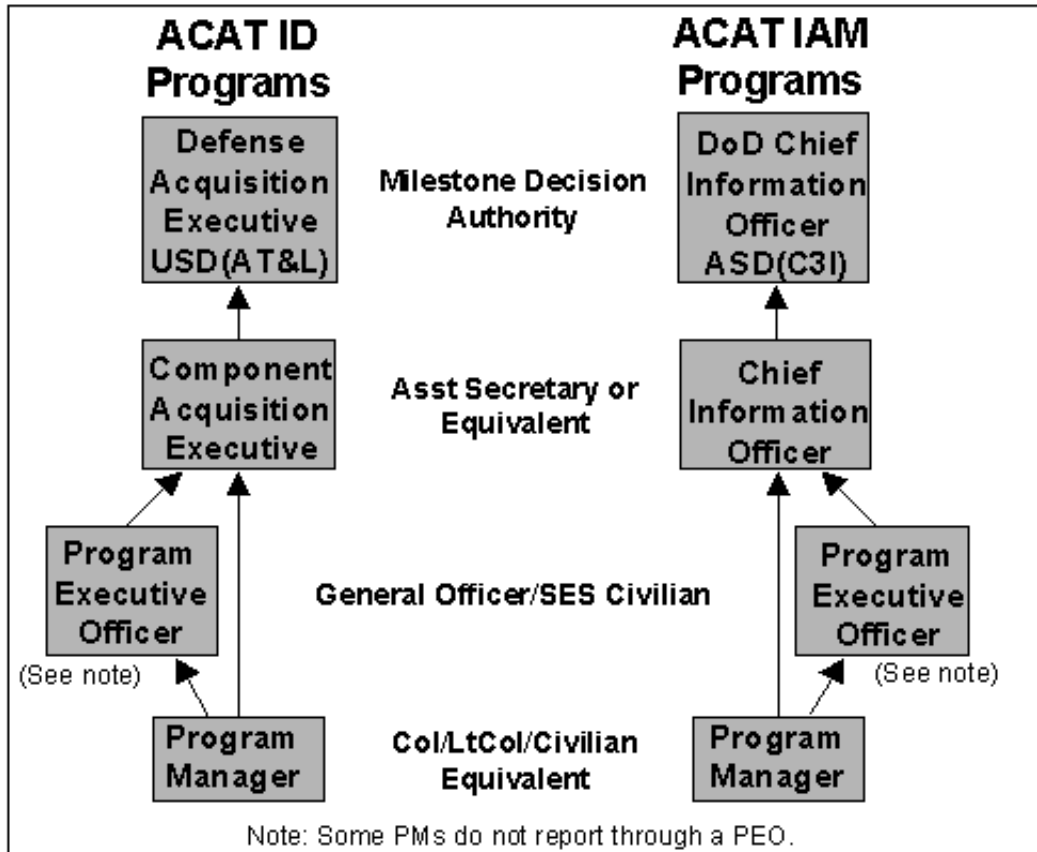


Figure 2. Program Reporting Chain
(From: Defense Systems Management College, 2001)

3. Information Technology Acquisition

Prior to 1996, and in accordance with the Brooks Act of 1949, the acquisition of computer resources was the exclusive domain of the General Services Administration (GSA). The Clinger-Cohen Act of 1996 (formally known as The Information Technology Management Reform Act) gave IT procurement authority back to individual agencies, abolishing the Brooks Act. It

also encouraged the use of commercial off the shelf (COTS) products and directed the appointment of Chief Information Officers within each Executive Agency. (Center for Information Technology, 2002)

FAR Part 39 implements Section 5202 of the Clinger-Cohen Act directing the use of modular contracting in the acquisition of information technology to the "maximum extent practicable" (FAR Part 39). Modular contracting is the "use of one or more contracts to acquire information technology systems in successive, interoperable increments." (FAR Part 39) The goal of modular contracting is to create IT acquisitions which are:

- easier to manage
- have an increased likelihood of success
- provide solutions independent of subsequent increments
- allow subsequent solutions to take advantage of new technology
- reduce risk to the overall project (FAR Part 39)

A Major Automated Information System (MAIS) is defined as "an AIS [automated information system] that is designated by ASD(C3I) as a MAIS, or estimated to require program costs in any single year in excess of \$32 million in fiscal year (FY) 2000 constant dollars, total program costs in excess of \$126 million in FY 2000 constant dollars, or total life-cycle costs in excess of \$378 million in FY 2000 constant dollars" (DOD Instruction 5000.2, 2002). The acquisition of information technology by DoD generally follows the same path and has the same oversight procedures as a MDAP.

All MAIS programs are ACAT IAM or ACAT IAC. The activities and oversight are nearly the same for a MAIS as they are for a MDAP. The milestone decision authority for an ACAT IAM is the ASD (C3I). The Component Chief Information Officer (CIO) is the MDA for an ACAT IAC program. The Information Technology Overarching Integrated Product Team (IT OIPT) reviews ACAT IAM programs, while ACAT IAC programs go before a Component-level review. Both ACAT IA programs have Program Executive Officers and Program Managers.

B. ACQUISITION OF SERVICES

Services are identifiable tasks to be performed, rather than the delivery of an end item of supply. (OMB, 1994)

Service contract' means a contract that directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply. (FAR, 2002)

Large-scale contracts are usually part of a traditional acquisition program, in which case the PCO works for a PM.

Acquisitions and contracting in general are guided by the annual Defense Authorization Acts. DoD services are funded via the annual Defense Appropriation Bill and usually fall under the category of Operations and Maintenance (O&M).

Once funded, the acquisition of services is governed primarily by the Federal Acquisition Regulation (FAR) and Executive Branch policy. FAR Part 37 specifically deals with service contracts and establishes responsibilities for implementing OFPP Policy Letter 93-1, Management Oversight of Service Contracting. The principle size classification within the FAR is the Simplified Acquisition Threshold (SAT). Established by the 1994 Federal Acquisition Streamlining Act, the threshold is \$100,000 with a higher threshold of \$200,000 for contingency, humanitarian, or peacekeeping operations. (FAR, 2002). Contract type is determined primarily by cost, risk, program needs and complexity of the acquisition.

The flow of authority for contracting within DoD goes from the U.S. Congress, to the Head of Agency, to the senior procurement executive within that agency, to the head of the contracting activity, down to the procuring contracting officer (PCO). Within the Department of the Navy, a large services contract will be assigned to a Program Executive Office.

Among other responsibilities, the Head of Agency ensures:

- Requirements for services are clearly defined and appropriate performance standards are developed
- Service contractors are awarded and administered in such a manner that will provide the customer its goods and services of significant quality, on time and within budget
- Specific procedures are in place when contracting for services to assure compliance with Government regulation

All contracting officials are responsible for ensuring that best practice techniques are used when contracting for services.

The Office of the Secretary of Defense has provided key considerations and lessons learned related to the acquisition of commercial items. Among them was the lesson that "Programs often underestimate the impact of testing commercial items." "Often DoD application of commercial items requires qualification and operational testing and evaluation...to show that the items continue to perform as expected in unique military environments." (Commercial Item Acquisition, 2000)

C. PERFORMANCE BASED SERVICE CONTRACTS

Performance-based contracting means structuring all aspects of an acquisition around the purpose of the work to be performed with the contract requirements set forth, in clear, specific, and objective terms with measurable outcomes as opposed to either the manner by which the work is to be performed or broad and imprecise statements of work. (FAR, 2002)

“Performance-based contracting is the preferred method for acquiring services” (FAR, 2002). In fact, DoD is directed to use performance-based acquisitions to the maximum extent possible and for a major acquisition, can only be avoided by waiver. The goals are to maximize competition and innovation by describing ‘what’ and not ‘how’ a task is to be completed.

The key element to a performance-based contract is the statement of work, which defines the requirements and is tailored to the specific needs of an agency. Other important elements include: measurable performance standards, remedies to

handle performance that fails to meet those standards, and an assessment plan for measuring the contractor's performance.

As with all contracting, contract type is based upon the desire to maximize performance while minimizing cost and schedule i.e., risk.

Fixed price contracts are appropriate for services that can be objectively defined and for which risk of performance is manageable. Cost reimbursement contracts are appropriate for services that can only be defined in general terms and for which the risk of performance is not reasonably manageable. (OMB, 1998)

D. MULTIYEAR CONTRACTS

A multiyear contract is defined as "a contract for purchase of property or services for more than one but not more than five, program years." (U.S.C. Title 10, Section 2306b) FAR Part 17 describe the requirements for a multiyear contract as:

- substantial cost savings
- stable requirement
- stable design
- stable funding
- accurate estimates of costs

The use of this method of contracting is intended to:

- lower cost
- enhance standardization
- reduced administrative burden
- encourage continuity of production
- stabilize the contractor workforce
- reduce the number of quality control techniques established
- broaden the competitive base
- incentivize contractors to improve productivity (FAR, 2002)

"A multi-year contract...may not be awarded until the head of the agency gives written notification of the proposed contract and of the proposed

cancellation ceiling for that contract to the committees on armed services and appropriations of the House of Representatives and Senate. The contract may not be awarded until the thirty-first day after the date of notification." (FAR, 2002)

D. NAVY-MARINE CORPS INTRANET

...agencies yield ownership, support and daily management headaches of IT assets and platforms to contractors. But the end-users of the PCs and other resources provided by contractors remain government employees. (GCN Industry Talks Up Seat, 2002)

NMCI is a \$6.9 billion (minimum) performance-based services contract awarded to Electronic Data Systems Corporation (EDS) on 6 Oct 2000. Its purpose is to make wide spread disparate data centrally available, reduce approximately 100,000 legacy applications to about 1,000 and integrate approximately 3,000 separate networks into a single planned community encompassing the nearly 400,000 men and women of the Department of the Navy.

NMCI began life as the Navy Virtual Intranet in 1997. This transitioned into the Navy Wide Intranet the following year. It transitioned again in 1999 to become the Navy Intranet. Later in 1999 when it incorporated the Marine Corps it became NMCI.

The contract is an Indefinite Delivery/Indefinite Quantity (IDIQ) Firm-Fixed Price (FFP) contract with incentives based on performance. It has a five year base with a three year option period. The Navy based the authority for use of a contract on the multiyear contract portion of Section 2306, Chapter 137 of Title 10 of the United States Code (U.S.C.). The Navy "feared that using a requirements contract or similar contracting vehicle would kick off a long budget battle with Congress that would eventually result in the service buying obsolete systems." (Orr, 2001) The Navy decided it was time to treat IT as a recurring cost in the same manner as utilities are accounted for.

EDS was awarded the contract as the prime contractor over IBM Global Services, Computer Sciences, and General Dynamics. The principle subcontractors are Raytheon, CISCO, MCI WorldCom, Wam!Net, Dell, and

Microsoft. The contract goal is to subcontract at least 40% of contract services to small businesses along with women and minority owned businesses. (NMCI Contract, 2000)

Table 2. Summary of Minimum Contract Value

| Program Year (PY) 01 | PY02 | PY02 | PY03 | PY04 | PY05 |
|----------------------|------------------------------------|---------------------------------------------------|---------------------------------------|-----------------|-----------------|
| \$85,000,000 | Phase 1 Minimum \$85,000,000 | Phase 2 Additional Minimum \$515,000,000 | Phase 3 Minimum \$1,166,320,205 | \$1,116,418,522 | \$1,116,418,522 |

| |
|--------------------|
| Total Base Minimum |
| \$4,084,157,249 |

| PY06 | PY07 | PY08 | Total Option Minimum |
|---------------|---------------|---------------|-------------------------|
| \$939,675,867 | \$939,675,867 | \$939,675,867 | \$2,819,027,601 |

| |
|---------------------------|
| Total Contract Minimum |
| \$6,903,184,850 |

(After: NMCI Contract, 2000)

For the individual user, the key to the NMCI contract is the seat. A seat typically consists of:

PC, network, security hardware, software, hardware/software maintenance, hard-ware/software refresh, email, Web access, two unclassified user accounts, LAN/WAN/MAN connectivity, NIPRNET access, help desk support, desk-side support, shared network printing, network file sharing, directory services, training, 50MB email/calendar storage per account, and 200MB network personal file storage per account.

There are several variations of the “seat” depending on specific user needs such as working on a classified network or providing service to a deploying or mobile user.

Acknowledging the rate at which IT technology can perish, hardware refresh rates are designed to occur every three years and software is to be updated as new versions appear. This compares very favorably with the Marine Corps Common Hardware Suite (MCCHS), which had a hardware refresh rate of every five years.

At the heart of the contract are the 137 Service Level Agreements (SLA) between the Navy and EDS. These serve to define what services will be provided, how they will be measured, and what happens if service targets are met or not met.

Oversight and execution for NMCI was shared between several agencies and organizations. Principle oversight belonged to the Department of the Navy’s Program Executive Office - Information Technology (PEO-IT) located within the Office of the Assistant Secretary of the Navy Research Development and Acquisition (ASN RD&A). It was through this office that the request for proposals was issued and the subsequent award made. Policy, strategy and governance oversight was provided by a senior level leadership council, which provided "department-wide recommendations to the Secretary, the DON Chief Information Office, the Navy's Director of Space, Information, Command and Control Directorate (OPNAV N6) and the USMC's Director C4." (Peeters, 2000) Commander, Space and Naval Warfare Systems Command (SPAWAR) was tasked to do the purchasing and evaluation of the implementation for the Navy; and Marine Corps Systems Command performed that function for the Marine Corps. A task force was stood up to manage operations in the U.S. Navy; and Director C4 managed operations for the Marine Corps.

Funding for NMCI was to be provided through the IT budget of the Department of the Navy. In 2001, the DoN budgeted \$3.46 billion for IT overall. It estimated that it would apply \$1.62 billion of that budget toward NMCI in that

year alone. Currently, cost per seat under NCMI is approximately \$4,179 (Dorobek, 15 Jul 2002). This compares with a pre-NMCI cost for similar services of \$4,286 per seat. Under the original contract no additional funds or specific line items were requested of Congress.

E. SUMMARY

“Contracting for services is especially complex and demands close collaboration between procurement personnel and the users...” (OMB, 1994).

DoD has an elaborate system for the acquisition of the goods and services it needs to carry out its mission. Current policy is to use performance-based acquisition to the maximum extent possible. Yet, even within performance-based acquisition, there are distinct differences between the acquisition of products and the acquisition of services. The acquisition of products has a very elaborate and detailed oversight structure, which also serves to make it relatively transparent to and controllable by Congress. The acquisition of services has considerably less structure. Services acquisition is traditionally viewed as an internal affair much of which is conducted out of the sight of Congress.

While NMCI was transformational in some respects, it was also viewed and treated by the Department of the Navy as a routine performance-based services contract, albeit a rather large one.

III. DATA

A. INTRODUCTION

It is not a technical challenge. But from the standpoint of political and cultural issues, it never ceases to amaze. (Tom Scruggs, official in the office of the CIO, Department of the Navy)

While the Department of the Navy may have had a rather simple vision of what NMCI was, Congress took a different view. Partially because of the implications of this contract, Congress took a number of steps to regain oversight of this program. These efforts have forced DoD to make some changes as well.

This chapter explores what Congress has passed and desires to pass concerning services acquisition, and what Congress has said specifically concerning NMCI. This chapter also details what the DoD and the DoN are proposing for new policy to govern this type of acquisition. Finally, this chapter describes commercial best practices for the acquisition of large-scale service requirements.

B. CONGRESSIONAL SERVICE ACQUISITION ACTION

1. Service Contract Act of 1965

The McNamara-O'Hara Services Act or Service Contract Act of 1965 is one of Congress' earliest specific legislation attempts to govern service acquisitions. This Act primarily "governs wages, fringe benefits and the pricing of service contracts for other than professional services." (Hughes, 2001)

2. Defense Authorization Act

The Secretary of Defense shall establish and implement a management structure for the procurement of services for the Department of Defense. The management structure shall be comparable to the management structure that applies to the procurement of products by the Department. (Public Law 107-107, 2001)

The FY 2002 National Defense Authorization Act included specific language intended to improve the Department of Defense's management of the

acquisition of services by requiring the establishment of a management structure for purchases of services; by directing the collection and analysis of data on purchases of services; and by establishing a program review process for major purchases of services. (House Report 107-333, 2001) The management structure for services acquisition was to be similar to what was in place for product acquisition. The Secretary was to provide for an official in each military department to exercise responsibility for the management of the procurement of services. Also, the Secretary was to “establish specific dollar thresholds and other criteria for advance approvals of purchases.” (Public Law 107-107, 2001)

3. Services Acquisition Reform Act

In fiscal year 2001 alone, the federal government acquired about \$109 billion in services. Our work, as well as the work of other oversight agencies, continues to find that millions of service contract dollars are at risk...because acquisitions are poorly planned, not adequately competed, or poorly managed. (GAO, 7 Mar 2002)

The Service Acquisition Reform Act (SARA) was introduced in the U.S. House of Representatives on 4 Mar 2002. According to its author, Mr. Davis; Representative of Virginia, SARA was intended to help Federal agencies overcome any obstacles preventing them from getting the goods and services they needed. Federal purchases of complex services such as large scale IT modernization continue to result in high failure rates. This bill is deemed necessary because, “while acquisition reform touched on service contracting, it was not the emphasis of those efforts.” (GAO, The Next Steps, 22 May 2002)

A key provision of this bill, as it relates to this thesis’ research, is the instruction to the head of each agency to appoint a Chief Acquisition Officer (CAO), making acquisition that person’s primary function. This is a provision modeled after commercial practices and according to Mr. Davis, it enables significant cost savings and leverages DoD’s purchasing power.

[Author’s note: as of the date of this thesis, SARA is still pending passage, and is still being reviewed by DoD and industry.]

4. Congress and NMCI

The way the DoD is funding this is the way corporations do it everyday...it's a new model for the Hill and it doesn't necessarily require oversight.... (Verton, 2000)

In a February 2000 letter to then Secretary of the Navy Richard Danzig, Herbert Bateman, representative from Virginia and chairman of the House Armed Services Subcommittee on Military Readiness, asked the Navy to halt NMCI procurement. He voiced his concern over a lack of documentation and complained, "initiatives of this proportion need a complete financial analysis and thorough discussion and resolution to policy issues. The Navy has done neither." He further stated that, "programs and initiatives of such large proportions must be analyzed and reviewed thoroughly. For this reason, I request that you delay the acquisition and implementation until it...is included in the future budget request and receives the proper level of congressional oversight." (Hasson, 24 Feb 200)

In March 2000, the House Armed Services Committee notified the Department of the Navy that it "disagreed with the Navy's approach...", and said that, "a contract of this magnitude constitutes a major acquisition..." (Verton, 13 Mar 2000)

In joint subcommittee hearings of the House Armed Services Committee, Congress questioned where the funding for NMCI was going to come from. At the request of the Military Research and Development Subcommittee of the HASC, the General Accounting Office (GAO) conducted an analysis of NMCI. In its subsequent report, it charged that the Navy:

- Did not develop a formal analysis of program alternatives nor conduct a business case analysis
- Did not resolve key programmatic issues such as how the Intranet was to be managed, funded, what was to happen to current technology and IT personnel
- Did not take risk mitigation steps such as testing the proposed approach on a smaller scale (GAO, 8 Mar 2000)

GAO also charged that the OSD did not:

- Define how it would oversee program requirements
- Establish that NMCI would be consistent with DoD's other command, control, communications, computer, and intelligence systems (GAO, 8 Mar 2000)

The GAO reported back to Congress that, "The...[DOD 5000.2-R]...serves as a general model for acquisition programs that do not meet the definition of a major automated information system...in the absence of an agreed upon oversight process we have looked to the 5000 series of documents for guidance..." (GAO, 8 Mar 2000). Based on this, it did not understand the Navy's departure from the 5000 series instructions.

In its 2001 Defense Appropriations Act, Congress blocked spending on NMCI pending the completion of a laundry list of new requirements. Among them was the requirement to implement NMCI in distinct phases or milestones with operational testing and cost reviews occurring with each phase. The milestones were event driven as follows:

- Initial order...60,000 seats
- Milestone 1...an additional 100,000 seats (160,000 seats ordered in total)
- Milestone 2...an additional 150,00 seats (310,000 seats ordered in total)
- Milestone 3...101,000 seats (411,000 seats ordered in total)

Milestone approval authority was designated as the Chief Information Officer of the Department of Defense and Comptroller of the Department of Defense. In addition, the Secretary of the Navy and the Chief of Navy Operations had to report to Congress that continued implementation of NMCI was in the best interest of the Department of the Navy. Also, Congress specifically directed that acquisition of NMCI be managed in accordance with the requirements of DOD Directive 5000.1 and DOD Regulation 5000.2-R.

Still not pleased with the information coming from the DoN on NMCI, the 2002 Appropriations Act was even more specific. In it, Congress retained the

event driven implementation of NMCI, granting the Secretary of the Navy authority to continue up to a point but subjected progress contingent to approval and certifications by the USD (AT&L) and the DoD CIO. Congress also directed, “The Secretary of the Navy shall assign an employee of the Department of the Navy to the Navy-Marine Corps Intranet program whose sole responsibility will be to oversee and direct the program. The employee so assigned may not also be the program executive officer.” (Public Law 107-107). In essence, Congress directed the Navy to stand up a traditional Program Manager for NMCI separate from the existing Program Executive Office.

As an added precaution, Congress attempted to close the door on future NMCI-like contracts by adding the following provisions:

- none of the funds provided in this Act shall be available to initiate a multiyear contract...in excess of \$20 million in any one year of the contract...unless the congressional defense committees have been notified...in advance of the proposed contract award
- ...no part of any appropriation contained in this Act shall be available to initiate multiyear procurement contracts for any systems or component thereof if the value of the multiyear contract would exceed \$500 million... (Public Law 107-117, 2002)

During the 2003 budget session, Congress continues to closely monitor the implementation of NMCI. In working up the 2003 Defense Appropriations Act, the House Appropriations Committee included “a general provision that prohibits the Navy from ordering additional seats above the current 160,000 authorized by the Office of the Secretary of Defense, and requires that operational test and evaluation be conducted once there has been a full transition of not less than 20,000 workstations to the Navy-Marine Corps Intranet. The Committee believes that the delay in seat orders that will result will also provide the Navy and the contractor much needed time to address the legacy application problems which will arise from the order of the first 160,000 seats.” (House Report 107-532, 2002). The latest Congress remains committed to incremental implementation for NMCI and feels that the DoN is still proceeding too fast. Congress is using its appropriations authority to slow the Navy's implementation of NMCI. In order to provide assistance, Congress authorized in the 2003 Appropriations bill the

extension of the NMCI contract from five to seven years. This was done to allow for delays caused by testing, the handling and integration of hundreds of legacy applications and any difficulties with transference of control over to the contractor.

C. PROPOSED DOD SERVICE ACQUISITION POLICY

In January of 2001, the DoD released the guidebook Performance-Based Services Acquisition. This guidebook was intended to:

- promote performance-based strategies for services acquisitions
- educate the acquisition workforce
- encourage innovative business practices within the DoD acquisition process
- promote the use of the commercial market place
- increase awareness that performance-based services acquisitions require participation from all stakeholders (Gansler, 2001)

In conjunction with the guidebook, DoD also initiated the policy requiring that "50% of all services acquisitions must meet the Performance Based Services Acquisition standards by 2005." (Oliver, 2001) This policy also established an ongoing Integrated Process Team (IPT) co-chaired by the Deputy USD (Acquisition Reform) and the Director, Acquisition Resources and Analysis, and focused on Services Acquisition. The first task of this IPT was to "extend to the acquisition of services a program review structure similar to the one the Department has for the acquisition of systems." (Oliver, 2001)

In conformance with the National Defense Act of FY 2002, the USD (AT&L) called for a review of all DoD acquisitions of services whether they were embedded within a traditional weapons acquisition or not. He specifically directed:

- Decision Authorities to establish mandatory procedures for assigned service acquisitions
- Decision Authorities [to] tailor procedures based on size and complexity of a specific service acquisition...[consistent with statutory requirements]

- DoD Components [to] establish a review process that provides for consistent review and approval of service acquisitions
- The creation of a documented acquisition strategy in support of each proposed service acquisition (USD (AT&L) Review of Acquisition of Services, 2002)

Key personnel identified for review responsibilities were USD (AT&L), ASD (C3I), Component Acquisition Executive, and the Head of Contracting Activity or such designated individual in each Service/Agency. Review thresholds were assigned as depicted in Table 3.

Table 3. Services Acquisitions Review Thresholds

| Review Authority | Programs | FY 2000 Constant Dollars |
|---------------------|-----------------------------------------------------------------------------------------------------------------|------------------------------------------------|
| USD(AT&L) | <ul style="list-style-type: none"> • Designated Programs • Programs of Special Interest | \$2 billion or greater |
| ASD(C3I) | <ul style="list-style-type: none"> • Programs of Special Interest | \$378M Life Cycle Cost or \$126M Total Program |
| CAE or HCA | <ul style="list-style-type: none"> • Designated Programs • Programs of Special Interest | \$0.5 billion - \$2 billion |
| Designated Official | <ul style="list-style-type: none"> • Designated Programs | Below \$0.5 billion |

(After: USD(AT&L) Review of Acquisition of Services)

In addition to the call for Services Acquisitions to be reviewed, USD (AT&L) directed each military component to propose a Services Contracts Oversight Process detailing "process and procedures for their management and oversight of...all acquisitions of services." His charge to DoD was "to treat the acquisition of services as seriously as we do the acquisition of hardware." (Aldridge, 2002)

D. PROPOSED U.S. NAVY & U.S. MARINE CORPS SERVICE ACQUISITION POLICY

The draft of the DoN's Services Contracts Oversight Process states, "oversight of services within DoN is the shared responsibility of requiring activities, contracting activities and the DoN Service Acquisition Executive (SAE)." (Schneider, 2002) The DoN's approach to services acquisition oversight closely mirrors the review process proposed by USD (AT&L). See Figure 3.

Along with these review thresholds, DoN Program Executive Officers, Program Managers and HCAs are directed to "establish review procedures commensurate with [this] process." (Schneider, 2002)

| Service | Total Estimated Dollar Value | Requirements Review | Business Plan Review | Decision Authority |
|---------|------------------------------------------------------------------|----------------------|----------------------------------------|-------------------------|
| Non-IT | AT&L Special Interest | Major Claimant | ASN (RDA) | USD (AT&L) |
| Non-IT | > \$1 billion or ASN (RDA) Special Interest | Major Claimant | HCA | ASN (RDA) |
| Non-IT | Between \$500 million and \$1 billion | Requiring Activity | HCA | ASN (RDA) ABM |
| Non-IT | < \$500 million | Requiring Activity | TBD by Decision Authority | PEO, DRPM or HCA |
| IT | AT&L Special Interest | DASN (C4I, EW/Space) | ASN (RDA) | USD (AT&L) |
| IT | > \$500 million or ASN (RDA) Special Interest | DASN (C4I, EW/Space) | DASN (C4I, EW/Space) via ASN (RDA) ABM | ASD (C3I) via ASN (RDA) |
| IT | \$30 million any one year or \$120 to \$500 million in all years | DASN (C4I, EW/Space) | DASN (C4I, EW/Space) | ASD (C3I) |

Figure 3. Draft DoN Service Acquisition Thresholds (From: Schneider, 2002)

E. COMMERCIAL INDUSTRIES' ACQUISITION OF LARGE-SCALE SERVICES

In 2000, about \$2.1 trillion in services...was sold in the U.S. market place." (GAO, Jan 2002)... leading companies have been examining alternative ways to manage their service spending [in order] to stay competitive, respond to market and stockholder pressures, and deal with economic downturns... (GAO, Jan 2002)

In January of 2002, the GAO, at the behest of the US Senate Subcommittee on Readiness and Management Support, Committee on Armed Services, reported on the best practices of commercial industry in the acquisition

of services. It noted that just as service acquisitions were growing in number among Federal agencies, they were also growing significantly within the private sector to the tune of \$2.1 trillion in 2000 alone. The GAO noted, "the leading companies we studied made a number of dramatic changes to the way they bought services and found that these changes, in turn resulted in significant cost savings and service improvements." (GAO, Jan 2002). The companies studied in the January report were Brunswick Corporation, The Dun & Bradstreet Corporation, EDS, Exxon Mobil Corporation, Hasbro, Inc and Merrill Lynch & Co. Inc.

Brunswick Corporation is "a global leader in the leisure products industry." (MSN, Brunswick Corporation, 2002). Its products range from boating and marine engines to fitness equipment and bowling. From Sep 2001 to Sep 2002 it had \$3.4 billion in sales and \$63 million in income.

The Dun & Bradstreet Corporation (currently called D&B) is "a leading provider of business credit, marketing and purchasing information and receivables management services." (GAO Jan 2002). From Sep 2001 to Sep 2002 it had \$1.3 billion in sales and \$131.4 million in income.

EDS is the largest independent systems management and services firm in the US, second only to IBM worldwide. From Sep 2001 to Sep 2002 it had \$22.3 billion in sales and \$1.3 billion in income.

Exxon Mobile Corporation is the world's largest integrated oil company. From Sep 2001 to Sep 2002 it had \$174.9 billion in sales and \$16.2 billion in income.

Hasbro, Inc. is the #2 toy maker in the U.S. From Sep 2001 to Sep 2002 it had \$2.9 billion in sales and \$60.1 million in income.

Merrill Lynch & Co., Inc. is a leading provider of investment, financing, advisory, insurance and related products and services. From Sep 2001 to Sep 2002 it had \$31.4 billion in sales and \$439 million in income.

These firms are all leaders in their respective markets. Also, they have recently reengineered their approaches to acquiring services to leverage their

buying power, reduce cost, better manage their service providers and improve the quality of services acquired. While these firms did not take the same approach, key to each of their turnarounds appears to be the "strategic approach." (GAO, Mar 2002).

The strategic approach in this case involves recognizing the criticality of the purchase of services and moving that activity from an ancillary level to a core business. Each of these firms began to actively involve senior management in the direction, vision, goals and targets related to service acquisition.

The broad principles, which fall under strategic approach, are commitment, knowledge, change, and support. This includes activities such as "developing a better picture of what the company is spending on services, taking an enterprise wide approach and developing new ways of doing business." (GAO, Jan 2002)

The four common principles and practices of these leading firms as noted by the GAO are:

- Securing up front commitment from top leaders
- Obtaining improved knowledge on service spending
- Creating supporting structure, processes, and roles
- Enabling success through sustained leadership, communication, and metrics (GAO, Jan 2002)

These firms all realized that they needed more information on this "new" core business. They all sought to answer basic questions of "how much was being spent and where the dollars were going." (GAO, Jan 2002) Financial and management systems were shifted from focusing merely on detailed information on components and raw materials to also providing details of services acquired. This data was "used to identify opportunities to rationalize supplier base and reduce costs." (GAO, Jan 2002) Each of these companies found it necessary to go "from a fragmented approach to doing business to one that was more coordinated and strategically-oriented." (GAO, Jan 2002)

Related to the previous point, the companies studied by GAO “generally restructured their procurement organizations.” (GAO, Jan 2002) The main change was to elevate the procurement organization giving it “greater responsibility and authority for strategic planning and management and oversight of the companies’ service spending.” (GAO, Jan 2002)

Success of the strategic approach was seen as dependent upon: continued support of senior management; timely, two-way communication; and use of metrics to evaluate performance, set goals and document results.

F. OTHER FEDERAL SERVICE ACQUISITIONS

The MITRE Corporation was tasked by the U.S. Coast Guard to provide lessons learned from “prior large-scale [IT] modernization programs that could be applied to...[the Coast Guard IT modernization]...program. The MITRE report reviewed the Internal Revenue Service (IRS), the Federal Aviation Administration (FAA), the U.S. Customs Service (Customs), and the U.S. Postal Service (USPS).

“The Internal Revenue Service is the nation's tax collection agency and administers the Internal Revenue Code enacted by Congress. In 2000, the IRS collected more than \$2 trillion in revenue and processed 226 million tax returns.” (IRS, 2002) From 1986 to 2001, the Internal Revenue Service spent more than \$8 billion on tax systems modernization. The GAO concluded that the efforts were “at serious risk due to...pervasive management and technical weaknesses...” (Gomperts, 2001) Among the lessons learned were:

- The need to provide a modernization framework, define roles, responsibilities and processes and delineate a decision making process
- The need to insure that modernization plans to be inclusive and achievable
- The requirement to seek external help if requisite skills do not exist in-house
- The benefit of the use of business cases to justify continuing projects at milestone reviews
- The requirement to actively engage oversight organizations. (Gomperts, 2001)

“The Federal Aviation Administration (FAA) is the element of the U.S. government with primary responsibility for the safety of civil aviation.” (FAA, 2002) The FAA’s modernization program was a “complex system of systems” (Gomperts, 2001) effort dating back to 1981 and was projected to cost \$45 billion through FY2005. GAO’s review of their efforts pinpointed the following problems:

- Immature software acquisition capabilities
- Lack of a complete systems architecture
- Inadequate cost estimating and cost accounting
- Lack of an effective CIO management structure
- Ineffective investment management process
- An organization structure that impaired the acquisition process (Gomperts, 2001)

"The United States Customs Service (Customs) is the primary enforcement agency protecting the Nation’s borders." (Customs, 2002) "It annually collects more than \$20 billion in revenues, processes more than 12 million formal entries a year...[and] monitors an average of 10 million shipments and processes nearly 450 million passengers entering the United States."

Customs began a modernization program in 1994 with incremental deployment through 2005. Early GAO reviews highlighted several concerns including:

- Lack of an effective management and oversight structure
- An incomplete information systems [enterprise architecture]
- Unstructured processes for IT investment management and systems acquisition
- Ineffective software acquisition and development processes (Gomperts, 2001)

According to U.S. Code, Title 39, Section 101,

The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall

have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.

In 2001, the United States Postal Service (USPS) handled 207.5 billion pieces of mail on operating revenue of \$65.8 billion. Beginning in 1986, the USPS initiated the Point-of-Sale Retail Sales (POS ONE) Program "to replace a legacy point-of-sale system at 10,000 sites with a state-of-the-art, wide-area system." (Gomperts, 2001) The program has spent \$650 million through 2001 and estimates spending another \$150 to \$200 million through 2003. The USPS views the program as a success. Attributes that contribute to the success of the program include:

- A strong program office, led by an empowered program manager
- A robust communications and requirements tracking system
- Use of functional experts at the contractors' facilities
- A Vice-President's Oversight Committee along with strong USPS senior management support (Gomperts, 2001)

Common characteristics found in all of the successful programs included:

- A strong program office staffed by people with management and technical expertise
- Strong contract management and a good partnership among all program management office elements
- Good relations and mutual expectations among oversight organizations (Gomperts, 2001)

G. SUMMARY

Service acquisition is not new. Congress passed the Service Contract Act in 1965, but the growing use of this type of acquisition, particularly by DoD, has caused Congress to review it. Congress is apparently not finished. The proposed Services Acquisition Reform Act looks to fill in the gaps left after previous acquisition reform efforts.

NMCI, which arguably started the latest Congressional service acquisition fervor, has received explicit attention. Congress has essentially restructured NMCI from a traditional service contract.

The commercial sector has several lessons learned to offer with regards to service acquisitions. Major firms such as EDS, Exxon, Merrill Lynch and others have separately agreed upon common principles such as securing commitment from leadership, taking a strategic approach and utilizing a strong program office. All of these have implications or applications for NMCI, which are explored in the next chapter.

[Author's Note: On 29 Aug 2002, draft memoranda from the Secretary of Defense began circulating regarding the DoD 5000 series. In the memorandum to top DoD officials, the Secretary expressed his dissatisfaction with the current documents and directed their cancellation and the preparation of revised documentation. In a subsequent draft memorandum, Defense Acquisition System and Operation the Defense Acquisition System, the Secretary provided interim guidance enabling the DoD to continue functioning until permanent documentation can be issued.

The revised documentation is estimated to be roughly 30 pages in length compared to the nearly 200 pages of the current series. It will offer a streamlined approach to acquisition along the lines of what is currently used by the Missile Defense Agency. Key tenants of the new acquisition policy will be:

- Decentralized responsibility
- Program managers allowed to tailor the purchase process
- Technology drives continuous improvements
- Program managers work more closely with units that will use the weapons
- Test and evaluation requirement incorporated throughout development
- Analysis of alternatives to meet a need
- Competitive bids
- Use of commercial technologies where available
- Contractors encouraged to develop realistic cost and schedule goals. (DOD Update, 13 Sep 2002)

On 30 October 2002, the Deputy Secretary of Defense signed and released the interim guidance for Defense acquisitions. The documents released were The Defense Acquisition System and the Operation of the Defense Acquisition System.

With regards to the acquisition of services, the interim guidance states,

All service acquisitions shall utilize a strategic approach [which] includes the development of a picture of what the DoD is spending on services, an enterprise-wide approach to procuring services, and the development of new ways of doing business. (Appendix C)

The guidance also states that,

Each acquisition of services shall have: A documented acquisition strategy, updated when changes occur; metrics for cost, schedule and performance; and an approved data system for the collection and reporting of required data. (Appendix C)

...the management level shall be determined using the total planned dollar value of the acquisition (Appendix C)]

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IV. ANALYSIS

A. INTRODUCTION

It's not everyday that The U.S. Congress takes so hands-on a role in an IT project. But NMCI might be the bellwether Seat implementation furthering the cause of 'service level' IT contracting broadly across government. (GCN, NMCI Bellwether, 7 Aug 2002)

Before service level IT contracting or other forms of service acquisitions spread broadly across Government, some important issues will need to be resolved. Key terms which are associated with service acquisition are not adequately defined which could lead to inconsistent application. Caution must be exercised in using a common instrument such as multiyear contracting, for service acquisitions.

B. ACQUISITION OF SERVICES

Service acquisitions are not viewed on the same level as MDAPs or MAISs. Despite Congress' call for a management structure similar to what is in place for product acquisition, neither the old 5000 series instructions, nor the interim guidance for Defense acquisition, reflect such a management structure for service acquisitions. This may be reflective of a lack of definition regarding just what is a service acquisition.

Both the interim guidance and pending Service policy determine management level for the acquisition of services based on total dollar value. There is no explicit consideration for the function or criticality of a service. Other than dollar value, there is no distinction made between a service contract and a service acquisition. A service, which provides a core function such as NMCI, will be managed the same way as a service providing an ancillary function such as base laundry service, if the dollar values match. Obviously base laundry service is not of the same criticality to an agencies mission success as its information technology architecture.

The expression "strategic approach" is used in both the interim guidance for Defense acquisitions and in the USD(AT&L)'s charge to DoD officials. It is a key goal of DoD service acquisitions and its use reflects the application of lessons learned from the study of best practices from the commercial sector. The expression is not formally defined by the DoD. This could lead to varying interpretation, or worse, varying application of this key attribute. What is commonly given are attributes or factors of the strategic approach. DoD's version of the strategic approach differs from that of the commercial sector as shown in Chapter III. A key attribute from the commercial sector, making service acquisition a core-business, is missing from the attributes described by DoD. This could have the unintended consequence of lowering the importance of critical service acquisitions such as NMCI.

It should be noted that raising the acquisition of services to a core function runs the risk of crossing the line into inherently governmental functions. An argument could be made that if an activity is a core function of a Government entity, it is also inherently governmental. This is a danger that the commercial sector does not have to consider when it raises the scope and value of its service acquisition activities.

While OSD has previously highlighted the danger of under testing commercial items and warned of the dangers of incorporating those items into defense acquisitions, the area of testing of commercial services remains understudied. The assumption exists that commercial products are tested and evaluated by the market place and therefore do not require further testing. Lessons learned from acquisitions involving commercial items indicate that the intended application of an item is as important as the source of that item. A military application can undo a perfect product. There is no reason to assume differently for a commercial service.

C. NMCI

1. Multiyear Contracts

The Navy-Marine Corps Intranet (NMCI) is at its heart a multi-year Performance Based Service Contract, but its size and scope gives pause to many. As an example of a large-scale service acquisition, NMCI raises important questions and implications.

As presented in a previous chapter, the requirements for a multiyear contract from FAR Part 17 are:

- substantial cost savings
- stable requirement
- stable design
- stable funding

While current data does suggest some initial cost savings are being achieved by NMCI, the total savings achieved can only be assessed in the future. The design and intent of NMCI is to achieve those savings in several ways. First, via use of a Fixed-Price contract vehicle, thereby levying a considerable amount of risk on the contractor. Second, by use of a single prime contractor, thereby achieving savings based on an economic order of scale and learning curve. Third, by the inclusion of regular technology upgrades, thereby saving the Department of the Navy from separately trying to keep up with technology. (Clarke, K, 2001) Initial reviews are favorable (Dorobek, 15 Jul 2002).

The requirement for NMCI is not nearly as stable as it seemed. While the use of information technology and the need for an IT infrastructure to support that use is unquestioned, the details of what constitutes the current IT infrastructure, and what will have to be subsumed by NMCI, has not been nearly as harmonious. There has been a gradual revelation of additional legacy systems, “at one point...tallied [at] nearly 100,000 separate applications” (Dorobek, NMCI Feels Appropriations Bite, 8 Jul 2002). This is one of the sources of the U.S. Congress’ concerns over NMCI, and what has inspired much of the U.S. Congress’ response.

As a service contract, there is not a design in the traditional use of the term. The contract itself, as described by both the DoN and Electronic Data Systems Corp (EDS), is a “living document” and “a work in progress” (Harris,

May 2001). Even if the architecture settles into place, this unique contract vehicle would seem to contradict the statutory requirement for a stable design.

A stable design is also meant to mitigate technical risk. The scope of NMCI invites considerable risk. NMCI literally cannot fail, nor can it be easily canceled. Unlike a traditional weapons system, which if cancelled, pays off the contractor and moves on to the next issue, NMCI will become the life-blood of the DoN. If an airplane program is canceled, the U.S. Air Force does not cease to operate; cancel an artillery piece and the U.S. Army does not fold. If NMCI is canceled, the DoN will have to completely replace it in order to continue functioning. Each year that NMCI implementation proceeds, the harder it will be for the DoN to do anything else but NMCI. Although recent statements by the NMCI Program Manager suggest that there is a contingency plan in the event that EDS or any of the other major contractors supporting NMCI were unable to execute the contract there remains significant risk.

With cost estimates ranging from \$6.9 billion to as high as \$16 billion over ten years, the U.S. Congress is very concerned about where the funding is going to come from. The DoN's plan to redirect Operations and Maintenance funds from the U.S. Navy and U.S. Marine Corps already ear-marked for IT did not impress Congress as a stable funding source. Since the requirement in terms of legacy system support was growing, the concern was that the costs were underestimated and that sooner or later the DoN was going to have to go back to Congress to get additional funding or risk draining funds from other programs.

2. Modular Contracts

As discussed in Chapter II, FAR Part 39 directs the use of one or more contracts or modular contracting to acquire information technology systems in successive, interoperable increments. NMCI obviously does not take this approach but rather uses a phased implementation of a single contract to meet its comprehensive goals. This raises the question of how do you balance the integration requirements of IT with the desire and requirement to conduct IT acquisitions in a manageable manner?

3. Program Management

NMCI management was split between seven separate entities:

- ASN(RDA)
- PEO-IT
- SPAWAR
- MARCORSSYSCOM
- CTF NMCI
- HQMC C4
- Senior Level Leadership Council

This is in clear opposition to documented best practices, which stress the utilization of a strong program office led by an empowered program manager. This was clearly a concern of Congress.

The acquisition of IT services is different from other service acquisitions in that they will usually involve a core business function, i.e., information management. The failure of such an acquisition will have a catastrophic effect on an organization. Oversight commensurate with managing a core business function is required.

The fact that IT obsolesces quickly merely adds emphasis to a key tenant of service contracts, that they be employed for reoccurring needs. The short lifecycle of IT means that the procuring contracting officer must pay particular attention to the part of the statement of objectives dealing with component and software upgrades.

Configuration control is also a critical issue in large scale IT service acquisitions. The danger is in upgrading merely to capture the latest and greatest device without factoring in interoperability, utility or usability. Interoperability, i.e., does the new IT being provided work with what is already in place and with the other IT systems that the customer has to interact with? Utility, i.e., does it do the job for which it was needed? Usability, i.e., it may do the job better than anything else but can the customer figure it out and make practical use of it?

4. Congressional Direction

While not every NMCI delay can be attributed to Congressional action, such action has, in fact, delayed and restructured the program. The delays began right from the beginning. Contract award, which was originally planned for June 2000, was delayed to October 2000 by the vocal concerns of the U.S. Congress.

The testing and reporting mandated by Congress in its 2001 Defense Authorization bill also forced the DoN to delay implementation. Key to the delay was the question of what do you test when you acquire commercial services. A subsequent agreement allowed the NMCI to continue but ensured that a full operational testing and evaluation cycle would be performed within the fiscal year.

In addition, Congress exercised its power of the purse strings. The 2002 Defense authorization trimmed NMCI from \$647 million to \$527 (Onley, 13 Aug 2001). For the 2003 budget, the authorization trimmed NMCI from \$1.4 billion down to just \$691 million (Onley, 2002). Congressional concerns over the handling of legacy systems, testing, service, use of inferior equipment and the potential of lost data by NMCI are all reasons behind the budget cuts.

D. SUMMARY

Congress will closely scrutinize future service acquisitions. With the 2001 Defense Authorization Bill, Congress lowered the threshold for multiyear contracts down to \$20 million per year or Five Hundred Dollars for a single year new award. Congress is aware that the other Departments and Agencies are looking at the progress of NMCI. In discussing information technology for the proposed department of Homeland Security, Richard Clark, special adviser to President Bush for cyberspace security said, "The model that we're looking at is the model of the Navy-Marine Corps [Intranet]" (Merle, Oct 2002). The U.S. Congress wants Service Contracting to expand; they just want to ensure that they are included in the process. As the number and value of these acquisitions rises, DoD will need to further refine their nature and requirements.

V. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCTION

This research examined the oversight and general processes associated with the acquisition of services by the Department of Defense (DoD). The research used the Navy-Marine Corps Intranet (NMCI) as a case study to reveal issues and potential problems associated with this acquisition type.

The purpose of this chapter is to present conclusions and recommendations based on the research effort. The answers to the primary and subsidiary research questions will be summarized along with suggestions for further research.

B. CONCLUSIONS

The NMCI contract revealed a significant gap in the policy and procedures governing Defense acquisitions. This research identified the lack of distinction between service acquisitions and service contracts. NMCI highlights this issue because it is both. It is an individual service contract, and it is a comprehensive service acquisition. DoN emphasized the contract aspects, Congress saw only its acquisition side. There is nothing, in terms of policy, to compel a merger of the two constructs.

As shown in this research, service acquisitions are not new and oversight of them by competent entities has existed from an early date. Prior to NMCI, service acquisitions were almost exclusively viewed collectively. NMCI is one of the few service acquisitions to be large enough to warrant individual attention. Based on current policy and regulations, the NMCI contract was correct.

NMCI is not the best example of a multiyear contract, but given the scope of its requirements and the lack of a suitable alternative it is acceptable. Congress was correct to examine NMCI in detail and insist upon more definition in the justification for the requirement, solution, execution, and funding. Imposing a single point of contact, i.e. a program manager, made sense when compared to the multi-headed organization arrangement originally proposed. All of these changes,

while delaying the execution of NMCI, have arguably made it a better program. The real outcome of NMCI, in terms of results for total cost, schedule and performance, will have to await the future. Only then will the effectiveness of the oversight measures put in place really be measurable. Starting a major IT acquisition program without a formal business case analysis and without a formal technical exit strategy beyond how the contract itself would be closed is highly risky.

The management level of service acquisitions is more than just a reflection of their total dollar value. It is a deliberate assessment of the criticality of these acquisitions to their owning entity, the risk and impact of failure, and interest shown by oversight agencies. Although these could correlate with dollar value, they do not automatically do so.

The testing and evaluation of services must avoid the mentality of "it's commercial so it must be acceptable." Testing and evaluation must focus on the right aspects of the service. The danger is that the evaluation will focus exclusively on the product or products being used in the service and fail to evaluate the overall service being provided.

C. RECOMMENDATIONS

1. Create New Major Acquisition Categories

As a means of bringing parity to service acquisition, add Major Defense Service Acquisition (MDSA) and Major Information Technology Service Acquisition (MITSA) as additional categories of Defense acquisitions. Doing this would recognize the critical nature of service acquisition as a core function and would be an important step in distinguishing between service acquisitions and service contracts. The unique nature of IT acquisition warrants a separate category just as it is separate in product acquisition.

A model for the management structure for these new categories already exists in the Service Contracts Oversight Processes recently developed.

2. Define Strategic Approach

Define strategic approach within the upcoming DoD Defense acquisition guidance, thereby removing the ambiguity which currently exists with this term.

3. Develop Testing Parameters

The Office of Secretary of Defense, Operational Test & Evaluation (OSD(OT&E)) should be enlisted to examine and develop suitable testing criteria for the evaluation of services. These tests must examine the acquisition performance in the indented application environment and not just focus on individual products.

4. Apply the Guidance Already Developed

Detailed policy and guidance has already been developed and promulgated concerning Performance Based Service Contracting, Modular Contracting and multi-year contracting. The interim Defense acquisition guidance also specifically addresses the acquisition of services. All of this is available immediately. Their application would greatly serve to address the issues found in this research.

5. Apply Other Best Practices

GAO and other prominent consulting firms have studied the best practices of other Federal agencies and the commercial sector. Recognizing that commercial practices do not always translate directly to Federal activities, apply those practices and lessons learned which are translatable.

6. Training

The crafting of policy is never a substitute for adequate training of the people required to execute it. Include acquisition and other Defense leaders instruction in service acquisition at key DoD education centers such as the Defense Acquisition University, the Industrial College of the Armed Forces and the Naval Postgraduate School. Provide the many working level acquisition professionals education regarding service acquisition via distance learning, on site instruction, and forwarded materials.

D. REVIEW OF RESEARCH QUESTIONS

1. Primary Question

The primary research question that this thesis attempted to answer was:

Are the current and proposed policies and procedures associated with the supervision of acquisition of services, such as the Navy-Marine Corps Intranet, effective and consistent with best practices?

Based on this research, the current policies and procedures associated with the supervision of acquisition of services are not effective, nor are they consistent with best practices. Proposed policies and recently adopted legislation address the inefficiencies and incorporate many of the best practices. As indicated in the Recommendations section, more best practices could be adopted.

2. Subsidiary Questions

a. How does the DoD currently manage the acquisition of large-scale systems and services?

DoD manages the acquisition of systems via a formal milestone, testing, and decision-making process described within the DoD 5000 series of regulations. Milestone decisions on Major Defense Acquisition Programs are made by the Under Secretary of Defense (Acquisition, Technology & Logistics), or by the Assistant Secretary of Defense (Command, Control, Communications & Intelligence).

DoD manages the acquisition of services, large-scale or otherwise, via its regular contracting mechanisms. The Federal Acquisition Regulation, particularly Part 37, governs these mechanisms. The flow of authority for contracting goes from the head of the individual agency, to the senior procurement executive within that agency, to the head of the contracting activity, down to the procuring contracting officer (PCO). There are no formal milestones, testing or decision making required once the contract is initiated. The contract itself just needs to be administered and ultimately closed.

b. What policies and procedures are being proposed for DoD's management of large-scale services?

The DoN is proposing a management structure for large-scale service acquisitions, which in some ways will mirror what is in place for product acquisitions. The proposed policy will categorize service contracts by their dollar values as is currently done for weapon and product acquisitions. However, the policy will retain acquisition authority within the traditional contracting channels. While no formal testing or milestones are being proposed, the policy will establish review procedures.

The U.S. Congress is also proposing a new management structure, which will mirror what exists for other comparable acquisitions. If NMCI is any guide, the U.S. Congress' approach will also include a degree of formal testing along the lines of traditional weapon acquisitions.

The interim guidance for Defense acquisitions insists that service acquisitions utilize a strategic approach to include:

- Development of a picture of what the DoD is spending on services
- An enterprise-wide approach to procuring services
- Development of new ways of doing business.

This guidance also insists that each acquisition of services have:

- A documented acquisition strategy, updated when changes occur
- Metrics for cost, schedule and performance
- An approved data system for the collection and reporting of required data

c. What are the best practices, both commercial and federal, for the acquisition of large-scale services?

Among the keys within commercial industry for successfully managing large-scale services are:

- Securing up front commitment from top leader
- Obtaining improved knowledge on service spending
- Creating supporting structure, processes, and roles
- Enabling success through sustained leadership, communication, and metrics

- A strong program office staffed by people with management and technical expertise
- Strong contract management and a good partnership among all program management office elements
- Good relations and mutual expectations among oversight organizations

E. AREAS REQUIRING FURTHER RESEARCH

1. The Execution of Service Acquisition within the Environment of Evolutionary Acquisition and Spiral Development

Evolutionary Acquisition:

An acquisition strategy that defines, develops, produces or acquires and fields an initial hardware or software increment of operational capability... followed by subsequent increments of capability over time that accommodate improved technology and allowing for full and adaptable systems over time. (Aldridge, 12 Apr 2002)

Spiral Development:

An iterative process for developing a defined set of capabilities within one increment. This process provides the opportunity for interaction between the user, tester, and developer. In this process the requirements are refined through experimentation and risk management, there is continuous feedback and the user is provided the best possible capability within the increment. Each increment may include a number of spirals. Spiral development implements evolutionary acquisition. (Aldridge, 12 Apr 2002)

How does service acquisition support these new acquisition initiatives?

Where are the conflicts between service acquisition and evolutionary acquisition?

2. Testing and Evaluation of Service Contracts

What testing should be conducted by OSD(OT&E) and what should be conducted by the buying agency for a Major Defense Service Acquisition? How should the rests of such testing be evaluated?

E. THESIS SUMMARY

Large-scale service acquisitions are becoming an increasing part of the Defense Acquisition System, and of how DoD secures and sustains the technologies, programs, and product support necessary to achieve the National

Security Strategy and support the United States Armed Forces. Both DoD and the U.S. Congress recognize that current regulations and policies do not adequately address this shift. Both institutions are making significant changes to bring the Defense Acquisition System in line with the best current practices and to set the stage for acquisitions in the near future.

Even in the age of the war on terrorism, the Defense dollar will increasingly be asked to do more without help. An aging and increasingly retirement eligible acquisition workforce will only compound the issue. Outsourcing of functions previously done in-house will become the norm if not an urgent necessity. This means that all inherently governmental functions will have to be reexamined. New initiatives such as evolutionary acquisition and spiral development will further change the way DoD acquires the goods and services it requires, and could redefine the environment in which service acquisitions are conducted. Since NMCI will not be the last or the largest service contract to be awarded by DoD, the opportunity exists now to get in front of this train, to craft the policy and procedures needed, and to redefine the relationships which currently exist with oversight bodies such as the U.S. Congress.

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APPENDIX A. MEMORANDUM: ACQUISITION OF SERVICES



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

31 MAY 2002

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
CHAIRMAN OF THE JOINT CHIEFS OF STAFF
UNDER SECRETARIES OF DEFENSE
DIRECTOR, DEFENSE RESEARCH AND DEVELOPMENT
GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE
INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE
DIRECTOR, OPERATIONAL TEST AND EVALUATION
COMMANDERS OF THE COMBATANT COMMANDS
ASSISTANT SECRETARIES OF DEFENSE
DIRECTORS, DEFENSE AGENCIES
DIRECTORS, DOD FIELD ACTIVITIES

SUBJECT: Acquisition of Services

Sections 801 through 803 of the National Defense Authorization Act for Fiscal Year 2002, Pub. L. 107-107, establishes a series of requirements impacting the acquisition of services in the Department of Defense. My office is in the process of implementing those various requirements. The attached policy guidance establishes a review structure and process for the acquisition of services in accordance with section 801(d). Other implementation actions will be issued separately.

Through this guidance and other forthcoming guidance, it is my intent to move DoD to a more strategic and integrated approach to the acquisition of services that recognizes the importance of service acquisitions to the Department and the need to treat the acquisition of services as seriously as we do the acquisition of hardware.

Within 60 days of the date of this Memorandum, each of the Military Components will propose a Services Contracts Oversight Process (SCOP) – a process and procedures for their management and oversight of acquisition of all acquisitions of services. This process will be reviewed by an OSD team, led by the Director of Acquisition Resources and Analysis, who will provide a recommendation to me and upon approval I will delegate oversight responsibility to the Component.

My point of contact for this action is Mr. Richard K. Sylvester, Office of the Director, Acquisition Initiatives. Mr. Sylvester may be reached by phone at 703-697-6399 or by e-mail at richard.sylvester@osd.mil.


E. C. Aldridge, Jr.

Attachment
As stated



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APPENDIX B. DRAFT DON SCOP



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
RESEARCH, DEVELOPMENT AND ACQUISITION
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

AUG 08 2002

MEMORANDUM FOR DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS
OUSD(AT&L)

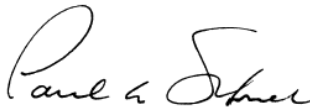
Subj: SERVICES CONTRACTS OVERSIGHT PROCESS

Ref: (a) USD(AT&L) memorandum of May 31, 2002

Encl: (1) DEPARTMENT OF THE NAVY SERVICES CONTRACTS OVERSIGHT
PROCESS

Reference (a) provided guidance for the oversight of the acquisition of services and requests each of the military components to submit a Services Contract Oversight Process for review. Enclosure (1) is based on the existing Department of the Navy Program Executive Officer/Direct Reporting Program Manager/Systems Command oversight structure. It includes tiered review/approval levels based on estimated total dollar value of each service acquisition.

My action officer for this action is Bob Johnson who can be reached at johnson.robert@hq.navy.mil or (703) 602-2805.


Paul A. Schneider
Principal Deputy

Department of the Navy (DoN) Service Contracts Oversight Process

APPLICABILITY

This document establishes the Department of the Navy (DoN) process for oversight of the acquisition of services. This process is to ensure that services acquisitions are of the highest quality and support DoN objectives, and are, to the maximum extent practicable, based on clear, performance-based requirements; that required outcomes are identified and measurable; and that acquisitions are properly planned and administered to achieve the intended results.

This process implements the requirements of Section 801 of the National Defense Authorization Act for Fiscal Year 2002, Pub. L. 107-107, and USD(AT&L) policy guidance of May 31, 2002 (attachment 1).

This document does not apply to major and non-major defense acquisition programs and major and non-major information technology acquisition programs managed and reviewed under DoD/SECNAV 5000 series documents.

This policy applies to all DoN organizations and activities.

DEFINITIONS

For purposes of this process:

"Decision Authority" means the official with review and approval authority for an acquisition strategy.

"Estimated dollar value" means the total estimated value of an acquisition based on the value of the total planned requirement, including options, fund transfers, provisioning, etc.

"Service" means a requirement to perform an identifiable task, or tasks, rather than to furnish an end item of supply.

"Service Acquisition" means the execution of one or multiple contracts or other instruments for committing or obligating funds (e.g., fund transfer, placing orders under Federal Supply schedules or other contracts, etc.) to meet the specific service requirement.

RESPONSIBILITY

Oversight of services within DoN is the shared responsibility of requiring activities, contracting activities and the DoN Service Acquisition Executive (SAE). This Services Contracts Oversight Process (SCOP) is based on existing DoN acquisition oversight structure with review and approval levels based on total estimated dollar value.

Requiring activities, in conjunction with supporting contracting activities, will prepare an Acquisition Strategy containing the information required by attachment A to USD(AT&L) policy guidance on the acquisition of services (see USD(AT&L) memorandum of May 31, 2002). Contracting activities shall ensure that Federal socio-economic programs are given proper consideration.

REVIEW AND APPROVAL THRESHOLDS

USD(AT&L) will review and approve service acquisitions identified by USD(AT&L) as Special Interest, regardless of the purpose or total estimated dollar value. Acquisition strategies for USD(AT&L) approval shall be submitted via the DoN SAE.

ASD(C³I) will review and approve Information Technology (IT) service acquisitions in accordance with the Major Automated Information Systems thresholds in DoD 5000.2 series documents.

The DoN SAE will review Service acquisitions designated as Special Interest by USD(AT&L) and will review and approve service acquisitions with a total estimated dollar value of \$1 billion or more as well as service acquisitions identified by the DoN SAE as Special Interest. The Deputy for Acquisition and Business Management (DASN(RDA)), will review service acquisitions requiring USD(AT&L) or DoN SAE approval and will review and approve non-IT service acquisitions with a total estimated dollar value between \$500 million and \$1 billion.

The DASN(C⁴I/EW/Space) will review IT service acquisitions requiring ASD(C³I) approval and ASN(RDA) IT special interest acquisitions. Acquisition strategies over \$500 million or designated ASN(RDA) special interest acquisitions shall be forwarded for ASN(RDA) review via DASN(ABM).

Program Executive Officers, Direct Reporting Program Managers and/or Heads of the Contracting Activity will review service acquisitions under their cognizance requiring USD(AT&L), Don SAE or DASN(ABM) approval and will review and approve service acquisitions with an estimated value below \$500 million.

For service acquisitions identified by activities outside of the acquisition commands, the Head of the DoN Contracting Activity normally providing contract support to the requiring activity will review and approve service acquisitions with an estimated value below \$500 million.

Approval authority for service acquisitions below \$500 million is delegable, but, for acquisitions over \$100 million, limited to Flag or General Officers, members of the Senior Executive Service, or Commanding Officers.

| Service | Total Estimated Dollar Value | Requirements Review | Business Plan Review | Decision Authority |
|---------|------------------------------------------------------------------|----------------------|----------------------------------------|-------------------------|
| Non-IT | AT&L Special Interest | Major Claimant | ASN (RDA) | USD (AT&L) |
| Non-IT | > \$1 billion or ASN(RDA) Special Interest | Major Claimant | HCA | ASN (RDA) |
| Non-IT | Between \$500 million and \$1 billion | Requiring Activity | HCA | ASN (RDA) ABM |
| Non-IT | < \$500 million | Requiring Activity | TBD by Decision Authority | PEO, DRPM or HCA |
| IT | AT&L Special Interest | DASN (C4I, EW/Space) | ASN (RDA) | USD (AT&L) |
| IT | > \$500 million or ASN(RDA) Special Interest | DASN (C4I, EW/Space) | DASN (C4I, EW/Space) via ASN (RDA) ABM | ASD (C3I) via ASN (RDA) |
| IT | \$30 million any one year or \$120 to \$500 million in all years | DASN (C4I, EW/Space) | DASN (C4I, EW/Space) | ASD (C3I) |

REVIEW PROCEDURES

An Acquisition Strategy for service acquisitions meeting the review thresholds above will be forwarded for review and approval prior to initiating significant action to commit the Government to such strategy. Acquisition strategies requiring USD(AT&L), DoN SAE or ASN(RDA)ABM review and approval will be submitted via DASN(ABM). IT service acquisitions for USD(AT&L), ASD(C³I) approval will be submitted via DASN(C⁴I, EW/Space).

For acquisition strategies requiring USD(AT&L) or ASD(C³I) review and approval, within 10 working days of receipt of the acquisition strategy, USD(AT&L) or ASD(C³I) will provide the DoN SAE a determination whether to conduct further review of the acquisition strategy. If further review is conducted, it will be completed within 30 working days of the determination. If the determination to conduct further review is not made within 10 working days of receipt, the acquisition may proceed.

Program Executive Officers/Direct Reporting Program Managers/Heads of Contracting Activities will establish review procedures commensurate with the review process above.

METRICS

The preferred acquisition strategy is performance based. To the extent practicable, the acquisition strategy should include cost, schedule and performance metrics that measure service acquisition outcomes against requirements. Decision authorities will approve metrics for service acquisitions as part of their review and approval of the acquisition strategy. If metrics are not submitted with the acquisition strategy, the metrics must be submitted for decision authority approval prior to execution of any business instrument that initiates the acquisition. The timelines for USD(AT&L) or ASD(C³I) metric review are identical to those for review of an acquisition strategy.

DATA COLLECTION

Requiring activities shall provide annual reports on service acquisitions addressing the information required by Attachment B to USD(AT&L) policy guidance on the acquisition of services (see USD(AT&L) memorandum of May 31, 2002). Pending USD(AT&L) identification of an approved data collection system, reports

shall be submitted, in Excel or similar electronic spreadsheet format, to ASN(RDA) or, for IT services, DASN(C⁴I, EW/Space).

EXECUTION REVIEWS

Annual reports on program progress toward meeting approved metrics will be submitted to the decision authority unless the decision authority identifies an alternate reporting schedule.

APPENDIX C. INTERIM GUIDANCE

Operation of the Defense Acquisition System

TAB H

ACQUISITION OF SERVICES

Section 801 of the National Defense Authorization Act for Fiscal Year 2002, Pub. L. 107-107, required establishment of a management structure for the procurement of services by the Department of Defense. This management structure requires that the acquisition of services shall be based on clear, performance-based requirements, and require identified and measurable outcomes properly planned and administered to achieve the intended results. The following guidance shall apply:

H1. Outcomes

H1.1. All service acquisitions shall utilize a strategic approach to include:

H1.1.1. Development of a picture of what the DoD is spending on services;

H1.1.2. An enterprise-wide approach to procuring services; and

H1.1.3. Development of new ways of doing business.

H1.2. All service acquisitions shall be acquired by business arrangements that are in the best interests of the DoD and are entered into or issued and managed in compliance with applicable statutes, regulations, directives, and other requirements, regardless of whether the services are acquired by the DoD or by an official of the United States outside the DoD. PMs shall coordinate with the DoD Component manpower authority in advance of contracting for operational support services to ensure that tasks and duties that are designated as inherently governmental or exempt are not contracted.

H2. Decision Authorities shall establish mandatory procedures for assigned service acquisitions.

H3. Each DoD Component shall establish a management review process that provides for consistent review and approval of service acquisitions.

H4. Each acquisition of services shall have:

H4.1. A documented acquisition strategy, updated when changes occur;

H4.2. Metrics for cost, schedule and performance;

H4.3. An approved data system for the collection and reporting of required data.

H5. The Decision Authority shall conduct execution reviews to assess progress against the metrics.

H6. Management of the acquisition of services is the responsibility of the USD(AT&L), ASD(C3I) for information technology, the CAE, the Head of Contracting Activity (HCA) (for those Components without a CAE), or such

designated officials in each Service/Agency as identified by the CAE or HCA (for those Components without a CAE). Each of these designated officials can be a Decision Authority, and have the authority to exercise approval over the service acquisition, provided the designated official is independent of the official developing and executing the service acquisition strategy.

H7. The acquisition of services may require the execution of multiple contracts or other instruments for committing or obligating funds (e.g. funds transfers; placing orders under existing contracts), therefore, the management level shall be determined using the total planned dollar value (including options, contingencies, funds transfers, provisioning, etc) of the acquisition.

H8. Additional guidance regarding USD(AT&L) and OSD reviews appears in the Guidebook.

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