March 26, 2007

The Honorable Daniel K. Akaka
Chairman
The Honorable John Ensign
Ranking Member
Subcommittee on Readiness and Management Support
Committee on Armed Services
United States Senate

Subject: Defense Services Acquisition: Questions for the Record

On January 17, 2007, I testified before the Subcommittee on the Department of Defense’s (DOD) management of its acquisition of services. I made several key points during the hearing. First, DOD’s long-standing problems with contract management have become more prominent as DOD’s reliance on contractors to provide services continues to grow. Second, DOD lacks sound contracting practices when acquiring services. Third, DOD’s acquisition workforce has been downsized without sufficient attention to requisite skills and competencies. Fourth, DOD’s acquisitions have resulted in outcomes that have cost the department valuable resources. And, finally, while DOD is taking some steps to address these problems, it does not know how well its services acquisition processes are working, which part of its mission can best be met through buying services, and whether it is obtaining the services it needs while protecting DOD’s and the taxpayer’s interests.

Within this context, members of the Subcommittee requested that GAO provide additional comments on DOD’s efforts regarding the following topics: interagency contracting, acquisition of services, acquisition reform, and the acquisition workforce. The questions and our answers are provided in appendix I. The responses are generally based on work associated with previously issued GAO products, which were conducted in accordance with generally accepted government auditing standards. Because the responses are based on prior work, we did not obtain comments from DOD.

We will make copies of this letter available to others upon request, and it will be available at no charge on the GAO Web site at http://www.gao.gov. If you have any questions about this letter or need additional information please contact me on

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(202) 512-4841 or schinasik@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Key contributors to this letter were Timothy DiNapoli, James Fuquay, Sara Margraf, Sylvia Schatz, Amelia Shachoy, and William Woods.

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Attachment
Appendix I: GAO Responses to Questions for the Record

Interagency Contracting

Question: What is the potential effectiveness of two corrective actions DOD has recently taken to improve oversight of interagency contracting—a December 2006 memorandum from the Director of Defense Procurement and an October 2006 memorandum from the Defense Comptroller’s office?

The October 2006 memorandum from the Comptroller, which was sent to DOD components, established policies and procedures for ordering goods and services that are not subject to the Economy Act that are purchased from non-DOD agencies. For example, it requires officials to provide evidence of market research and acquisition planning, and a statement of work that is specific, definite, and certain for non-Economy Act orders above the simplified acquisition threshold. The memorandum also included a checklist and responsibilities for DOD officials to use as guidance when placing orders through interagency contracts. These actions should help to address prior GAO recommendations for better defining contract requirements and outcomes, and the need for guidance on the use of interagency contracts.

The December 2006 Memorandum of Agreement between DOD and the General Services Administration (GSA) serves to establish expectations for the parties involved in an interagency contracting transaction. For example, the memorandum proscribes that statements of work are complete, interagency agreements describe the work to be performed, and surveillance and oversight requirements are defined and implemented. The planned quarterly meetings for DOD and GSA to evaluate the effectiveness of the Memorandum of Agreement are a positive step.

However, as the Acting Inspector General, DOD, pointed out during the January 2007 hearing, the risks associated with interagency contracting are not new and require sustained attention. The use of these types of contracts continues to increase governmentwide, and our work and the work of the Inspector General have found that users and administrators lack expertise about how to use these contracts. In addition, adequate oversight is lacking. For example, DOD issued guidance that was signed in October 2004 (effective January 1, 2005) that outlines procedures to be developed and general factors to consider in making the decision to use another agency’s contract. However, recent Inspector General audits have found that the guidance is not always followed. In March 2006, the DOD Comptroller issued a memorandum to the military departments, defense agencies, and other components stating that DOD purchases made through non-DOD entities continue to violate policies, existing regulations, and practices regarding the use and control of DOD funds under interagency agreements; the memorandum also stated that this situation needed improvement. Therefore, although recent DOD actions are welcome, DOD will need to continue to monitor
its use of interagency contracts and do more to define who is responsible for what in the contracting process.

**Acquisition of Services**

**Question:** How do recent steps taken by DOD, such as the Under Secretary of Defense’s October 2006 memorandum concerning the reform of services acquisitions, compare to your recommendations regarding strategic and tactical management?

DOD has taken a number of steps to improve its acquisition of services, but these steps do not fully address our recommendations regarding strategic and tactical management. For example, DOD’s October 2006 memorandum identified a number of improvements in its current management structure, including providing lower dollar thresholds for reviewing proposed services acquisitions and requiring senior DOD officials to annually review whether service contracts were meeting established cost, schedule, and performance objectives. Further, in its comments to our November 2006 report on DOD services acquisitions, DOD noted that it had made organizational changes to improve its strategic sourcing efforts; it was assessing the skills and competencies needed by its workforce to acquire services; and the military departments and defense agencies were conducting self-assessments intended to address contract management issues we identified in our high-risk report. Each of these efforts are steps in the right direction, but in our view, appeared to be primarily incremental improvements to DOD’s current approach to acquiring services.

**Question:** What do you think DOD needs to do to further address the problems in the acquisition of services?

At a fundamental level, we believe DOD needs to begin to proactively manage services acquisitions outcomes, an action that will involve making changes at both the strategic and transactional levels. In contrast, DOD’s approach to managing the acquisition of services has tended to be reactive, and, as noted above, DOD’s reform efforts appear to be primarily incremental improvements to existing processes. In our view, such incremental improvements will not place DOD in a position to proactively manage services.

As we noted in our November 2006 report, DOD stated that it was examining the types and kinds of services it acquired and developing an integrated assessment of how best to acquire such services. DOD expected that this assessment would result in a comprehensive, departmentwide architecture for acquiring services that would, among other improvements, help refine the processes to develop requirements, ensure that individual transactions are consistent with DOD’s strategic goals and initiatives, and provide a capability to assess whether services acquisitions were meeting their cost, schedule and performance objectives. DOD

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expected this assessment would be completed in early 2007. Our discussions with DOD officials indicated that this architecture may hold potential for making the more fundamental change at the strategic and transactions levels that we have recommended. We cautioned, however, that the extent to which DOD successfully integrated the elements we identified would be key to fostering the appropriate attention and action needed to make services acquisitions a managed outcome.

**Question:** Do you have any recommendations that Congress should consider to ensure that the progress made endures?

Congressional oversight, including hearings such as this, plays a significant and important role in helping to assess progress, identify challenges, focus senior management attention, and hold DOD accountable for its actions.

**Acquisition Reform**

**Question:** How do, or should, reforms in the acquisition of services fit within this Committee’s broader acquisition reform efforts?

We believe that three elements transcend the type of goods or services DOD buys: recognizing that mission success depends heavily on a successful acquisition function and elevating senior leadership attention and accountability accordingly; ensuring that the government negotiates the best deal possible, a precursor of which is the market-based discipline of competition; and monitoring the outcome of acquisition decisions to ensure that the government gets what it pays for. Although improvements should be targeted according to facts and circumstances, the line between acquiring goods and acquiring services is blurring as DOD contracts out the management of its major systems acquisitions. The Subcommittee’s efforts to promote good practices are relevant for both the acquisition of goods and the acquisition of services.

**Question:** Are there common lessons learned or processes to be applied between major weapon systems acquisition and services acquisitions reform?

Services acquisitions parallel major weapon system acquisitions in that both should start with well-defined requirements, conduct sufficient market research, maximize competition, use qualified contractors, appropriately incentivize contractor performance, provide oversight or surveillance of the contractor’s performance, and accept and pay for only quality outcomes. Our work has repeatedly found weaknesses in these processes. As we noted in our January 2007 testimony before the Subcommittee, DOD does not know how well its services acquisition processes are working and whether it is obtaining the services it needs while protecting DOD’s and the taxpayers’ interests. Key to achieving better outcomes will be DOD’s ability to translate well-meaning guidance and policy into actual practice. In trying to improve the acquisition of both goods and services, the underlying incentives that drive behavior—particularly funding—are most often ignored.
Acquisition Workforce

Question: The DOD workforce is an aging workforce and is losing much of its talent through retirement. The talent that does remain may not match up well with the skills needed to buy software-intensive, net-centric weapons. What are your views on the health and composition of the acquisition workforce?

Although defining the acquisition workforce as the focus of attention is appropriate in some respects, the problems facing DOD today are broader as the increased demands on the acquisition workforce also stem, in part, from declines in the capacity of the overall DOD workforce and, in part, from the demands emanating from the requirements process. That said, we have raised concerns about the health and composition of DOD's acquisition workforce for several years. DOD's acquisition workforce must have the right skills and capabilities if it is to effectively implement best practices and properly manage the goods and services it buys. We noted in reports issued in 2003 and July 2006, however, that procurement reforms, changes in staffing levels, workload, and the need for new skill sets have placed unprecedented demands on the acquisition workforce.

Further, DOD's current civilian acquisition workforce level reflects the considerable downsizing that occurred in the 1990s. DOD carried out this downsizing without ensuring that it had the specific skills and competencies needed to accomplish DOD's mission. As a result, these factors have challenged DOD's ability to maintain a workforce with the requisite knowledge of market conditions and industry trends, the ability to prepare clear statements of work, an understanding of the technical details about the services they buy, and the capacity to manage and oversee contractors. In the case of the $160-billion Future Combat Systems program, for example, the Army chose to use a lead systems integrator because it did not believe it had the in-house resources or flexibility to field such a complex system in the time required.

DOD has acknowledged that it faces significant workforce challenges that if not effectively addressed could impair the responsiveness and quality of acquisition outcomes. In June 2006, DOD issued a human capital strategy that identified a number of steps planned over the next 2 years to more fully develop a long-term approach to managing its acquisition workforce, including developing a comprehensive competency model for each functional career field including the technical tasks, knowledge, skills, abilities, and personal characteristics required of the acquisition workforce.

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3 The Future Combat Systems program is a family of weapons, including 14 manned and unmanned ground vehicles, air vehicles, sensors and munitions that will be linked by an information network.
Question: What are the immediate priorities that must be addressed to ensure that the workforce can meet the demands of today’s acquisitions?

First, we have reported that senior DOD leaders need to set the appropriate tone at the top and ensure that its personnel adhere to sound contracting practices. Senior leadership is a critical factor in providing direction and vision as well as in maintaining the culture of the organization. As such, senior leaders have the responsibility to communicate and demonstrate a commitment to sound practices deemed acceptable for the acquisition function. Without sustained and prominent senior leadership, DOD increases its vulnerability to contracting fraud, waste, and abuse if it does not ensure that its decision makers, personnel, and contractors act in the best interests of DOD and taxpayers. DOD has emphasized making contract awards quickly; sometimes, however, the focus on speed has come at the expense of sound contracting techniques.

Second, DOD needs to determine what skill sets its current workforce has, and what skill sets the workforce needs, to carry out DOD’s mission. As I previously noted, DOD’s June 2006 strategic human capital plan identified a number of steps planned over the next 2 years to more fully develop a long-term approach to managing its acquisition workforce, including developing a comprehensive competency model for each functional career field. The model should identify the technical tasks, knowledge, skills, abilities, and personal characteristics required of the acquisition workforce. As part of this effort, DOD also needs to assess whether it has sufficient numbers of adequately trained personnel to plan, negotiate and award contracts, and to manage and assess contractor performance.

Question: Are you concerned that we are relying too much on service contractors to augment DOD program offices?

We have expressed concern about DOD’s growing reliance on contractors. This reliance is a governmentwide phenomenon and is occurring across a wide variety of activities and functions, including support for program offices. In recent years, for example, DOD has been using a lead systems integrator approach that allows one or more contractors to define weapon system’s architecture and then manage both the acquisition and integration of subsystems into the architecture. This approach relies on contractors to fill roles and handle responsibilities that differ from the more traditional prime contractor relationship the contractors had with the program offices and can blur the oversight responsibilities between the lead systems integrator and DOD program management representatives. To illustrate this point, the Army’s Future Combat Systems program is managed by a lead systems integrator that assumes the responsibilities of developing requirements, selecting major system and subsystem contractors, and making trade-off decisions among costs, schedules, and capabilities. While this management

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approach has some advantages for DOD, we found that the extent of contractor responsibility in many aspects of program management is a potential risk. Given the growing role of contractors, we believe it is important for DOD to identify the functions and tasks contractors are performing, the reasons or justifications for choosing a contractor instead of using a government employee, and the costs and risks inherent in such choices. In addition, we believe it is important for DOD to identify and mitigate the risks that can accompany increased reliance on contractors—risks such as organizational or personal conflicts of interest and insufficient in-house capacity to ensure that contractors meet cost, schedule, and performance requirements. We are conducting work to explore these issues.

**Question:** The Congress has provided many different tools to DOD to improve the hiring and training of acquisition personnel. Have the tools for rapid hiring authority been given to the acquisition workforce?

We have not evaluated the use of the tools that have been provided to DOD for rapid hiring authority.

**Question:** In your opinion, do the new authorities under the National Security Personnel System (NSPS) for performance management offer an opportunity for improved accountability? If, so, have you made such a recommendation to DOD leadership?

Our past testimonies and work indicate that evaluating the effect of NSPS will be an ongoing challenge. However, we believe NSPS does offer an opportunity for improved accountability. In our July 2005 report on DOD’s efforts to design NSPS, we recommended that DOD develop procedures for evaluating NSPS that contain results-oriented performance measures and reporting requirements. Our prior work also indicates that involving employees and other stakeholders helps to improve overall confidence and belief in the fairness of the system, enhance their understanding of how the system works, and increases their understanding and ownership of organizational goals and objectives. Organizations have found that the inclusion of employees and their representatives needs to be meaningful, not just pro forma. Results-oriented performance measures and reporting requirements along with employee involvement can improve accountability.

**Recruitment and Retention**

**Question:** The vast number of retirement-eligible federal employees presents a manpower challenge across the federal government, and specifically in adequately replacing members of the acquisition workforce. What innovative recruitment, retention, hiring, and/or training methods have been employed to address the inevitable reduction in the acquisition workforce? What methods have proved successful thus far? What limitations stymie more robust recruiting and retention results, and are

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there legislative changes or authorities that would enhance DOD’s efforts in this area?

Our prior work has shown that DOD needs to conduct comprehensive acquisition workforce planning to address recruitment, hiring, retention, and training issues. We reported in April 2002 that DOD recognized the need as well as the substantial challenges involved in implementing a strategic approach to shaping the acquisition workforce. In June 2004, we reported that DOD had taken steps to develop and implement civilian strategic workforce plans to address future civilian workforce needs, but these plans generally lacked some key elements essential to successful workforce planning. None of the plans included analyses of the gaps between critical skills and competencies currently needed by the workforce and those that will be needed in the future. Without including analyses of gaps in critical skills and competencies, DOD and its components may not be able to design and fund the best strategies to fill its talent needs through recruiting and hiring or to make appropriate investments to develop and retain the best possible workforce. Such gap analyses need to be completed to address acquisition workforce shortcomings and to identify methods that might prove successful for recruiting and retention. While we made several recommendations to improve DOD’s strategic workforce planning efforts, the work we have completed has not identified the need for legislative changes or authorities to enhance DOD’s efforts in the areas of recruitment and retention. However, we continue to be concerned about strategic human capital issues at DOD, as well as across the federal government, as we point out in our recently issued high-risk report.

### Acquisition Practices

**Question:** The Administration has made clear the priority of success in the global war on terrorism, and the DOD has an enormous role in this fight. Given your finding that DOD needs significant improvement in both contract oversight and interagency contracting practices, DOD clearly faces multiple challenges on the contracting front as part of its role in global war on terrorism support. What are your recommendations for how DOD might simultaneously improve contract practices in its Iraq reconstruction mission and develop and implement strategic acquisition processes?

As the Comptroller General noted during testimony in February 2007, the challenges faced by DOD on its reconstruction and support contracts in Iraq often

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reflected systemic and long-standing shortcomings in DOD’s capacity to manage contractor efforts. Such shortcomings result from various factors, including poorly defined or changing requirements; the use of poor business arrangements; the absence of senior leadership and guidance; and an insufficient number of trained contracting, acquisition, and other personnel to manage, assess, and oversee contractor performance. In turn, these shortcomings manifest themselves in higher costs to taxpayers, schedule delays, unmet objectives, and other undesirable outcomes.

Through the years, we have made recommendations to help DOD address these shortcomings, including recommendations intended to assure that adequate acquisition staff and other resources are available to support future operations, to emphasize the need to clearly define contract requirements in a timely manner, to improve the management of interagency contracting, and to resolve long-standing issues with regard to the management and use of support contractors. DOD has generally agreed with our recommendations and has some actions underway to address them. However, senior DOD leadership is needed to address these issues on a systemic level and ensure that subsequent changes in DOD’s policies and practices are implemented, as appropriate, in Iraq.

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