

**GAO**

Testimony

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and Management Support, Committee on  
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**DEFENSE ACQUISITIONS**

**DOD Needs to Exert  
Management and Oversight  
to Better Control  
Acquisition of Services**

Statement of Katherine V. Schinasi, Managing Director  
Acquisition and Sourcing Management



# Report Documentation Page

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## Why GAO Did This Study

The Department of Defense (DOD) is relying more and more on contractors to provide billions of dollars in services. Congress has been concerned about DOD's ability to prudently manage these funds, and this subcommittee in particular has pushed DOD to employ sound business practices when using the private sector for services. Nevertheless, DOD may not have always obtained good value while spending billions of dollars on services at a time when serious budget pressures are facing the nation.

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

The testimony is based on GAO's work from the past decade as well as recent reports issued by the Inspectors General.

## What GAO Recommends

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

[www.gao.gov/cgi-bin/getrpt?GAO-07-359T](http://www.gao.gov/cgi-bin/getrpt?GAO-07-359T).

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

## DEFENSE ACQUISITIONS

# DOD Needs to Exert Management and Oversight to Better Control Acquisition of Services

## What GAO Found

Numerous persistent problems have resulted in reduced efficiencies and effectiveness and have exposed DOD to unnecessary risks when acquiring services. Knowing the defense acquisition landscape helps put the magnitude of these problems in perspective—

- DOD's obligations on service contracts have jumped from \$82.3 billion in fiscal year 1996 to \$141.2 billion in fiscal year 2005.
- DOD's acquisition workforce has been downsized during this time frame without sufficient attention to requisite skills and competencies.

These events have occurred as DOD has become more reliant on contractors to provide services for DOD's operations and as longstanding problems with contract management continue to adversely impact service acquisition outcomes. The lack of sound business practices—poorly defined requirements, inadequate competition, inadequate monitoring of contractor performance, and inappropriate uses of other agencies' contracts and contracting services—exposes DOD to unnecessary risk and wastes resources. Moreover, DOD's current management structure to oversee service acquisition outcomes has tended to be reactive and its processes suffer from the absence of several key elements at both a strategic and transactional level.

To produce desired outcomes, DOD and its contractors need to clearly understand acquisition objectives and how they translate into a contract's terms and conditions. GAO has found cases in which the absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor service acquisition outcomes. Likewise, obtaining reasonable prices depends on the benefits of a competitive environment, but we have continually reported on cases in which DOD sacrificed competition for the sake of expediency. Monitoring contractor performance to ensure DOD receives and pays for required services is another control we have found lacking. Many of these problems show up in DOD's use of other agencies' contracts or contracting services, which adds complexity as the number of parties in the contracting process increases.

DOD has taken some steps to improve its management of services acquisition, and it is developing an integrated assessment of how best to acquire services. DOD leadership will be critical for translating this assessment into policy and, most importantly, effective frontline practices. At this point, however, DOD does not know how well its services acquisition processes are working, which part of its mission can best be met through buying services, and whether it is obtaining the services it needs while protecting DOD's and the taxpayer's interests.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss challenges the Department of Defense (DOD) faces in acquiring services to support its operations. Although many of these challenges are long-standing, they have become more apparent in recent years as the department's reliance on contractors has grown in size and scope. In fiscal year 2005, DOD obligated more than \$141 billion on service contracts, a 72-percent increase since fiscal year 1996. As you know, however, DOD does not always use sound contracting practices when acquiring these services and the department is operating with a deficit of people with the right skills to support its acquisitions. Consequently, DOD may not have always obtained good value when buying billions of dollars of services at a time when serious budget pressures face the nation.

This subcommittee has explored new approaches and supported legislation to improve DOD's acquisition of services. It has emphasized the use of sound business practices and competition to obtain services at reasonable prices for DOD and ultimately the taxpayer. In addition, it has encouraged DOD to establish a structure to better manage its acquisition of services. Despite these efforts, many improvements are still needed. The recurring nature of DOD's problems is evidenced by the fact that DOD contract management has been on GAO's list of high-risk areas since 1992.<sup>1</sup> In January 2005, we added the management of interagency contracting to the list. In July 2006, we reported on DOD's vulnerabilities to contracting fraud, waste, and abuse.<sup>2</sup>

Today, I would like to discuss DOD's (1) increasing reliance on contractors, (2) failure to consistently follow sound business practices when acquiring services, and (3) opportunities for DOD to improve its management of services. My statement is based on work that GAO has completed over the past decade, which was conducted in accordance with generally accepted government auditing standards. Additionally, my statement draws on recent reports issued by the DOD Inspector General and General Services Administration Inspector General.

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<sup>1</sup>GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington, D.C.: January 2005).

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

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## Summary

Negative outcomes should be no surprise given the convergence of DOD's growing reliance on contractors to provide services and long-standing problems with contract management. These problems—ill-defined requirements, inadequate competition, ineffective management and surveillance of contractor performance, and inappropriate uses of other agencies' contracts—have resulted in outcomes that have cost the department valuable resources. These problems are not new and, if they remain unresolved, will only continue to waste DOD's resources. However, the department is not in a good position to address these long-standing problems. DOD does not know where it wants service acquisitions to be in the next few years or how to get there. DOD is taking some steps to address these problems but much remains to be done.

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## DOD Increasingly Relies on Contractor-Provided Services

Over the past decade, DOD has increasingly relied on contractors to provide a range of mission-critical services from operating information technology systems to providing logistical support on the battlefield. The growth in spending on services clearly illustrates this point. DOD's obligations on service contracts rose from \$82.3 billion in fiscal year 1996 to \$141.2 billion in fiscal year 2005 (see table 1). DOD committed 20 percent of its obligations on services in fiscal year 2005 for professional, administrative, and management support contracts. Overall, according to DOD, the amount obligated on service contracts exceeded the amount the department spent on supplies and equipment, including major weapon systems. To a large degree, this growth simply happened and was not a managed outcome.

**Table 1: Changes in DOD's Use of Service Contracts, Fiscal Years 1996 to 2005 (fiscal year 2005 dollars in billions)**

Service category	Service obligations Fiscal year		Percentage of service obligations, fiscal year 2005	Percentage change, fiscal years 1996 to 2005
	1996	2005		
Professional, administrative, and management support	\$10.8	\$28.3	20.0	161
Construction of facilities	7.3	11.7	8.3	62
Maintenance and repair of equipment	6.6	11.4	8.1	74
Information technology	4.9	10.3	7.3	110
Medical services	1.6	8.0	5.6	412
Transportation, travel, and relocation	2.4	6.2	4.4	154
Housekeeping services	2.4	4.8	3.4	98
All other services, excluding research and development <sup>a</sup>	22.7	23.6	16.7	4
Research and development	23.7	37.0	26.2	56
<b>Total, all service contracts</b>	<b>\$82.3</b>	<b>\$141.2</b>	<b>100.0</b>	<b>72</b>

Source: DOD's DD350 database for all actions exceeding \$25,000 (data); GAO (analysis).

<sup>a</sup>Other services include photographic, mapping, and printing; education and training; and social services, among others.

As service acquisition spending has grown, the size of the civilian workforce has decreased. More significantly, DOD carried out this downsizing without ensuring that it had the specific skills and competencies needed to accomplish DOD's mission. For example, the amount, nature, and complexity of contracting for services have increased, which has challenged DOD's ability to maintain a workforce with the requisite knowledge of market conditions and industry trends, the ability to prepare clear statements of work, the technical details about the services they procure, and the capacity to manage and oversee contractors. In addition, new skills have been required to use alternative contracting approaches introduced by acquisition reform initiatives.

Participants in an October 2005 GAO forum on Managing the Supplier Base for the 21st Century commented that the current federal acquisition workforce significantly lacks the new business skills needed to act as contract managers. In June 2006, DOD issued a human capital strategy that acknowledged that DOD's civilian workforce is not balanced by age or experience. DOD's strategy identified a number of steps planned over the next 2 years to more fully develop a long-term approach to managing its acquisition workforce. Many personnel, however, are involved in acquiring services. In the broadest sense, these personnel include not only the contracting officers who award contracts, but also those personnel who

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define the requirements, receive or benefit from the services obtained, monitor contractor performance, and pay for the services.

A report we issued in November 2006 on DOD space acquisition provides an example of downsizing in a critical area—cost estimating.<sup>3</sup> In this case, there was a belief within the government that cost savings could be achieved under acquisition reform initiatives by reducing technical staff, including cost estimators, since the government would be relying more on commercial-based solutions to achieve desired capabilities. According to one Air Force cost-estimating official we spoke with, this led to a decline in the number of Air Force cost estimators from 680 to 280. According to this official, many military and civilian cost-estimating personnel left the cost-estimating field, and the Air Force lost some of its best and brightest cost estimators. In turn, because of the decline in in-house resources, space program offices and Air Force cost-estimating organizations are now more dependent on support from contractors. For example, at 11 space program offices, contractors accounted for 64 percent of cost-estimating personnel. The contractor personnel now generally prepare cost estimates while government personnel provide oversight, guidance, and review of the cost-estimating work. Reliance on support contractors raises questions from the cost-estimating community about whether numbers and qualifications of government personnel are sufficient to provide oversight of and insight into contractor cost estimates.

DOD also relies extensively on contractors to undertake major reconstruction projects and provide logistical support to troops in Iraq. DOD is responsible for a significant portion of the more than \$30 billion in appropriated reconstruction funds and has awarded and managed many of the large reconstruction contracts, such as the contracts to rebuild Iraq's oil, water, and electrical infrastructure, and to train and equip Iraqi security forces. Further, U.S. military operations in Iraq have used contractors to a far greater extent than in prior operations to provide interpreters and intelligence analysts, as well as more traditional services such as weapons systems maintenance and base operations support. These services are often provided under cost-reimbursement type contracts, which allow the contractor to be reimbursed for reasonable, allowable, and allocable costs to the extent prescribed in the contract. Additionally, after the September 2001 terrorist attacks, increased security

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<sup>3</sup>GAO, *Space Acquisitions: DOD Needs to Take More Action to Address Unrealistic Initial Cost Estimates of Space Systems*, [GAO-07-96](#) (Washington, D.C.: Nov. 17, 2006).

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requirements and the deployment of active duty and reserve personnel resulted in DOD having fewer military personnel to protect domestic installations. For example, the U.S. Army awarded contracts worth nearly \$733 million to acquire contract guards at 57 installations.

Other factors have contributed to the growth in service contracts. For example, DOD historically bought space launch vehicles, such as the Delta and Titan rockets as products. Now, under the Evolved Expendable Launch Vehicle program, the Air Force purchases launch services using contractor-owned launch vehicles. Similarly, the Air Force and Army turned to service contracts for simulator training primarily because efforts to modernize existing simulator hardware and software had lost out in the competition for procurement funds. Buying training as a service meant that operation and maintenance funds could be used instead of procurement funds.<sup>4</sup>

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## DOD Does Not Consistently Use Sound Business Practices

Our work, along with that of the Inspectors General, has repeatedly found problems with the practices DOD uses to acquire services. Too often, the department obtains services based on poorly defined requirements and inadequate competition. Similarly, it does not always oversee and manage contractor performance once a contract is in place. All of these problems show up in the department's use of other agencies' contracts. Collectively, these problems expose DOD to unnecessary risk and poor outcomes.

## Poorly Defined Requirements

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

- In June 2004, we found that during Iraqi reconstruction efforts, when requirements were not clear, DOD often entered into contract arrangements that introduced risks.<sup>5</sup> We reported that DOD often

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<sup>4</sup>Various funds can be used to acquire services, depending on the nature of service.

<sup>5</sup>GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

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authorized contractors to begin work before key terms and conditions and the work to be performed and its projected costs were fully defined. In September 2006, we reported that, under this approach, DOD contracting officials were less likely to remove costs questioned by auditors if the contractor had incurred these costs before reaching agreement on the work's scope and price.<sup>6</sup> In one case, the Defense Contract Audit Agency questioned \$84 million in an audit of a task order for an oil mission. In that case, the contractor did not submit a proposal until a year after the work was authorized, and DOD and the contractor did not negotiate the final terms of the contract until more than a year after the contractor had completed the work.

- The DOD Inspector General found similar problems with DOD's use of letter contracts. While this type of contract may be necessary to initiate work quickly to meet urgent operational needs, costs on letter contracts are more difficult to control because the requirements and costs are undefined. In August 2004, the Inspector General reported that contracting officials did not adequately definitize the acquisition requirements within the required time frames. Further, the Inspector General noted officials did not document the reasonableness of the profit rates charged by the contractors.<sup>7</sup> We are continuing to do work in this area.
- In July 2004, we noted that personnel using the Army's Logistics Civil Augmentation Program (LOGCAP) contract in Iraq, including those that may be called upon to write statements of work and prepare independent government cost estimates, had not always received the training needed to accomplish their missions.<sup>8</sup> We noted, for example, the statement of work required the contractor to provide water for units within 100 kilometers of designated points but did not indicate how much water needed to be delivered to each unit or how many units needed water. Without such information, the contractor may not be able to determine how to meet the needs of the Army and may take unnecessary steps to meet the customer's needs.

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

<sup>7</sup>Department of Defense, Office of the Inspector General, *Audit Report: Undefinitized Contractual Actions*. Report Number D-2004-112 (Arlington, VA.: Aug. 30, 2004).

<sup>8</sup>GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

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- In July 2005, we reported that other agencies that DOD relied on to provide contracting services did not define desired outcomes or requirements.<sup>9</sup> We found that required outcomes were not well-defined in the cases we reviewed at franchise funds at the Departments of the Interior and the Treasury—GovWorks and FedSource—that acquired a range of services for DOD. The GovWorks and FedSource files we reviewed lacked clear descriptions of requirements the contractor was supposed to meet. Orders generally described work in broad terms and documentation sometimes specifically indicated that work would be defined more fully after an order was placed.

## Inadequate Competition

Competition is a fundamental principle underlying the federal acquisition process. Nevertheless, we have reported on the lack of competition in DOD's acquisition of services since 1998. We have reported that DOD has, at times, sacrificed the benefits of competition for expediency. For example, we noted in April 2006 that DOD awarded contracts for security guard services supporting 57 domestic bases, 46 of which were done on an authorized, sole-source basis.<sup>10</sup> The sole-source contracts were awarded by DOD despite recognizing it was paying about 25 percent more than previously paid for contracts awarded competitively.

DOD has also misused the contracts available on the General Services Administration's multiple-award schedules. Although DOD is required to foster competition and provide all contractors a fair opportunity to be considered for each order placed on the schedules, unless certain exceptions apply,<sup>11</sup> DOD officials have on numerous occasions avoided the time and effort necessary to compete individual orders and instead awarded all the work to be performed to a single contractor. GAO work shows that this practice resulted in the noncompetitive award of many orders that have not always been adequately justified.

## Inadequate Management and Assessment of Contractor Performance

GAO has reported on numerous occasions that DOD did not adequately manage and assess contractor performance to ensure that the business arrangement was properly executed. Managing and assessing post-award performance entails various activities to ensure that the delivery of

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<sup>9</sup>GAO, *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD Is Not Demonstrated*, [GAO-05-456](#) (Washington, D.C.: July 29, 2005).

<sup>10</sup>GAO, *Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach*, [GAO-06-284](#) (Washington, D.C.: Apr. 3, 2006).

<sup>11</sup>10 U.S.C. 2304c.

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services meets the terms of contract and requires adequate surveillance resources, proper incentives, and a capable workforce for overseeing contracting activities. If surveillance is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner and potentially paying too much for the services it receives.

Our work has found, however, that DOD is often at risk. In March 2005, for example, we reported instances of inadequate surveillance on 26 of 90 DOD service contracts we reviewed.<sup>12</sup> In each instance, at least one of the key factors to ensure adequate surveillance did not take place. These factors are (1) training personnel in how to conduct surveillance, (2) assigning personnel at or prior to contract award, (3) holding personnel accountable for their surveillance duties, and (4) performing and documenting surveillance throughout the period of the contract. Officials we met with during our review expressed concerns about support for surveillance. The comments included those of Navy officials who told us that surveillance remains a part-time duty they did not have enough time to undertake and, consequently, was a low-priority task.

More recently, in December 2006 we reported that DOD does not have sufficient numbers of contractor oversight personnel at deployed locations, which limits its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively.<sup>13</sup> For example, an Army official acknowledged that the Army is struggling to find the capacity and expertise to provide the contracting support needed in Iraq. A LOGCAP program official noted that, if adequate staffing had been in place, the Army could have realized substantial savings on the LOGCAP contract through more effective reviews of new requirements. A Defense Contract Management Agency official responsible for overseeing the LOGCAP contractor's performance at 27 locations noted that he was unable to visit all of those locations during his 6-month tour to determine the extent to which the contractor was meeting the contract's requirements.

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<sup>12</sup>GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, [GAO-05-274](#) (Washington, D.C.: Mar. 17, 2005).

<sup>13</sup>GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: Dec. 18, 2006).

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## Inappropriate Use of Interagency Contracts

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Our review of GovWorks and FedSource also found that both DOD and franchise fund officials were not monitoring contracts. Further, these organizations lacked criteria against which contractor performance could be measured to ensure that contractors provided quality services in a timely manner.<sup>14</sup> Similarly, in 2004, the General Services Administration Inspector General reported on problems with surveillance when DOD used the General Services Administration's Federal Technology Service (FTS). For example, in reviewing task orders DOD placed through FTS, the Inspector General found that payments were made for substandard work or for work that was incomplete or never delivered, for bills that contained incorrect labor rates or did not adhere to contract pricing terms, and for bills that included unsubstantiated costs.

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

In April 2005, we reported that a lack of effective management controls—in particular insufficient management oversight and a lack of adequate training—led to breakdowns in the issuance and administration of task orders for interrogation and other services in Iraq by the Department of the Interior on behalf of DOD.<sup>15</sup> These breakdowns included

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<sup>14</sup>GAO-05-456.

<sup>15</sup>GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, GAO-05-201 (Washington, D.C.: Apr. 29, 2005).

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- issuing 10 out of 11 task orders that were beyond the scope of underlying contracts, in violation of competition rules;
  - not complying with additional DOD competition requirements when issuing task orders for services on existing contracts;
  - not properly justifying the decision to use interagency contracting;
  - not complying with ordering procedures meant to ensure best value for the government; and
  - not adequately monitoring contractor performance.

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

Similarly, our work on DOD's use of franchise funds managed by the Departments of the Treasury and the Interior found that sound management practices for ensuring competition, analyzing contracting alternatives, and defining outcomes were not in place. For example, GovWorks did not receive competing proposals for work. GovWorks also added substantial work to the orders without determining that prices were fair and reasonable. FedSource generally did not ensure competition for work, did not conduct price analyses, and sometimes paid contractors higher prices for services than established in contracts with no justification in the contract files. DOD also did not analyze contracting alternatives and lacked information about purchases made through these arrangements.

We identified several causes for the lack of sound practices. In some cases, there was a lack of clear guidance and contracting personnel were insufficiently trained on the use of interagency contracting arrangements. In many cases, DOD users chose the speed and convenience of an interagency contracting arrangement to respond and meet needs quickly. Contracting service providers, under a fee-for-service arrangement, sometimes inappropriately emphasized customer satisfaction and revenue generation over compliance with sound contracting policies and procedures requirements. These practices put DOD at risk of not getting required services at reasonable prices and unnecessarily wasting resources. Further, DOD does not have useful information about purchases made through other agencies' contracts, making it difficult to assess the costs and benefits and make informed choices about the alternatives methods available.

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

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

Considerable congressional effort has been made to improve DOD's approach to acquiring services. For example, in 2001, Congress passed legislation to ensure that DOD acquires services by means that are in the best interest of the government and managed in compliance with applicable statutory requirements. In this regard, sections 801 and 802 of the National Defense Authorization Act for Fiscal Year 2002 required DOD to establish a service acquisition management approach, including developing a structure for reviewing individual service transactions based on dollar thresholds and other criteria.<sup>16</sup> Last year, Congress amended requirements pertaining to DOD's service contracting management structure, workforce, and oversight processes, among others.<sup>17</sup>

We have issued several reports that identified shortcomings in DOD's approaches and its implementation of legislative requirements. For example, we issued a report in January 2002 that identified how leading commercial companies took a strategic approach to buying services and recommended that DOD evaluate how a strategic reengineering approach, such as that employed by leading companies, could be used as a framework to guide DOD's reengineering efforts.<sup>18</sup> In September 2003, we reported that DOD's actions to implement the service acquisition management structure required under Sections 801 and 802 did not provide a departmentwide assessment of how spending for services could

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<sup>16</sup>Pub. L. No. 107-107, §§ 801, 802 (2001)(section 801 added new sections 2330 and 2330a to title 10, U.S. Code).

<sup>17</sup>Pub. L. No. 109-163, § 812 (2006)(section 812 amended 10 U.S.C. § 2330).

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

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be more effective and recommended that DOD give greater attention to promoting a strategic orientation by setting performance goals for improvements and ensuring accountability for achieving those results.<sup>19</sup>

Most recently, in November 2006, we issued a report that identified a number of actions that DOD could take to improve its acquisition of services.<sup>20</sup> We noted that DOD's overall approach to managing services acquisitions suffered from the absence of several key elements at both a strategic and transactional level. The strategic level is where the enterprise, DOD in this case, sets the direction or vision for what it needs, captures the knowledge to enable more informed management decisions, ensures departmentwide goals and objectives are achieved, determines how to go about meeting those needs, and assesses the resources it has to achieve desired outcomes. The strategic level also sets the context for the transactional level, where the focus is on making sound decisions on individual service acquisitions. Factors for good outcomes at the transactional level include valid and well-defined requirements, appropriate business arrangements, and adequate management of contractor performance.

DOD's current approach to managing services acquisition has tended to be reactive and has not fully addressed the key factors for success at either the strategic or the transactional level. At the strategic level, DOD has not developed a normative position for gauging whether ongoing and planned efforts can best achieve intended results. Further, good information on the volume and composition of services is still wanting, perpetuating the circumstance in which the acquisition of services tends to happen to DOD, rather than being proactively managed. For example, despite implementing a review structure aimed at increasing insight into service transactions, DOD is not able to determine which or how many transactions have been reviewed.<sup>21</sup> The military departments have only

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<sup>19</sup>GAO, *Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition*, [GAO-03-935](#) (Washington, D.C.: Sept. 10, 2003).

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

<sup>21</sup>The management structure has three review levels: (1) review by the Under Secretary of Defense (Acquisition, Technology, and Logistics) for services acquisitions valued over \$2 billion; (2) review by the component or designated acquisition executive for service acquisitions valued between \$500 million and \$2 billion; and (3) review by a component-designated official for the acquisition of services valued at less than \$500 million. The Air Force, Army, and Navy each developed review processes and authorities to support the DOD review requirements.

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

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

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

- DOD and military department officials consistently identified poor communication and the lack of timely interaction between the acquisition and contracting personnel as key challenges to developing good requirements.
- An Army contracting officer issued a task order for a product that the contracting officer knew was outside the scope of the service contract. The contracting officer noted in an e-mail to the requestor that this

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deviation was allowed only because the customer needed the product quickly and cautioned that no such allowances would be granted in the future.

- Few of the commands or activities could provide us reliable or current information on the number of service acquisitions they managed, and others had not developed a means to consistently monitor or assess, at a command level, whether such acquisitions were meeting the performance objectives established in the contracts.

To address these issues, we made several recommendations to the Secretary of Defense. DOD concurred with our recommendations and identified actions it has taken, or plans to take to address them. In particular, DOD noted that it is reassessing its strategic approach to acquiring services, including examining the types and kinds of services it acquires and developing an integrated assessment of how best to acquire such services. DOD expects this assessment will result in a comprehensive, departmentwide architecture for acquiring services that will, among other improvements, help refine the process to develop requirements, ensure that individual transactions are consistent with DOD's strategic goals and initiatives, and provide a capability to assess whether service acquisitions are meeting their cost, schedule, and performance objectives. DOD expects its assessment will be completed in early 2007.

That assessment, however, will have little meaning unless DOD's leadership can translate its vision into changes in front line practices. In our July 2006 report on vulnerabilities to fraud, waste, and abuse, we noted that leadership positions are sometimes vacant, that the culture to streamline acquisitions for purposes of speed may have not been in balance with good business practices, and that even in newly formed government-industry partnerships, the government needs to maintain its oversight responsibility. Understanding the myriad causes of the challenges confronting DOD in acquiring services is essential to developing effective solutions and translating policies into practices. While DOD has generally agreed with our recommendations intended to improve contract management, much remains to be done. At this point, DOD does not know how well its services acquisition processes are working, which part of its mission can best be met through buying services, and whether it is obtaining the services it needs while protecting DOD's and the taxpayer's interests.

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

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## Scope and Methodology

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

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## Contact and Staff Acknowledgments

For further information regarding this testimony, please contact Katherine V. Schinasi at (202) 512-4841 or [schinasik@gao.gov](mailto:schinasik@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this testimony. Key contributors to this testimony were Lily Chin, David E. Cooper, Timothy DiNapoli, James E. Fuquay, Matthew Lea, Sara Margraf, Kenneth Patton, Sylvia Schatz, and Amelia Shachoy.

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