



Highlights of [GAO-09-643T](#), a testimony before the House Committee on Armed Services, Panel on Defense Acquisition Reform

Why GAO Did This Study

In fiscal year 2008, the Department of Defense (DOD) obligated over \$200 billion on contracts for services, which accounted for more than half of its total contract obligations. Given the serious budget pressures facing the nation, it is critical that DOD obtain value when buying these services. Yet DOD does not always use sound practices when acquiring services, and the department lacks sufficient people with the right skills to support its acquisitions. Although DOD has ongoing efforts to improve its planning, execution, and oversight of service acquisitions, many concerns that prompted GAO to put DOD contract management on its high-risk list in 1992 remain.

The committee asked GAO to address challenges facing DOD in measuring the value from and risks associated with its contracting for services. This testimony provides an overview of key concerns GAO cited in its previous reports. Specifically it focuses on (1) challenges DOD faces in following sound contract and contracting management practices and (2) recent actions DOD has taken to improve its management of service contracting.

GAO has made numerous recommendations over the past decade aimed at improving DOD's management and oversight of service contracts, but it is not making any new recommendations in this testimony.

View [GAO-09-643T](#) or key components. For more information, contact John P. Hutton at (202) 512-4841 or huttonj@gao.gov and William M. Solis at (202) 512-8365 or solisw@gao.gov

DEFENSE ACQUISITIONS

Actions Needed to Ensure Value for Service Contracts

What GAO Found

DOD continues to face challenges in employing sound practices when contracting for and managing service contracts. The department has obtained services based on poorly defined requirements, used inappropriate business arrangements and types of contracts, and failed to adequately oversee and manage contractor performance. For example:

- DOD sometimes authorized contractors to begin work before reaching a final agreement on the contract terms and conditions, including price. These arrangements, known as undefinitized contract actions, are used to meet urgent need or when the scope of the work is not clearly defined. In July 2007, GAO reported that DOD paid contractors nearly \$221 million in questioned costs under one of these arrangements.
- In fiscal year 2005, DOD obligated nearly \$10 billion for professional, administrative, management support, and other services under time-and-materials contracts—contracts that are high risk for the government because they provide no profit incentive to the contractor for cost control or labor efficiency. As such, their use is supposed to be limited to cases where no other contract type is suitable and specific approvals are obtained. However, DOD frequently failed to provide such justification, and GAO's findings indicated the contracts were often used for expediency.
- In a 2008 review, GAO found that incomplete contract files at some Army contracting offices hindered incoming contract administration personnel's assessments of contractors to make informed decisions related to award fees, which can run into the millions of dollars.

These challenges expose DOD to unnecessary risk and may impede the department's efforts to manage the outcomes of its service contracts. For example, the absence of well-defined requirements complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes. Use of inappropriate contract types, in addition to other factors, can result in DOD not obtaining the best value for its contract spending. Finally, failure to provide adequate oversight makes it difficult to identify and correct poor contractor performance in a timely manner.

While DOD has taken some actions to respond to GAO's recommendations and congressional legislation, inconsistent implementation has hindered past DOD efforts to address these high-risk areas. To improve outcomes on the whole, DOD must ensure that these policy changes and others are consistently put into practice and reflected in decisions made on individual acquisitions. In addition, DOD needs to develop basic data about its service contracts to help inform how it contracts for services and its reliance on these contractors. GAO continues to assess DOD's efforts to implement a service acquisition management approach and the department's management and oversight of contractors supporting deployed forces.