



November 2014

DEFENSE CONTRACTORS

Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services

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GAO Highlights

Highlights of [GAO-15-88](#), a report to congressional committees

Why GAO Did This Study

DOD is the government's largest purchaser of contractor-provided services. In 2008, Congress required DOD to compile and review an annual inventory of its contracted services to include the number of contractors providing services to DOD and the functions these contractors performed, and in 2011, amended this statute to require DOD to plan to use that inventory to inform certain department-wide decision making processes. The National Defense Authorization Act for Fiscal Year 2014 mandated GAO to report on the required reviews and plans to use these inventories.

For this report, GAO assessed the extent to which DOD components (1) reviewed contracts and activities in the fiscal year 2012 inventory of contracted services and (2) developed plans to use the inventory for decision-making. GAO reviewed relevant laws and guidance, reviewed component certification letters from 32 components, and interviewed DOD acquisition, manpower, programming, and budgeting officials.

What GAO Recommends

GAO recommends DOD revise inventory guidance to improve the review of contract functions, approve a plan of action with milestones and timeframes to establish a common data system to collect contractor manpower data, and designate a senior management official at the military departments to develop plans to use inventory data to inform management decisions. DOD concurred with GAO's recommendations.

View [GAO-15-88](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or dinapolit@gao.gov.

November 2014

DEFENSE CONTRACTORS

Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services

What GAO Found

The Department of Defense (DOD) continues to face challenges in assuring that it conducts and reports on the results of its required inventory reviews. As of September 2014, 32 of the 33 components that were required to conduct an inventory review certified that they had done so and generally addressed more of the required reporting elements than in fiscal year 2011. However, GAO found limitations with the inventory review results. For example, the Air Force did not submit a fiscal year 2012 inventory certification letter and the Army's review was incomplete at the time its Secretary signed the certification. Further, components may not have fully identified all instances in which contractors were providing services that are closely associated with inherently governmental functions, a key review objective to help ensure that the DOD is not overly reliant on contractors to support core missions. DOD's March 2014 guidance, which is applicable to the fiscal year 2013 inventory, does not fully address some of the shortcomings GAO identified, including how to identify contracts for review or approaches to ensure that components adequately assess contractor activities. As a result, components may not fully identify instances of contractors providing services that are closely associated with inherently governmental functions.

A key factor hindering the components' inventory reviews is the lack of accurate and reliable data. DOD has not resolved issues with implementing its planned common data system based on the Army's existing system. Further, in September 2014, DOD initiated a new review, due by December 2014, to identify and develop options to collect these data. This review raises a question of whether DOD will continue to implement a common data system modeled after the Army's system or attempt to develop a new system. DOD continues to lack a plan with timeframes and milestones to measure its progress toward implementing a common data system. These factors jeopardize DOD's goal to have all components, by 2016, collect statutory-required contractor manpower data. Further delays in resolving these issues will undermine the inventory's usefulness.

The military departments generally have not developed plans to use the inventory of contracted services to facilitate DOD's strategic workforce planning, workforce mix, and budget decision-making processes, as statutorily required. Numerous offices are responsible for the various decision-making processes at the military departments, and the Secretaries of the military departments have not assigned specific responsibility for coordinating among these offices to do so. The absence of officials who are accountable for integrating the use of the inventory leaves the department at continued risk of not complying with the applicable legislative requirements to use the inventory to support management decisions. Internal control standards state that management should assign responsibility to enable an organization to achieve management objectives and to comply with laws.

Contents

Letter		1
	Background	4
	Components Better Addressed Reporting Requirements in Fiscal Year 2012, but Some Reviews Were Incomplete	11
	The Military Departments Have Not Developed Statutorily Required Plans or Identified Specific Responsibilities to Facilitate the Use of the Inventory	22
	Conclusions	29
	Recommendations for Executive Action	30
	Agency Comments and Our Evaluation	31

Appendix I	Objectives, Scope, and Methodology	34
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Appendix II	Comparison of Components' Identification of Contractors Providing Services Closely Associated With Inherently Governmental Functions in their Fiscal Year 2011 and 2012 Certification Letters	38
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Appendix III	Comments from the Department of Defense	40
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Appendix IV	GAO Contact and Staff Acknowledgments	42
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Tables		
	Table 1: Estimated Number of Contractor Full Time Equivalents (FTEs) and Obligations as Reported in DOD's Inventory of Contracted Services, Fiscal Years 2008-2013	6
	Table 2: DOD's Guidance for Completing the Review of the Fiscal Year 2012 Inventory of Contracted Services	13
	Table 3: Components' reporting of required data elements in certification letters for fiscal years 2011 and 2012	14
	Table 4: Strategic Workforce Planning Guidance and Processes at the Three Military Departments	23
	Table 5: Role of the Inventory of Contracted Services in Existing Workforce Mix and Insourcing Guidance and Processes at the Three Military Departments	25

Table 6: Role of the Inventory of Contracted Services in Existing Budgeting Guidance and Processes at the Three Military Departments	27
Table 7: Offices Responsible for Workforce Planning, Budgeting, and the Inventory of Contracted Services at the Military Departments	28

Figures

Figure 1: Requirements under Title 10 Section 2330a Subsection (f)	9
Figure 2: Comparison of Total Obligations for Contracts Which Often Involve Closely Associated with Inherently Governmental Functions to Obligations Reported for These Functions In Fiscal Year 2012 Inventory Certification Letters	19

Abbreviations

AT&L	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
CMRA	Contractor Manpower Reporting Application
DLA	Defense Logistics Agency
DOD	Department of Defense
DTRA	Defense Threat Reduction Agency
ECMRA	Enterprise-wide Contractor Manpower Reporting Application
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System – Next Generation
FTE	Full-time equivalent
ODA&M	Office of the Director of Administration and Management
P&R	Office of the Under Secretary of Defense for Personnel and Readiness

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November 19, 2014

Congressional Committees

The Department of Defense (DOD), the federal government's largest purchaser of contractor-provided services, reported that it obligated about \$187 billion—more than half of its total contract obligations—on contracted services in fiscal year 2012. DOD relies on contractors to perform functions as varied as professional and management support, information technology support, medical services, and weapon system and intelligence support. These contractor personnel constitute a key component of DOD's total workforce, which includes DOD active and reserve forces and DOD civilian employees, and they are vital to helping DOD meet its mission. While there are benefits to using contractors to perform services for the government, the government can risk becoming overly reliant on contractors to support core missions, including providing services that are closely associated with inherently governmental functions,¹ or creating circumstances in which contractors inappropriately perform functions deemed inherently governmental.²

In recent years, Congress has enacted legislation to improve DOD's ability to manage its acquisition of contracted services; to make more strategic decisions about the appropriate workforce mix; and to better align resource needs through the budget process to achieve that mix. As part of these efforts, Section 2330a of title 10 of the U.S. Code requires DOD to annually compile, and the military departments and defense agencies to review, an inventory of services contracted for or on behalf of DOD during the preceding fiscal year. This inventory is intended, in part,

¹Closely associated with inherently governmental functions are those functions that while not inherently governmental, may approach being in that category because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the government administers performance under the contract. Section 7.503(d) of the Federal Acquisition Regulation (FAR) provides examples of such functions.

²Inherently governmental function means, as a matter of policy, a function that is so intimately related to the public interest as to mandate performance by government employees and includes functions that require the exercise of discretion in applying government authority, or making value judgments in making decisions for the government. Section 7.503(c) of the FAR provides examples of such functions. Contracts shall not be used for the performance of inherently governmental functions. FAR § 7.503(a). See also, FAR § 2.101.

to help provide better insight into the number of contractor full-time equivalents (FTEs) providing services to the department and the functions they are performing, and determine whether any of these functions warrant conversion to DOD civilian performance.³ Further, this section also requires DOD to undertake certain actions using these inventories. Specifically, subsections (e) and (f), respectively, direct the secretaries of the military departments or heads of the defense agencies to, among other things:

- review the inventory to ensure that personal services contracts on the list are performed under applicable statute and regulation and identify contracted functions that DOD should consider for conversion; and
- develop a plan, including an enforcement mechanism and approval process, to use the inventory for strategic workforce planning, workforce mix, and budgeting decisions.

Section 951(a) of the National Defense Authorization Act for Fiscal Year 2014 mandated GAO to report on DOD's implementation of title 10 section 2330a subsections (e) and (f).⁴ We assessed DOD's efforts to (1) implement subsection (e) to review contracts and functions in the inventory of contracted services for the fiscal year 2012 inventory and (2) implement subsection (f) to develop plans and processes to use the inventory for strategic workforce planning, workforce mix, and budget decisions.

To assess the extent to which DOD components—which include the three military departments and the defense agencies—complied with the requirements to review applicable contracts and functions in its inventory of contracted services pursuant to subsection (e), we focused on DOD's fiscal year 2012 inventory and associated review, which was the latest inventory and review available when we initiated our work. We reviewed DOD's fiscal year 2012 inventory review guidance, issued on February 4, 2013, which required the military departments and defense agencies to certify—through submission of a certification letter to the Office of the

³An FTE is a standard measure of labor that equates to one year of full-time work (labor hours as defined by the Office of Management and Budget Circular A-11 each year). To report the number of contractor FTEs, one would divide the number of direct labor hours reported by a contractor for each contracted service by the number of labor hours in a federal employee work year, which was 2,080 in fiscal year 2012.

⁴Pub. L. No. 113-66 (2013).

Under Secretary of Defense for Personnel and Readiness (P&R)—that their review was conducted in accordance with subsection (e). The guidance required components to report on seven elements, including, among other elements, the contract selection criteria and methodologies used to conduct the reviews, the extent to which contractors were found to be performing inherently governmental functions and those closely associated with inherently governmental functions, and to the extent necessary, a plan to realign the work to government performance. We assessed all unclassified fiscal year 2012 inventory review certification letters submitted by 32 DOD components as of September 2014 to determine if components addressed the seven elements specified in DOD’s February 2013 inventory review guidance.⁵ In addition, we selected the Army, Navy, and Air Force, based on obligations for contracted services, and three defense agencies based on the number of contractor FTEs they identified as performing closely associated with inherently governmental functions—the Defense Logistics Agency (DLA), the Defense Threat Reduction Agency (DTRA) and the Office of the Director of Administration and Management (ODA&M)—for more in depth reviews.⁶ We interviewed officials responsible for compiling and reviewing the inventory and reviewed training documents and selected data from the inventory review process. In addition, we interviewed officials from P&R; the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L); and the Office of the Under Secretary of Defense (Comptroller).

To assess the extent to which DOD components have developed plans and processes to use the inventory to inform management decisions pursuant to subsection (f), we reviewed defense-wide and military department specific strategic workforce planning, manpower mix, and budgeting guidance and documentation. This guidance and documentation included DOD’s Fiscal Year 2013-2018 Strategic

⁵In September 2014, the DOD Inspector General found that not all DOD components, as defined by DOD Directive 5100.01, participated in the fiscal year 2012 inventory of contracted services process. The DOD Inspector General recommended that DOD identify the components required to submit an inventory of contracted services. Department of Defense Inspector General, “Independent Auditor’s Report on Agreed-Upon Procedures for DOD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2012”, DODIG-2014-114, (Alexandria, VA: Sept. 17, 2014).

⁶ODA&M is being realigned and will merge with the Office of the Deputy Chief Management Officer.

Workforce Plan Report, DOD's instructions on manpower mix and insourcing criteria, DOD's Financial Management Regulations and supplemental guidance, and available guidance and instructions issued by the military departments. We also reviewed meeting minutes at the Navy, where an official stated the Navy had formed a working group to address the requirements of title 10 U.S.C. § 2330a(f). We interviewed officials from P&R, AT&L, and the Comptroller's office, and acquisition, manpower, and budgeting officials at all three military departments. At the Army and Air Force we also interviewed programming officials. A detailed description of our scope and methodology is included in appendix I.

We conducted this performance audit from May 2014 to November 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on audit objectives.

Background

Inventory Compilation Requirements

In part to improve the information available and management of DOD's acquisition of services, in fiscal year 2002 Congress enacted section 2330a of title 10 of the U.S. Code, which required the Secretary of Defense to establish a data collection system to provide management information on each purchase of services by a military department or defense agency.⁷ The information DOD is to collect includes, among other things, the services purchased, the total dollar amount of the purchase, the form of contracting action used to make the purchase, and the extent of competition provided in making the purchase. In 2008, Congress amended section 2330a to add a requirement for the Secretary of Defense to submit an annual inventory of the activities performed pursuant to contracts for services on behalf of DOD during the preceding fiscal year.⁸

⁷National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, § 801(c) (2001).

⁸National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 807(a).

The inventory is to include a number of specific data elements for each identified activity, including:

- the function and missions performed by the contractor;
- the contracting organization, the component of DOD administering the contract, and the organization whose requirements are being met through contractor performance of the function;
- the funding source for the contract by appropriation and operating agency;
- the fiscal year the activity first appeared on an inventory;
- the number of contractor employees (expressed as full FTEs) for direct labor, using direct labor hours and associated cost data collected from contractors;⁹
- a determination of whether the contract pursuant to which the activity is performed is a personal services contract;¹⁰ and
- a summary of the information required by section 2330a(a) of title 10 of the U.S. Code.¹¹

Within DOD, AT&L, P&R, and the Comptroller have shared responsibility for issuing guidance for compiling and reviewing the inventory. P&R compiles the inventories prepared by the components, and AT&L formally submits a consolidated DOD inventory to Congress no later than June 30 of each fiscal year, though some inventory submissions have been later. DOD has submitted annual, department-wide inventories for fiscal years 2008 through 2013, the most recent submitted on July 2, 2014 (see table 1).¹²

⁹Estimates of full-time equivalents may be used where such data are not available and cannot reasonably be made available in a timely manner for the purposes of the inventory. 10 U.S.C. § 2330a(c)(2)(E).

¹⁰A personal services contract means a contract that, by its express terms or as administered, makes the contractor personnel appear to be, in effect, government employees. Agencies shall not award personal services contracts unless specifically authorized by statute to do so. FAR §§ 2.101, 37.104(b).

¹¹10 U.S.C. § 2330a(c)(2).

¹²The Army also submitted an inventory of contracted services for fiscal year 2007.

Table 1: Estimated Number of Contractor Full Time Equivalents (FTEs) and Obligations as Reported in DOD's Inventory of Contracted Services, Fiscal Years 2008-2013

Fiscal year	Estimated number of contractor FTEs	Total obligations (in billions)
2008	655,000	\$127
2009	767,000	\$155
2010	623,000	\$121
2011	710,000	\$145
2012	670,000	\$129
2013	629,000	\$123

Source: DOD's inventory of contracted services | GAO-15-88.

Notes: The Army's inventory data reflects total invoiced dollar amounts rather than obligations.

The changes in DOD's overall approach, in particular how DOD as a whole reflected research and development services and the use of different formulas for estimating contractor FTEs, among other factors, affected the reported changes in inventory data from year to year. Consequently, we and DOD officials agreed that caution should be exercised when making direct comparisons between fiscal years 2008 through 2013 inventory data. All FTE figures are rounded to the nearest thousand.

As we previously reported, the service contract obligations reported in the inventory of contracted services for a given fiscal year may not match the amount of contract obligations from the Federal Procurement Data System-Next Generation (FPDS-NG), in part because the FPDS-NG obligation amount for services captures categories of services that are not reported in the inventory, such as lease or rental of equipment and facilities, and military construction. See [GAO-13-491](#).

Since DOD implemented the department-wide inventory of contracted services, the primary source used by DOD components to compile their inventories, with the exception of the Army, has been Federal Procurement Data System-Next Generation (FPDS-NG). As we have previously reported, the FPDS-NG—the government's central repository for contracting data—has several limitations that impact its utility for purposes of compiling a complete and accurate inventory.¹³ For example, FPDS-NG does not capture the number of contractor FTEs or direct labor hours used to perform each service, does not capture any services performed under contracts that are predominately for supplies, and does not identify more than one type of service purchased for each contract action. As the inventory is required to identify each activity performed pursuant to a contract for services, the use of FPDS-NG as the basis for the data in the DOD components' inventories does not satisfy the

¹³GAO, *Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services*, [GAO-13-491](#) (Washington, D.C.: May 23, 2013).

inventory statute, and limits the usefulness of inventory data in making management decisions.

As we previously reported, to obtain better visibility of its service contractor workforce, the Army developed its Contractor Manpower Reporting Application (CMRA) in 2005 to collect information on labor-hour expenditures by function, funding source, and mission supported on contracted efforts, and has used CMRA as the basis for its inventory.¹⁴ CMRA captures data directly reported by contractors on services performed at the contract line item level, including information on the direct labor dollars, direct labor hours, total invoiced dollars, the functions performed, and the organizational unit on whose behalf the services are being performed. In instances where contractors are providing different services under the same task order, or are providing services at multiple locations, contractors can enter additional records in CMRA to capture information associated with each type of service or location. It also allows for the identification of services provided under contracts for goods.

Inventory Review and Use Requirements

Within 90 days after an inventory is submitted to Congress, section 2330a(e) of title 10 of the U.S. Code requires the secretaries of the military departments or heads of the defense agencies to complete a review of the contracts and functions in the inventory for which they are responsible. P&R, as supported by the Comptroller, is responsible for, among other things, developing guidance for the conduct and completion of this review.¹⁵ As part of this review, the military departments and defense agencies are to ensure that:

- any personal services contracts on the inventory were properly entered into and performed appropriately;
- the activities on the list do not include any inherently governmental functions; and
- to the maximum extent practicable, the activities on the inventory do not include any closely associated with inherently governmental functions.

¹⁴GAO-13-491.

¹⁵10 U.S.C. § 2330a(c)(1)(A)(iii).

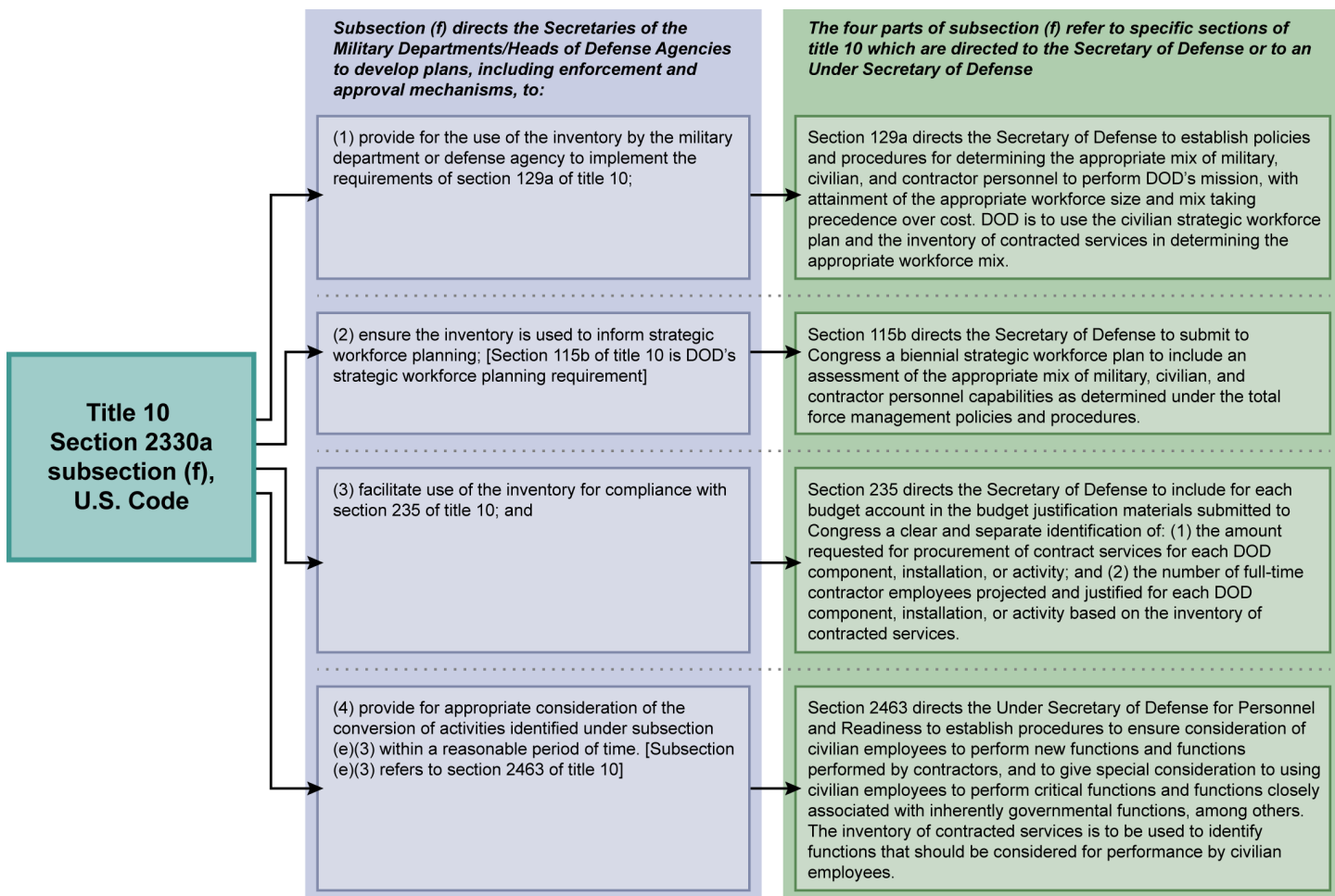
Section 2330a(e) also requires under this review that the secretaries of the military departments and heads of defense agencies identify work that should be considered for conversion to government performance, or insourced, pursuant to section 2463 of title 10 of the U.S. Code, or to a more advantageous acquisition approach. Section 2463 specifically requires the Secretary of Defense to make use of the inventory to identify critical functions, acquisition workforce functions, and closely associated with inherently governmental functions performed by contractors, and that the Under Secretary of Defense for P&R implement guidelines and procedures to give special consideration to converting those functions to DOD civilian performance.

Further, section 808 of the National Defense Authorization Act for Fiscal Year 2012 requires the Secretary of Defense to issue guidance to the military departments and the defense agencies to, among other things, eliminate contractor positions identified as performing inherently governmental functions and reduce, by 10 percent, funding for contractor staff performing closely associated with inherently governmental functions in fiscal years 2012 and 2013.¹⁶ As implemented by DOD, the secretaries of the military departments and heads of the defense agencies are instructed to use the fiscal year 2010 inventory, or the fiscal year 2011 inventory if the data are unknown in the 2010 inventory, as the baseline against which the 10 percent funding reductions will be made. GAO has ongoing work to assess DOD's compliance with section 808.

In addition, in December 2011 section 2330a of title 10 of the U.S. Code was amended to add a new subsection (f) requiring the secretaries of the military departments and heads of the defense agencies responsible for contracted services in the inventory to develop a plan, including an enforcement mechanism and approval process, to use the inventory to inform management decisions (see figure 1).

¹⁶Pub. L. No. 112-81, § 808(c) (2011).

Figure 1: Requirements under Title 10 Section 2330a Subsection (f)



Source: GAO analysis of select title 10 statutory requirements. | GAO-15-88

Collectively, these statutory requirements mandate the use of the inventory and the associated review process to enhance the ability of DOD to identify and track services provided by contractors, achieve accountability for the contractor sector of DOD's total workforce, help identify contracted services for possible conversion from contractor performance to DOD civilian performance, support DOD's determination of the appropriate workforce mix, and project and justify the number of contractor FTEs included in DOD's annual budget justification materials.

Prior GAO Work

We have issued several reports on DOD's efforts to compile and review its inventory of contracted services, including initiatives to standardize contractor manpower data collection across the department. For example, in January 2011 we recommended that DOD develop a plan of action to facilitate the department's stated intent to collect contractor manpower data and address other limitations in its approach to meeting inventory requirements, such as using FPDS-NG to compile the required inventories.¹⁷

In April 2012, we reported that DOD issued a plan in November 2011 to develop a common technology solution, leveraging existing data collection approaches, such as the Army's CMRA system, that would allow the department to collectively meet the inventory requirements.¹⁸ DOD's November 2011 plan provided for short-term and long-term actions intended to meet the requirements of 10 U.S.C. § 2330a. DOD stated that it was committed to assisting components as they implement their plans, especially those currently without reporting processes or infrastructure in place, by leveraging the Army's CMRA system, processes, best practices, and tools to the maximum extent possible. Part of the long-term plan was to develop a comprehensive instruction for components to use on the development, review, and use of the inventories and for the Office of the Deputy Chief Management Officer, P&R, and other stakeholders to form a working group to develop and implement a common data system to collect and house the information required for the inventory, including contractor manpower data. DOD noted in its plan that it expected the data system to be operational and DOD components to be reporting on most of their service contracts by fiscal year 2016. While we found the plan represented a step in the right direction, it did not contain timeframes or resources needed, as we had previously recommended. Further, we found that DOD faced challenges in developing a common data collection system given the different requirements of the military departments and the remaining defense agencies.¹⁹

¹⁷GAO, *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, [GAO-11-192](#) (Washington, D.C.: Jan. 14, 2011).

¹⁸GAO, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, [GAO-12-357](#) (Washington, D.C.: Apr. 6, 2012).

¹⁹[GAO-12-357](#).

In May 2013, we reported that a November 2012 memorandum stated that DOD would establish a common data collection system based on the Army's CMRA system—the Enterprise wide Contractor Manpower Reporting Application (ECMRA)—for DOD components to begin reporting data in time for the department's fiscal year 2013 inventory submission, but did not expect that components would fully use the system for most of their contracts for services until fiscal year 2016.²⁰ We found that the department had taken steps to implement interim CMRA-based data collection systems for the Air Force and Navy. At that time, DOD noted that it expected to field an interim CMRA-based data collection system that would be shared by the remaining defense agencies, which DOD subsequently fielded in September 2013. In May 2014, however, we found that while the department took interim steps, it had not fully implemented the common data collection system as called for in its November 2011 plan.²¹

Components Better Addressed Reporting Requirements in Fiscal Year 2012, but Some Reviews Were Incomplete

We found that DOD components' 2012 inventory review certifications better addressed DOD's required reporting elements than in prior years, but the department continues to face challenges in assuring that all DOD components conduct and report on the required reviews. For example, as of September 2014, 32 of the 33 components certified that they had reviewed their inventory of contracted services and, overall, more components addressed more of DOD's required reporting elements than in fiscal year 2011. However, the Air Force, which accounts for about 20 percent of DOD's obligations for contracted services, did not submit a certification letter, as required. Further, the Army, which represents 30 percent of DOD's obligations for contracted services, submitted a certification though its review was incomplete at the time the Secretary of the Army signed the letter. This occurred, in part, because it did not include a review of functions in one command or review functions that were transferred between two commands. DOD also continues to face challenges in fully implementing the CMRA-based common data system that is intended to collect the required data for the inventories DOD components must review, thus jeopardizing its plan to have all components using this system to collect manpower data reported by

²⁰GAO-13-491.

²¹GAO, *Defense Acquisitions: Update on DOD's Efforts to Implement a Common Contractor Manpower Data System*, GAO-14-491R (Washington, D.C.: May 19, 2014).

contractors by 2016. DOD recently directed a study to identify and develop other enterprise solutions to address the inventory data collection requirements by December 2014. It is uncertain whether DOD will continue to implement its previous plan for a DOD-wide system based on the Army's CMRA system.

**Fiscal Year 2012 Review
Results Demonstrate
Improved Reporting, but
Challenges Remain**

DOD's February 2013 guidance for the fiscal year 2012 inventory, issued jointly by AT&L and P&R, included two changes that DOD officials believed would improve the completeness and granularity of the inventory review data reported in the certification letters from the prior year. The changes included an increase in the percentage of contract functions to review from the component's inventories from 50 percent to 80 percent and one additional data element—the review results table. The guidance instructed components to include at a minimum seven elements in their certification letters (see table 2).

Table 2: DOD’s Guidance for Completing the Review of the Fiscal Year 2012 Inventory of Contracted Services

Information to be included in component certification letters based on a <i>minimum review of 80 percent of contract functions</i>	
<ul style="list-style-type: none"> • an explanation of the methodology used to conduct the reviews and criteria for selection of contracts to review; • the identification of any inherently governmental functions or unauthorized personal services contracts, with a plan of action to either divest or realign such functions to government performance; • the identification of contracts under which closely associated with inherently governmental functions are being performed and an explanation of steps taken to ensure appropriate government control and oversight of such functions, or if necessary, a plan to either divest or realign such functions to government performance; • the actions being taken or considered with regards to annual program reviews and budget processes to ensure appropriate reallocation of resources based on the reviews conducted; 	<ul style="list-style-type: none"> • delineation of the results in accordance with all applicable title 10 provisions and the guidance; • the identification of contracted services that are exempt from private sector performance in accordance with DOD Instruction 1100.22, which establishes policies and procedures for determining the appropriate manpower mix; require special consideration under 10 U.S.C. § 2463; or are being considered for cost reasons, to be realigned to government performance; • <i>a review results table showing the number of full time equivalents and associated invoiced dollars with the following categories: inherently governmental functions; closely associated with inherently governmental functions; critical functions, unauthorized personal services lacking statutory authority; authorized personal services; and commercial functions. The guidance noted that this table should be accompanied by a narrative explaining the degree to which the functions are Overseas Contingency Operation funded or reimbursable functions not currently included in a component’s budget estimate for contracted services.</i>

Source: GAO analysis of DOD’s guidance. | GAO-15-88.

Note: Italicized text reflects changes from DOD’s fiscal year 2011 inventory review guidance.

Overall, we found DOD components generally addressed more of the required elements in their fiscal year 2012 certification letters than they had in fiscal year 2011 (see table 3).

Table 3: Components' reporting of required data elements in certification letters for fiscal years 2011 and 2012

	Fiscal Year 2011 ^a	Percent of components reporting in fiscal year 2011	Fiscal Year 2012 ^b	Percent of components reporting in fiscal year 2012
Total number of components required to submit a certification letter	31		33	
Number of required elements	6		7	
Number of components reporting required elements				
At least 1 element	29	94	32	97
At least 2 elements	27	87	31	94
At least 3 elements	24	77	31	94
At least 4 elements	15	48	30	91
At least 5 elements	5	16	26	79
At least 6 elements	0	0	16	48
At least 7 elements	N/A	N/A	7	21

Source: GAO analysis of DOD component certification letters for fiscal years 2011 and 2012; GAO-13-491 | GAO-15-88.

^aThe Defense Microelectronics Activity and US Forces Korea did not submit a certification letter for fiscal year 2011; however, both provided letters in fiscal year 2012.

^bThe Air Force did not submit a certification letter for fiscal year 2012.

Our analysis found that seven components, representing about 15 percent of the total dollars included in the department's inventory of contracted services, addressed all seven elements required, and nearly 80 percent of the components addressed at least five of the seven elements. We found that about one-third of the components did not address the required element to identify the appropriate manpower mix and about half did not address the required element to identify actions taken to ensure appropriate reallocation of resources based on the reviews.

While this represents an improvement over the inventory review results reported in the fiscal year 2011 certification letters, we also found several significant limitations with the fiscal year 2012 inventory results reported in the certification letters. For example,

- The Air Force, which represented about 20 percent of DOD's contract obligations for services in fiscal year 2012, did not submit a certification letter. Air Force officials stated that they focused on completing the fiscal year 2013 inventory review rather than submitting the required fiscal year 2012 certification letter.

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- The Army, which accounted for about 30 percent of DOD's contract obligations reported in DOD's fiscal year 2012 inventory for contracted services, certified in its April 2014 letter that it reviewed more than 80 percent of contracted functions from its inventory, which an Army official told us was based on contract invoice amount.²² However, the data supporting the certification letter revealed issues at three Army commands that comprise more than a quarter—or \$23.4 billion—of the Army's reported invoiced dollars, indicating that the Army may have overstated the contract functions reviewed. For example, the certification letter did not include review data from the Army Acquisition Support Command because their review was not complete when the Army submitted its certification letter. This command represented \$10.7 billion, or 14 percent, of the Army's total invoiced dollars for contracted services reported in fiscal year 2012. Further, the Army Installation Management Command, which accounted for 30 percent of Army's reported contractor FTEs performing closely associated with inherently governmental functions in fiscal year 2011, transferred responsibility for some of these functions to the Army Materiel Command. However, officials at the Army Materiel Command reported that they did not include these transferred functions in the fiscal year 2012 review, stating that there were too many new contracts to review in one year. The officials added that for this and other reasons, the command's review data for fiscal year 2012 are not complete or accurate.
 - While 21 of the 32 components certified that they reviewed at least 80 percent of contract functions, we found that components interpreted contract functions differently. DOD's February 2013 guidance for the fiscal year 2012 inventory required components to review at least 80 percent of the functions associated with all contracts, task orders, delivery orders, or interagency acquisition agreements listed in the inventory. The guidance further states that priority shall be given to contracts previously not reviewed or those that may present a higher risk of inappropriate performance. However, the guidance does not specify how to determine the percent of contract functions nor identify what types of contracts may be at a higher risk of inappropriate performance. As such, some components specified that they reviewed a percentage of product service codes, contract obligations, individual contracts, or contractor FTEs identified in their inventories. In other

²²The Army reports invoiced dollar amounts from its CMRA system in its inventory of contracted services rather than obligations from FPDS-NG.

cases the letters did not indicate what the component considered a contract function.

- Certification letters also varied in terms of the information and insights provided on the methodologies used to review the selected contract functions in the inventories, and it was not clear from the letters whether all components considered contractor performance and contract administration when reviewing selected contracts. DOD's February 2013 guidance for the fiscal year 2012 inventory requires components to consider the nature of contract performance and administration, but it does not define what processes may be used to review functions to determine the types of activities performed. For example, one component's review compared inventory data to basic information in the component's contract writing system and relied on the component's acquisition planning process to determine how the contract was performed. At another component, the review included coordination with program managers, contracting officers, contracting officer representatives, and budget officials and consideration of a range of data and documents to identify and understand whether the work performed under the contract included inappropriate functions. One component we interviewed, the Army, provided additional details in its guidance on which officials should participate in the review and how to assess contract activities. The Army requires a checklist at various points in the contract cycle, including contract award and modification, to identify activities performed under the contract and help inform the inventory review process. The Army requires the reviewer to be a person in the requiring activity who is familiar with how the contract is administered and performed and thoroughly understands the work being performed.
- Some officials we interviewed expressed confusion over the various functional categories in the review results table and noted that the distinction between inherently governmental, closely associated with inherently governmental, and personal services is not always clearly understood. Officials we interviewed at four of the six components provided supplemental inventory review guidance including definitions for some of the functions to help define inappropriate performance or contract activities that require additional management attention.

Components May Have Understated Contractors Performing Certain Functions

The lack of specific guidance on how to identify or review contract functions may have led to components understating the degree to which contractors were providing services closely associated with inherently governmental functions. Fifteen of the 32 components identified contractors performing closely associated with inherently government functions in the fiscal year 2012 inventory and provided more specific

information on contractor FTEs performing these functions than in fiscal year 2011. For example, eight components reported that they had contracts containing these functions in their fiscal year 2011 certification letters without providing specific information on the number of contractor FTEs. In their fiscal year 2012 certification letters, however, these eight components identified the specific number of contractor FTEs and obligations associated with these functions. Another 15 components certified they did not have contractors performing closely associated with inherently governmental functions, while two components' certification letters did not address closely associated with inherently governmental functions. Appendix II provides details on components that identified contractors performing inherently governmental functions.

In May 2013, we found it was difficult to determine how many contractors are performing closely associated with inherently governmental functions based on components' reported methodologies and inventory review results. Further, we found that DOD components may not have accurately identified the extent to which their contractors are performing closely associated with inherently governmental functions during their reviews.²³ Based on our latest review of the fiscal year 2012 inventory review results, it is still not clear whether DOD components fully identified the extent to which their contractors are performing closely associated with inherently governmental functions.

Our latest review, similar to our prior work, found that DOD contracts for significant amounts of professional and administrative and management support services. A significant portion of contracts for these services were for services that are likely to be closely associated with inherently governmental functions. We identified total obligations for categories of contracted services that often include services closely associated with inherently governmental functions based on DOD components' fiscal year 2012 inventory submission data.²⁴ We compared those totals to the total

²³[GAO-13-491](#).

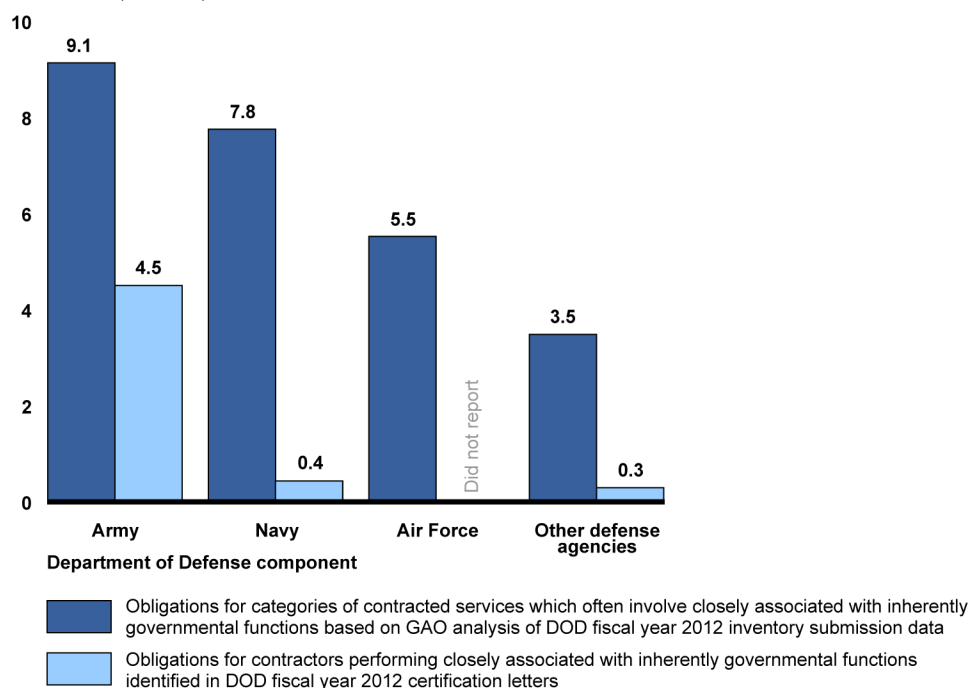
²⁴We used Office of Federal Procurement Policy (OFPP) guidance and our prior work to identify product service codes associated with contracts that often include closely associated with inherently governmental functions. OFPP, Memorandum for Chief Acquisition Officers and Senior Procurement Executives, *Service Contract Inventories*, November 5, 2010 and GAO, *Managing Service Contracts: Recent Efforts to Address Associated Risks Can Be Further Enhanced*, [GAO-12-87](#), (Washington, D.C. Dec. 7, 2011).

obligations certified by DOD components as being for contractors performing closely associated with inherently governmental functions in the fiscal year 2012 certification letters. This analysis found significant gaps between these two categories, suggesting that some of the inventory review processes or methodologies may not be sufficient to accurately identify closely associated with inherently governmental functions. In contrast to the Navy and other defense agencies, even the Army's incomplete review identified that nearly half of its total obligations in these categories were for the performance of closely associated with inherently governmental functions (see figure 2).²⁵

²⁵As we previously reported, the Army has a two-pronged approach to reviewing the activities in the inventory. First, it uses a pre-award process that includes detailed checklists to help assess whether the proposed contract includes services that are inherently governmental functions or inappropriate personal services, and to identify services that are closely associated with inherently governmental functions. Second, the Army uses a post-award review, the Panel for Documentation of Contractors, to review information provided by commands to make certain determinations such as whether a contractor's performance of closely associated with inherently governmental functions has evolved into the performance of inherently governmental functions. The Panel for Documentation of Contractors also evaluates whether sufficient in-house capacity exists to oversee the contracted workforce. [GAO-13-491](#).

Figure 2: Comparison of Total Obligations for Contracts Which Often Involve Closely Associated with Inherently Governmental Functions to Obligations Reported for These Functions In Fiscal Year 2012 Inventory Certification Letters

U.S. dollars (in billions)



Source: GAO analysis of DOD's inventory of contracted services data. | GAO-15-88

With regard to identifying contractor FTEs that may be performing inherently governmental functions or unauthorized personal services, only the Army identified such contractors during their fiscal year 2012 inventory review. The Army reported that it had identified 62 contractor FTEs performing inherently governmental functions and five contractor FTEs providing unauthorized personal services, both figures representing significant declines since fiscal year 2011. As noted previously, however, we found the Army's review of its fiscal year 2012 inventory may not have included the minimum requirement of 80 percent of contract functions. While the Air Force did not submit a certification letter in fiscal year 2012, Air Force officials told us that they had incorrectly identified contractors performing inherently governmental functions and unauthorized personal services in their 2011 inventory review.

However, neither the Army nor the Air Force provided information as to how they resolved the prior instances in which they found that contractors were performing such functions. We previously recommended in May

2013 that the Secretary of Defense instruct components to provide updated information in certification letters on how they resolved the instances of contractors performing inherently governmental functions or unauthorized personal services identified in prior inventory reviews.²⁶ DOD partially concurred with this recommendation, stating that DOD would focus on the fiscal year 2012 reporting requirements and that any instances of contractors performing inherently governmental functions or unauthorized personal services that persist from prior inventory reviews would be included and fully documented in the fiscal year 2012 and future inventory review processes. Further, DOD said it would verify that the certification letters contain a complete and accurate description of actions taken to resolve outstanding issues related to contractors performing these functions prior to closing the review process.

Federal internal control standards call for managers to measure and assess performance over time to ensure effectiveness and efficiency of operations and compliance with applicable laws and regulations.²⁷ Without accurate identification of the functions contractors are performing, DOD cannot be assured that proper oversight is in place or provide data to ensure that it is meeting statutory requirements to reduce, to the maximum extent practicable, the number of contractors performing closely associated with inherently governmental functions or assure that contractors are not performing inherently governmental functions.

Fiscal Year 2013 Guidance Does Not Address All Reporting Challenges

DOD issued guidance applicable to the components' fiscal year 2013 inventories in March 2014. To assist components' reviews, this guidance provides definitions for inherently governmental, closely associated with inherently governmental, personal services, and critical functions, consistent with the FAR and the Office of Federal Procurement Policy (OFPP) guidance.²⁸ DOD's guidance, however, does not specify the percent of contract functions to be reviewed nor identify the basis to determine the percentage of contract functions to be reviewed. P&R officials indicated that the intent is for components to review all contract

²⁶GAO-13-491.

²⁷GAO, *Auditing and Financial Management: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C. Nov. 1, 1999).

²⁸OFPP Policy Letter 11-01, Performance of Inherently Governmental and Critical Functions, 76 Fed. Reg. 56227.

functions; however, some component officials we interviewed said it was not clear to them. The March 2014 guidance also indicates that components should review the nature or way the contract is performed and administered as well as the organizational environment within which it is operating beyond what can be accessed via a review of the information listed within the inventory, but does not provide specific approaches to do so.

Uncertainties Continue in Implementing a Common Manpower Reporting Data System

A key factor to facilitate the components' review of the functions that contractors perform is the availability of accurate and reliable data. As we reported in May 2014, DOD officials noted that the lack of dedicated resources has been a key factor hindering implementation of its planned ECMRA, the common data system based on the Army's CMRA system.²⁹ To address this factor and support the data collection efforts, DOD provided funding for six civilian FTEs for the Defense Human Resources Agency, starting in fiscal year 2015. We reported in May 2014 that DOD officials had anticipated these staff would comprise a new support office to coordinate DOD's efforts to define business processes for compiling, reviewing, and using the inventory. This effort has encountered a number of challenges, which officials noted may jeopardize the department's goal to fully implement ECMRA by fiscal year 2016. For example, the effort lacks a formal agreement, including roles and responsibilities, between the Assistant Secretary of Defense for Readiness and Force Management and the Defense Human Resources Agency, the parties responsible for implementing ECMRA and related business processes. As we concluded in our May 2014 report, DOD did not have a comprehensive plan with timeframes and milestones to measure its progress toward developing a common contractor manpower data system and associated business processes.

More recently, a September 17, 2014 memorandum from the Acting Assistant Secretary of Defense for Readiness and Force Management appointed a Strategic Review and Planning Officer as the official responsible for identifying and developing enterprise solutions related to the inventory data collection requirements prescribed by title 10, U.S. Code, section 2330a. The official is authorized to identify, develop, and consider all reasonable options, in both the short and long-terms, and

²⁹[GAO-14-491R](#).

propose courses of action by December 1, 2014 to P&R. Once a course of action is approved, the memorandum directs the official to develop a detailed implementation plan, but does not provide timeframes for completion. A P&R official told us that, until such time as there has been a decision whether to pursue a new approach or continue forward with implementation of ECMRA, DOD will defer using the additional resources allocated for the Defense Human Resources Agency. This review raises a question about whether DOD will continue to implement a DOD-wide inventory data collection system modeled after the Army's CMRA system or attempt to develop a new system. Until such time as DOD components are able to collect the required data for their inventories, the utility of their inventory reviews for making workforce mix decisions will be hindered.

The Military Departments Have Not Developed Statutorily Required Plans or Identified Specific Responsibilities to Facilitate the Use of the Inventory

The military departments have not developed plans or enforcement mechanisms to use the inventory of contracted services to inform strategic workforce planning, workforce mix, and budget decision-making processes, as statutorily required. Despite the lack of specific plans, the military departments have taken some initial steps to use the inventory to inform management decisions such as insourcing and estimating FTEs for budgetary purposes. Disparate offices are responsible for the various decision-making processes at the military departments, and the secretaries of the military departments have not assigned specific responsibility for coordinating among these offices to develop plans to use the inventory to inform such decisions. In part, the absence of accountable officials to integrate the use of the inventory leaves the department at continued risk of not complying with the applicable legislative requirements to use the inventory to support management decisions.

Strategic Workforce Planning, Workforce Mix, and Insourcing Guidance Decisions Generally Do Not Require the Use of the Inventory

P&R has overall responsibility for developing and implementing DOD's strategic workforce plan to shape and improve the DOD's civilian workforce, including an assessment of the appropriate total force mix. P&R issued guidance that designated responsibility for the development of the strategic workforce plan to the Deputy Assistant Secretary of Defense for Civilian Personnel Policy, but did not require use of the inventory. This guidance predates the statutory requirement to use the inventory to inform strategic workforce planning. For example, the Fiscal Years 2013-2018 Strategic Workforce Plan, the most recent plan available at the time of our review, states that DOD's plans for identifying and assessing workforce mix will leverage the inventory of contracted services, but does not provide any additional details on using the inventory.

None of the three military departments has developed a statutorily required plan or enforcement mechanism to use the inventory of contracted services and generally they have not developed guidance or processes for these purposes (see table 4).

Table 4: Strategic Workforce Planning Guidance and Processes at the Three Military Departments

	Air Force	Army	Navy
Plans and enforcement mechanisms	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services.		
Guidance	No department-unique strategic workforce guidance. The Air Force issued a broad framework in July 2014 to guide long-range planning, but it does not mention the inventory of contracted services.	No department-unique strategic workforce guidance.	No department-unique strategic workforce guidance.
Processes	Air Force acquisition and manpower officials report that data derived from the inventory – such as contractor name, direct labor hours, and full-time equivalents – are entered into a manpower document to provide historical perspective on where contracts were performed. The inventory data are not used in a planning capacity.	No processes in place to use the inventory to inform strategic workforce planning.	In 2012, the Navy formed a Total Force Integration Board for managing the total force. The charter for this board, however, does not mention the inventory of contracted services and a manpower official reported that the board does not meet regularly.

Source: GAO analysis of military department guidance and processes| GAO-15-88

DOD has two department-wide policies for determining workforce mix—DOD directive 1100.4 and DOD instruction 1100.22—but neither currently requires the use of the inventory to inform workforce mix planning. DOD Directive 1100.4, dated February 2005, provides general guidance concerning determination of manpower requirements, managing resources, and manpower affordability. According to P&R officials, revisions to this directive, which are currently under review, will be revised to explicitly require use of the inventory to inform budgeting and total force management decisions. DOD Instruction 1100.22, dated April 2010, provides manpower mix criteria and guidance for determining how individual positions should be designated based on the work performed. This instruction does not direct the military departments to develop a plan to use the inventory to inform management decisions, as DOD issued it before the enactment of the requirement for developing such plans.

DOD's primary insourcing guidance is reflected in April 4, 2008 and May 28, 2009 memoranda.³⁰ These memoranda reiterate statutory requirements by calling for DOD components and the military departments to use the inventory of contracted services to identify functions for possible insourcing and to develop a plan for converting these functions within a reasonable amount of time. Among the military departments, however, only Army has guidance and a process that requires use of the inventory of contracted services for insourcing. However, the military departments have not issued guidance for managing workforce mix that requires the use of the inventory of contracted services (see table 5).

³⁰The insourcing memoranda are the April 4, 2008 memorandum, "Implementation of Section 324 of the National Defense Authorization Act for Fiscal Year 2008 (FY 2008 NDAA)—Guidelines and Procedures on In-Sourcing New and Contracted Out Functions" and the May 28, 2009 memorandum, "In-Sourcing Contracted Services – Implementation Guidance."

Table 5: Role of the Inventory of Contracted Services in Existing Workforce Mix and Insourcing Guidance and Processes at the Three Military Departments

	Air Force	Army	Navy
Plans and enforcement mechanisms	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services		
Guidance	Three Air Force Instructions—38-201, issued in January 2014, and 38-2 and 38-203 issued and updated in February 2013, respectively—provide guidance on complying with DOD’s manpower mix policy, but do not discuss the inventory of contracted services in a planning capacity.	<p>Army Regulation 570-4 “Manpower Management” issued in February 2006 implements DOD’s manpower mix directive, but pre-dates the requirements of subsection (f) and does not discuss the inventory of contracted services in a planning capacity.</p> <p>Army’s July 2009 memorandum, “Army Policy for Civilian Workforce Management and Service Contracts,” identifies responsibility for development and execution of Army in-sourcing plans based on the inventory of contracted services.</p> <p>Army’s May 2013 In-Sourcing Approval Authority memorandum provides guidance on the process for using the inventory of contracted services to inform in-sourcing actions.</p>	The Office of the Chief of Naval Operations’ Instruction 1000.16K, updated in October 2011, mentions use of the inventory of contracted services as a total workforce tool and provides some guidance on using the inventory to determine whether a function can be contracted. While this instruction links to the inventory of contracted services, it is not department-wide, as it does not apply to the Marine Corps.
Processes	Air Force officials stated that the department holds service contract review boards which have a role in the requirement approval process, among other things. According to the officials the review is in the beginning stages. However, it is not using the inventory to inform workforce mix and insourcing decisions.	<p>Army uses the Panel for Documentation of Contractors review process to determine whether to insource a contracted function.</p> <p>Additionally, Army uses the Services Contract Approval Form, developed in 2009, to inform contract award and insourcing decisions.</p>	Navy is implementing DOD wide policy through its Service Requirement Review Boards, which include a process to consider whether requirements encompass inherently governmental or closely associated with inherently governmental functions, among other things, but does not require use of the inventory of contracted services to do so.

Source: GAO analysis of DOD guidance and processes | GAO-15-88

Programming and Budget
Decisions Generally Do
Not Require the Use of the
Inventory, Though Data on
Estimated Contractor
FTEs Are Included in the
Budget

DOD's Financial Management Regulation provides, among other things, guidance to the military departments on budget formulation and presentation; however, these regulations do not require the military departments to use the inventory in formulating and presenting their budgets.³¹ At the military department level, the Air Force has issued additional instructions in terms of budget formulation and presentation. However, the Air Force's guidance does not require the use of the inventory.

The Comptroller has issued supplemental guidance requiring, among other things, that the military departments and defense components provide information on the number of FTEs as required under 10 U.S.C. § 235, but this guidance does not require reporting the amount of funding requested for contracted services. The Comptroller guidance for budget submissions from all components has remained similar for the past three fiscal years, instructing DOD components to ensure that contractor FTEs reported in the budget exhibit are consistent with those in the DOD's inventory of contracted services.³² Both Navy and Air Force officials reported that they used the inventory of contracted services to estimate the number of contractor FTEs for inclusion in their budget request. The Army budget office does not have a process to use the inventory to inform budgeting and could not identify how the Army estimated FTEs in the Army's budget submission (see table 6).

³¹DOD 7000.14-R Department of Defense Financial Management Regulation.

³²The Comptroller's guidance was issued in three memoranda: the December 16, 2011 memorandum, "Fiscal Year (FY) 2013 President's Budget Submission"; the February 5, 2013 memorandum, "Fiscal Year (FY) 2014 President's Budget Submission"; and the January 29, 2014 memorandum, "Fiscal Year (FY) 2015 President's Budget Submission".

Table 6: Role of the Inventory of Contracted Services in Existing Budgeting Guidance and Processes at the Three Military Departments

	Air Force	Army	Navy
Plans and enforcement mechanisms	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services		
Guidance	Air Force Instructions 65-601, Volumes 1-3 on financial management do not link to using the inventory of contracted services. The Air Force also follows guidance issued by the DOD Comptroller.	No Army specific budget guidance. The Army follows guidance issued by the DOD Comptroller.	No Navy specific budget guidance. The Navy follows guidance issued by the DOD Comptroller.
Processes			
<i>Budget Formulation and Execution</i>	The Air Force does not have a process for using the inventory of contracted services for budget formulation and execution.	The Army does not have a process for using the inventory of contracted services for budget formulation and execution.	The Navy does not have a process for using the inventory of contracted services for budget formulation and execution.
<i>Estimating Contractor Full-time Equivalents (FTEs)</i>	To estimate contractor FTEs, the Air Force budget office uses the inventory to arrive at average cost of contractors. The Air Force then divides the contractor dollar amounts reported in the budget submission to arrive at an estimated number of contractor FTEs and submits this number for the DOD budget exhibit.	The Army budget office does not use the inventory of contracted services to inform budgeting or estimate contractor FTEs.	To estimate contractor FTEs, the Navy budget office uses the inventory to arrive at average cost of contractors. The Navy then divides the contractor dollar amounts reported in the budget submission to arrive at an estimated number of contractor FTEs and submits this number for the DOD budget exhibit.

Source: GAO analysis of DOD programming and budget guidance | GAO-15-88.

Within the Military Departments, Responsibility for Developing a Plan to Use the Inventory for Management Decisions is Not Clearly Assigned

Within the military departments various offices are responsible for conducting the compilation and review of the inventory of contracted services, managing workforce mix decisions, and conducting budgeting (see table 7).

Table 7: Offices Responsible for Workforce Planning, Budgeting, and the Inventory of Contracted Services at the Military Departments

	Air Force	Army	Navy
Inventory of Contracted Services	Assistant Secretary of the Air Force for Acquisition	Army Manpower and Reserve Affairs	Navy Research, Development, and Acquisition
Strategic Workforce Planning	Deputy Chief of Staff, Manpower, Personnel, and Services Assistant Secretary of the Air Force for Manpower and Reserve Affairs	Army Manpower and Reserve Affairs	Navy Manpower and Reserve Affairs
Manpower Mix/Insourcing	Deputy Chief of Staff, Manpower, Personnel, and Services Assistant Secretary of the Air Force for Manpower and Reserve Affairs	Army Manpower and Reserve Affairs Assistant Secretary of the Army for Acquisition, Logistics, and Technology	Navy Manpower and Reserve Affairs Navy Research, Development, and Acquisition
Budgeting [including forecasting and execution]	A8 Office, Strategic Plans and Programs Air Force Financial Management and Comptroller	G8, Program Analysis & Evaluation Army Financial Management and Comptroller	N8, Integration of Capabilities and Resources Navy, Financial Management and Comptroller

Source: GAO analysis of DOD guidance and processes| GAO-15-88

Based on our analysis, however, no single office or individual is responsible for leading or coordinating efforts between the various functional areas to develop a plan and enforcement mechanism to use the inventory to inform these processes. During interviews, officials at each of the military departments were uncertain who was responsible for developing a plan and enforcement mechanisms to use the inventory to inform management decisions. For example, the Assistant Secretary of the Army for Acquisition, Logistics, and Technology indicated that the responsibility for developing the Army’s plan fell to the manpower community, but a manpower official stated his office is not explicitly tasked with this responsibility. Internal control standards in the federal government state that management should establish an organizational structure, delegate authority for key roles, and assign responsibility to enable an organization to achieve management objectives and to comply with laws.³³ The absence of clearly defined roles and responsibilities for integrating the use of the inventory in these processes, as appropriate, leaves the department at continued risk of not complying with the

³³ [GAO/AIMD-00-21.3.1.](#)

applicable legislative requirements to leverage the inventory to support management decisions.

Conclusions

In the six years since DOD first submitted its initial department-wide inventory of contracted services and conducted the associated reviews, DOD's progress remains uneven and uncertain. DOD components addressed more of the reporting elements prescribed by P&R and AT&L guidance, but it is less clear that the fiscal year 2012 reviews were any more informative than prior reviews in certain key areas. The Air Force failed to submit an inventory review certification letter while the Army submitted incomplete review data for several major commands. In addition, DOD components may not have fully identified all instances of contractors performing closely associated with inherently governmental functions. DOD's fiscal year 2013 guidance does not fully address some of the shortcomings our review identified, including how to identify contracts to review or the methodologies or approaches to use to ensure the components' inventory reviews adequately assess contractor activities. As a result, components may not fully identify instances of contractors providing services that are closely associated with inherently governmental functions. Without a thorough review of contractor activities, DOD risks becoming overly reliant on contractors to support core missions.

Further, it is up to the department to provide a system that is capable of providing accurate and reliable data to support these reviews. Continued delays and uncertainties in implementing its planned ECMRA system hinder achievement of this objective. We had previously recommended that DOD develop a plan of action with timeframes and milestones to measure DOD's progress in implementing a common data system, but DOD has yet to do so. DOD identified the lack of dedicated resources as the primary obstacle to resolving technical issues, including help desk support and establishing common processes across the department. DOD allocated fiscal year 2015 funding to support this effort; however, DOD is delaying committing these resources pending the completion of a review to identify and develop appropriate enterprise solutions, including short- and long-term options, no later than December 1, 2014. Continued delays in developing an implementation plan increases the risk that DOD will be unable to collect the statutorily required data needed to serve as the basis for DOD's inventory review process.

Additionally, the military departments generally do not have plans to use the inventories for strategic workforce planning, workforce mix and

insourcing decisions, or budget and programming decisions. The same is generally true for the processes that underlie these decisions, with the exception of the Army's efforts to use the inventory and associated review process to help inform workforce mix and insourcing decisions. One factor contributing to this condition is the fact that multiple offices are responsible for performing tasks within their specific area of responsibility, but there are no offices or individuals that have been specifically tasked to lead or coordinate efforts to facilitate the use of the inventory within each of the military departments. Internal control standards state that management should establish an organizational structure, delegate authority for key roles, and assign responsibility to enable an organization to achieve management objectives and to comply with laws. Entrusting one or more individuals with the responsibility for carrying out these requirements is likely to produce more positive results quicker than if DOD continues to engage in piecemeal and ad hoc efforts within each functional area. The absence of clearly defined roles and responsibilities for integrating the use of the inventory in these processes, as appropriate, leaves the department at continued risk of not complying with the applicable legislative requirements to leverage the inventory to support management decisions.

Recommendations for Executive Action

To better implement the requirements for reviewing the inventory of contracted services, we recommend that the Under Secretary of Defense for Acquisition, Technology and Logistics and the Under Secretary of Defense for Personnel and Readiness work jointly to revise annual inventory review guidance to clearly identify the basis for selecting contracts to review and to provide approaches the components may use to conduct inventory reviews that ensure the nature of how the contract is being performed is adequately considered. If DOD intends for components to review less than 100 percent of its contracts, then the guidance should clearly identify the basis for selecting which contracted functions should be reviewed.

To help facilitate the department's stated intent to develop a common data collection system to fully collect statutorily required data, we recommend that the Under Secretary of Defense for Personnel and Readiness approve a plan of action, with timeframes and milestones, for rolling out and supporting a department-wide data collection system as soon as practicable after December 1, 2014. Should a decision be made to use or develop a system other than the e-CMRA system currently being fielded, we recommend that the Under Secretary of Defense for Personnel and Readiness document the rationale for doing so and ensure

that the new approach will provide data that satisfies the statutory requirements for the inventory.

To help ensure that the inventory of contracted services is integrated into key management decisions as statutorily required, we recommend that the Secretaries of the Army, Navy, and Air Force identify an accountable official within their departments with responsibility for leading and coordinating efforts across their manpower, budgeting, and acquisition functional communities and, as appropriate, revise guidance, develop plans and enforcement mechanisms, and establish processes.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for comment. In its written comments, which are reprinted in appendix III, DOD concurred with our recommendations and described the actions it plans to take though it did not provide timeframes for completing such actions. DOD also provided technical comments, which we incorporated in the report as appropriate.

In response to our recommendation to revise its inventory review guidance to provide more clarity on which contracted functions should be reviewed and to provide approaches the components may use to ensure that the nature of how the contract is being performed is considered, the department noted it is currently enhancing its guidance for the fiscal year 2014 inventory of contracted services and intends to have components review and certify 100 percent of the services reported in their respective inventory. DOD did not address whether DOD's guidance will provide approaches components may use to conduct inventory reviews to ensure contract performance is adequately considered. There may be no singular approach appropriate for all DOD components; however, DOD could provide a range of suggested approaches to ensure components accurately identify functions performed. While we appreciate DOD's actions to address the recommendation, the fact that only seven of the components fully addressed each element contained in AT&L and P&R's previous guidance underscores, in our view, the need for more direct involvement by DOD to ensure compliance.

In response to our recommendation to approve a plan of action with timeframes and milestones to help facilitate the development of a common data collection system, DOD noted that all DOD components are using ECRMA to facilitate compilation of their respective inventory of contracted services. DOD agreed that if the Department decides to move away from ECMRA, the decision will be fully documented, ensuring satisfaction of statutory requirements.

In response to our recommendation to identify an accountable official within the military departments to help ensure the inventory of contracted services is integrated into key management decisions and to coordinate efforts across manpower, budgeting and acquisition communities, DOD agreed. DOD also indicated that a cognizant accountable official should be identified at the remaining defense components (e.g. defense agencies, field activities, and combatant commands). While our work in this area focused on the military departments, we agree that it is important for components across DOD to ensure each organization develops a plan and enforcement mechanisms for using the inventory of contracted services to inform management decisions.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Under Secretary of Defense for Personnel and Readiness, the Secretaries of the Army, Air Force, and the Navy, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or dinapolit@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.



Timothy J. DiNapoli
Director
Acquisition and Sourcing Management

List of Committees

The Honorable Carl Levin
Chairman
The Honorable James M. Inhofe
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Richard J. Durbin
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Howard P. "Buck" McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Rodney Frelinghuysen
Chairman
The Honorable Pete Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Section 951(a) of the National Defense Authorization Act for Fiscal Year 2014 directs GAO to report, for fiscal years 2014, 2015, and 2016, on DOD's implementation of title 10 U.S. Code section 2330a subsections (e) and (f).¹ To satisfy the mandate for 2014, we assessed DOD's efforts to (1) implement subsection (e) to review contracts and activities in the inventory of contracted services for the fiscal year 2012 inventory and (2) implement subsection (f) to develop plans and processes to inform how the inventory will be used to facilitate strategic workforce planning, workforce mix, and budget decisions. We used data from the fiscal year 2012 inventory as it was the most recent inventory at the time of our review.

To assess the extent to which DOD components—to include the three military departments and the defense agencies—implemented the required review of contracts and activities in the inventory of contracted services pursuant to subsection(e), for the fiscal year 2012 inventory, we examined the guidance related to the fiscal year 2012 inventory review process which the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (AT&L) and the Acting Under Secretary of Defense for Personnel and Readiness (P&R) issued on February 4, 2013. The February 2013 guidance requires components to certify completion of the review and report on seven elements including the contract selection criteria and methodologies used to conduct the reviews; the extent to which contractors were found to be performing certain functions, to include inherently governmental and closely associated with inherently governmental; and to the extent necessary, a plan to realign performance of such functions to government performance.² We analyzed all unclassified fiscal year 2012 certification letters submitted by 32 components to P&R as of September 2014 to determine if components reported on all seven required elements. We did

¹Pub. L. No. 113-66 (2013).

²In September 2014, the DOD Inspector General found that not all DOD components, as defined by DOD Directive 5100.01, participated in the fiscal year 2012 inventory of contracted services process. Further, they reported that P&R officials explained the decision on whether a component is required to participate in the inventory process is regularly assessed. The DOD Inspector General recommended that DOD identify the components required to submit an inventory of contracted services. Department of Defense Inspector General, "Independent Auditor's Report on Agreed-Upon Procedures for DOD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2012", DODIG-2014-114, (Alexandria, VA: Sept. 17, 2014).

not analyze any classified certification letters submitted, such as that by the Defense Intelligence Agency.

We also reviewed the Office of Federal Procurement Policy's (OFPP) November 5, 2010 guidance for civilian agencies' service contract inventories. This guidance directs agencies to give priority consideration to reviewing certain categories of contracted services that the guidance and GAO's prior work have indicated often include closely associated with inherently governmental functions. The guidance identifies 15 product service codes describing these categories of contracted services. We reviewed the total amount DOD components obligated for closely associated with inherently governmental functions with the total amount they reported obligating for the categories of contracted services identified in the OFPP's guidance and two additional product service codes identified in GAO's prior work to compare the dollars obligated and contractor full-time equivalents (FTEs) reported for these product services codes.³ We did not independently assess the accuracy or reliability of the underlying data supporting the components' inventories of contracted services and associated reviews. Our previous work, however, identified data limitations with those DOD components using data from FPDS-NG as the basis for their inventories.⁴ We discuss these limitations in the report, as appropriate.

In performing our work to assess the extent to which DOD implemented subsection (e) to review contracts and activities in the inventory of contracted services for the fiscal year 2012 inventory we interviewed cognizant officials from AT&L; P&R; the Under Secretary of Defense (Comptroller); the Departments of the Army, Navy, and Air Force; and three defense components – the Defense Logistics Agency (DLA); the Defense Threat Reduction Agency (DTRA), and the Office of the Director of Administration and Management (ODA&M). We selected the Army, Navy, and Air Force for additional review because they represented about 74 percent of the obligations reported in the inventory and selected DLA and DTRA, because they reported having the most instances of

³GAO, *Managing Service Contracts: Recent Efforts to Address Associated Risks Can Be Further Enhanced*, [GAO-12-87](#), (Washington, D.C. Dec. 7, 2011).

⁴GAO, *Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services*, [GAO-13-491](#) (Washington, D.C.: May 23, 2013).

contractors performing closely associated with inherently governmental functions, as expressed in contractor FTEs. We selected ODA&M because they reported having the fewest contractor FTEs performing closely associated with inherently governmental functions, despite having high obligations for professional services and program management services, two categories of contracted services known to often include closely associated with inherently governmental functions.⁵

To assess the extent to which DOD components have developed plans and processes to use the inventory to inform management decisions pursuant to subsection (f), we reviewed defense-wide and military department-specific strategic planning, manpower mix, and budgeting documentation and interviewed officials responsible for developing and using this guidance. To determine whether DOD guidance informing strategic planning, manpower mix and budgeting calls for the use of the inventory of contracted services in planning processes, we reviewed the DOD's Fiscal Year 2013-2018 Strategic Workforce Plan Report and associated guidance for completing the plan, DOD's instruction on manpower mix criteria, DOD's memoranda guiding the conversion of contracted functions to government functions, and guidance issued by the Comptroller that informed the fiscal year 2013, 2014, and 2015 budget submissions. When applicable we reviewed workforce mix instructions and budgeting regulations. In addition we reviewed memoranda, slides, and meeting minutes to review processes that the military departments had underway to determine if these processes addressed the requirements of title 10 U.S.C. § 2330a(f).

In performing our work to assess the extent to which DOD components have developed plans and processes to use the inventory to inform management decisions pursuant to subsection (f) we interviewed cognizant officials from AT&L, P&R and the Comptroller, and the three military departments. We discussed identification of a cognizant official for the plans and processes with acquisition, manpower, programming, and budgeting officials.

⁵ODA&M is being realigned and will merge with the Office of the Deputy Chief Management Officer.

In addition, we evaluated DOD's progress in implementing a common data system since our most recent report in May 2014.⁶ To do so, we reviewed existing documentation including memoranda, planning documents, and guidance for establishing a common data system. We also interviewed officials from P&R to discuss progress toward the common system and associated business processes.

We conducted this performance audit from May 2014 to November 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on audit objectives.

⁶GAO, *Defense Acquisitions: Update on DOD's Efforts to Implement a Common Contractor Manpower Data System*, [GAO-14-491R](#) (Washington, D.C.: May 19, 2014).

Appendix II: Comparison of Components' Identification of Contractors Providing Services Closely Associated With Inherently Governmental Functions in their Fiscal Year 2011 and 2012 Certification Letters

Component	2011	2012
Army	44,541	27,378
Air Force ^a	1,398	Did not report
Navy	The Navy did not identify the number of FTEs, but noted they have 25 contracts that contained these functions.	2,524
Defense Advanced Research Projects Agency	The agency did not identify the number of FTEs in current contracts, but noted they have contracts that contained these functions.	115
Defense Commissary Agency	The agency did not identify the number of FTEs, but noted that they had contractors performing these functions.	0
Defense Contract Audit Agency	0	Did not report
Defense Contract Management Agency	0	2 contracts
Defense Finance and Accounting Service	0	0
Defense Human Resource Activity	0	0
Defense Information Systems Agency	0	0
Defense Logistics Agency	The agency did not identify the number of FTEs, but noted that 4.5 percent of their sample of more than 50 percent of contract actions contained these functions.	475
Defense Media Activity	0	0
Defense Micro-Electronics Activity	Did not report	0
Defense Security Cooperation Agency	0	0
Defense Security Service	0	164
Defense Threat Reduction Agency	The agency did not identify the number of FTEs, but noted that several contracts contained these functions.	261
Department of Defense Education Activity	0	0
Joint Chiefs of Staff	0	0
Missile Defense Agency	0	89
Office of the Secretary of Defense Washington Headquarters Service Pentagon Force Protection Agency ^b	The components did not identify the number of FTEs, but reported that 24 out of 950 contracts consolidated from the three components had contractors performing these functions.	1
Test Resource Management Center	0	0
Tricare Management Activity	The activity did not identify the number of FTEs, but stated that some contracts contained these functions	2
United States Africa Command	0	0

**Appendix II: Comparison of Components'
Identification of Contractors Providing
Services Closely Associated With Inherently
Governmental Functions in their Fiscal Year
2011 and 2012 Certification Letters**

Component	2011	2012
United States Central Command	Did not report	25
United States European Command	0	0
United States Forces Korea	Did not report	0
United States Northern Command	The commands did not identify the number of FTEs, but noted that "some requirements" contained these functions.	171
United States Special Operations Command	0	106
United States Strategic Command	Did not report	0
United States Southern Command	0	Did not report
United States Transportation Command	0	0

Source: GAO-13-391 and GAO analysis of DOD Certification Letters for fiscal years 2011 and 2012 | GAO-15-88.

^a As of September 2014, the Air Force has yet to provide a certification letter for the fiscal year 2012 inventory identifying contractor FTEs in either category. Further, the fiscal year 2011 data from the Air Force were based on preliminary estimates, and the Air Force did not provide a final certification letter for fiscal year 2011.

^b The Office of the Secretary of Defense, Director of Administration and Management submitted a consolidated review on behalf of the Office of the Secretary of Defense, Washington Headquarters Service, and the Pentagon Force Protection Agency, but did not specifically identify which components reported contractors performing closely associated with inherently governmental functions. In addition, officials responsible for the consolidated review identified an error in the certification letter and updated it to reflect 14.7 contractor FTEs performing closely associated with inherently governmental functions.

Appendix III: Comments from the Department of Defense



READINESS AND
FORCE MANAGEMENT

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, DC 20301-4000

November 4, 2014

Mr. Timothy J. DiNapoli
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. DiNapoli,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-15-88, 'Defense Contractors: Additional Actions needed to Facilitate the Use of the DoD's Inventory of Contracted Services' dated October 3, 2014 (GAO Code 1000033). The Department appreciates the GAO's work on this engagement, as well as the opportunity to review and comment on this draft report.

The Department agrees with the GAO's assessment that the Department continues to face challenges related to the statutorily required review of the Inventory of Contracted Services

RECOMMENDATION 1: To better implement the requirements for reviewing the inventory of contracted services, the Government Accountability Office (GAO) recommends that the Under Secretary of Defense for Acquisition, Technology and Logistics, and the Under Secretary of Defense for Personnel and Readiness work jointly to revise annual inventory review guidance to clearly identify the basis for selecting contracts to review and to provide approaches the components may use to conduct inventory reviews that ensure the nature of how the contract is being performed is adequately considered. If DoD intends for components to review less than 100 percent of its contracts, then the guidance should clearly identify the basis for selecting which contracted functions should be reviewed.

DoD RESPONSE: Concur. The Department is currently staffing enhanced guidance for the fiscal year 2014 inventory of contracted services. The DoD intends to have components review and certify, to the Office of the Under Secretary of Defense for Personnel and Readiness, 100% of the services reported in their respective inventory.

RECOMMENDATION 2: To help facilitate the department's stated intent to develop a common data collection system to fully collect statutorily required data, we recommend that the Under Secretary of Defense for Personnel and Readiness approve a plan of action, with timeframes and milestones for rolling out and supporting a department wide data collection system as soon as practicable after December 1, 2014. Should a decision

be made to use or develop a system other than the e-CMRA system currently being fielded, we recommend that they Under Secretary of Defense for Personnel and Readiness document the rationale for doing so and ensure that the new approach will provide data that satisfies the statutory requirements of the inventory.

DoD RESPONSE: Concur. A common data collection system, the Enterprise-wide Contractor Manpower Reporting Application (ECMRA), currently exists and is being used by all DoD Components to facilitate compilation of their respective annual inventory of contracted services. The Department agrees that if, as a result of the review being conducted by the Strategic Review and Planning Officer appointed by the Acting Assistant Secretary of Defense for Readiness and Force Management, a decision is made to move away from ECMRA usage then that decision will be fully documented and rationalized, ensuring satisfaction of statutory requirements.

RECOMMENDATION 3: To help ensure that the inventory of contracted services is integrated into key management decisions as statutorily required, we recommend that the Secretaries of the Army, Navy, and Air Force identify an accountable official within their departments with responsibility for leading and coordinating efforts across their manpower, budgeting and acquisition functional communities and as, appropriate, revise guidance, develop plans and enforcement mechanisms, and establish processes.

DoD RESPONSE: Concur. My office received input from the collateral action offices of the military departments for this review. Each office concurred with the GAO's recommendation. The Department also believes that cognizant accountable officials should be identified for DoD Components outside of the military Departments (e.g., Defense Agencies, Field Activities, Combatant Commands, etc.) to ensure coordinated efforts within those organizations as well.

The Department looks forward to working with the GAO over the next several years on the multiple engagements relative to our efforts in this critical area as directed by section 951 of the fiscal year 2014 National Defense Authorization Act. Should you have any questions, please contact the primary action officers for this engagement, Ms. Amy Parker (703-697-1735 or amy.l.parker26.civ@mail.mil) and Mr. Thomas Hessel (703-697-3402 or thomas.j.hessel.civ@mail.mil).

Sincerely,



Rich Robbins
Director, Total Force Planning &
Requirements

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Timothy J. DiNapoli, (202)512-4841 or dinapolit@gao.gov

Staff Acknowledgments

In addition to the contact named above Penny Berrier, Assistant Director; MacKenzie Cooper; Kate Eberle; Kristine Hassinger; John Krump; Caryn E. Kuebler; Jean McSween; Oziel Trevino; and Candice Wright made key contributions to this report.

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