



November 2015

# DOD INVENTORY OF CONTRACTED SERVICES

## Actions Needed to Help Ensure Inventory Data Are Complete and Accurate

Accessible Version

# GAO Highlights

Highlights of [GAO-16-46](#), 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 identify the number of contractors and the functions contractors performed. In 2011, Congress required DOD to use that inventory to inform certain decision-making processes. GAO has previously reported on the challenges DOD faces in compiling, reviewing, and using the inventory.

Congress included a provision in statute for GAO to report on the required DOD 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 2013 inventory of contracted services and (2) developed plans to use the inventory for decision-making. GAO reviewed relevant laws and guidance; 35 component inventory certification letters and 28 contract actions for services categorized as often supporting inherently governmental functions; and interviewed DOD acquisition, manpower, and programming officials.

## What GAO Recommends

GAO recommends that DOD focus increased attention on contracts more likely to include services closely associated with inherently governmental functions during the review process, document whether proposed contracts include such functions, and clarify the relationships between the support office and key stakeholders. DOD concurred with GAO's recommendations.

View [GAO-16-46](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or [tinapoli@gao.gov](mailto:tinapoli@gao.gov).

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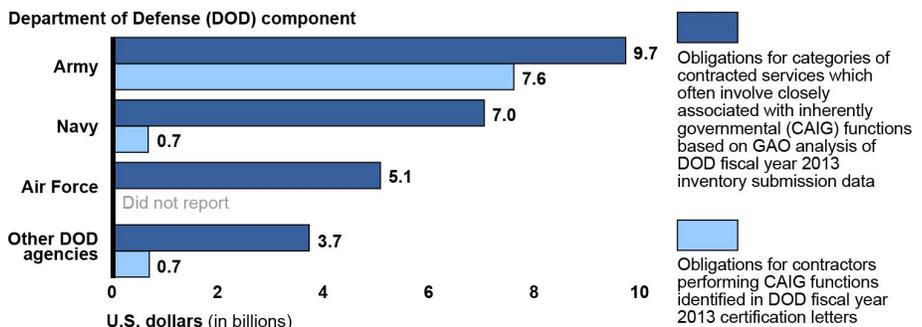
# DOD INVENTORY OF CONTRACTED SERVICES

## Actions Needed to Help Ensure Inventory Data Are Complete and Accurate

### What GAO Found

The Department of Defense (DOD) continues to face challenges in ensuring that it fully reviews its inventory of contracted services. As of September 2015, 35 of 37 components certified they had done so and generally addressed more of the review elements required by DOD guidance than in prior years. For the second consecutive year, however, the Air Force did not submit a certification letter. Further, components may be inaccurately reporting on the extent to which contractors were providing services that are closely associated with inherently governmental functions, a key review objective to help ensure that DOD has proper oversight in place. The Office of Federal Procurement Policy indicates that certain contracted services—such as professional and management support—are more likely to include such functions. In fiscal year 2013, the Army reported that nearly 80 percent of the \$9.7 billion it obligated for these types of services included closely associated with inherently governmental functions. In contrast, the Navy and other DOD agencies reported about 13 percent of the \$10.7 billion obligated for similar contracted services included such functions.

### DOD Components Reporting of Contracts That Included Activities Closely Associated with Inherently Governmental Functions Differed Significantly In Fiscal Year 2013



Source: GAO analysis of DOD's inventory of contracted services data. | GAO-16-46

GAO's review found that the lack of documentation on whether a proposed contract included such functions may result in inventory review processes incorrectly reporting these contracts. At least 12 of the 28 contract actions GAO reviewed appear to include these functions, but—of those 12—DOD components identified only one prior to contract award and only two during the review process as such. Without accurate identification of the functions contractors are performing, DOD cannot be assured that proper oversight is in place or provide data on the activities and functions contractors are performing.

Military departments have not developed plans to facilitate the use of the inventory for workforce planning or budgetary decisions nor have they appointed an accountable official to help do so, as DOD previously stated they intended to do. Further, DOD has not outlined the relationships between a management support office, military departments, and other stakeholders to facilitate the collection and use of inventory data in decision-making processes. Internal control standards state that management should define key areas of authority and responsibility to achieve management objectives and to comply with laws.

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# Contents

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Letter	1	
	Background	6
	DOD Components' Certification Letters Included More Required Information, but Reviews May Understate Contractors Performing Closely Associated with Inherently Governmental Functions	13
	Military Departments Have Not Developed Statutorily Required Plans or Addressed Challenges to Compiling and Using the Inventory	26
	Conclusions	31
	Recommendations for Executive Action	32
	Agency Comments and Our Evaluation	33
<hr/>		
Appendix I: Objectives, Scope, and Methodology		36
Appendix II: Comparison of Components' Identification of Contractors Providing Services Closely Associated With Inherently Governmental Functions in their Fiscal Year 2011, 2012, and 2013 Certification Letters		41
Appendix III: Summary of Prior Findings on the Military Departments' Implementation of Plans to Facilitate Use of the Inventory		43
Appendix IV: Related GAO Reports	49	
Appendix V: Comments from the Department of Defense		51
Appendix VI: GAO Contact and Staff Acknowledgments		53
	GAO Contact	53
	Staff Acknowledgments	53
<hr/>		
Appendix VII: Accessible Data	54	
	Agency Comment Letter	54
	Data Tables	56
<hr/>		
Tables		
	Table 1: Estimated Number of Contractor Full Time Equivalent (FTEs) and Obligations as Reported in DOD's Inventory of Contracted Services	8

---

Table 2: DOD’s Guidance for Completing the Review of the Fiscal Year 2013 Inventory of Contracted Services	14
Table 3: Components’ reporting of required data elements in certification letter for fiscal years 2011, 2012, and 2013	15
Table 4: Pre-Award and Inventory Review Processes for Identifying Closely Associated with Inherently Governmental Functions at the Military Departments and Selected Major Commands for Fiscal Year 2013	18
Table 5: Strategic Workforce Planning Guidance and Processes at the Three Military Departments	44
Table 6: Role of the Inventory of Contracted Services in Existing Workforce Mix and Insourcing Guidance and Processes at the Three Military Departments	46
Table 7: Role of the Inventory of Contracted Services in Existing Budgeting Guidance and Processes at the Three Military Departments	48
Data Table for Highlights Figure and Figure 2: DOD Components Reporting of Contracts That Included Activities Closely Associated with Inherently Governmental Functions Differed Significantly In Fiscal Year 2013	56

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Figures

Figure 1: Requirements under Title 10 Section 2330a Subsection (f)	11
Figure 2: DOD Components Reporting of Contracts That Included Activities Closely Associated with Inherently Governmental Functions Differed Significantly in Fiscal Year 2013	17
Figure 3: Comparison of Functions Described in Statements of Work versus Federal Acquisition Regulation and Policy Defining Closely Associated with Inherently Governmental Functions	22

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### Abbreviations

AFMC	Air Force Materiel Command
CMRA	Contractor Manpower Reporting Application
DFARS	DOD Federal Acquisition Regulation Supplement
DMDC	Defense Manpower Data Center
DOD	Department of Defense
DPAP	Office of Defense Procurement and Acquisition Policy
ECMRA	Enterprise-wide Contractor Manpower Reporting Application
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
FTE	Full-time equivalent
USD(AT&L)	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
USD(P&R)	Office of the Under Secretary of Defense for Personnel and Readiness
NAVSEA	Naval Sea Systems Command
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
PDC	Panel for Documentation of Contractors

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November 18, 2015

Congressional Committees

The Department of Defense (DOD) is the federal government's largest purchaser of contractor-provided services, with \$161 billion in obligations for service contracts reported for fiscal year 2013 and \$156 billion reported in fiscal year 2014. DOD relies on contractors to perform various functions, such as professional and management support, information technology support, and weapon system support. Contractor personnel constitute a key component of DOD's total workforce, which includes DOD active and reserve forces and DOD civilian employees, and 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,<sup>1</sup> or creating circumstances in which contractors inappropriately perform functions deemed inherently governmental.<sup>2</sup>

In recent years, Congress enacted legislation to improve DOD's ability to manage its acquisitions 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, to help

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<sup>1</sup>Closely 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.

<sup>2</sup>Inherently 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.

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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.<sup>3</sup> 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 statutes and regulations 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.

More recently, the Joint Explanatory Statement accompanying the National Defense Authorization Act for Fiscal Year 2015 directed the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) and the senior acquisition executive for the Navy and Air Force, respectively, to issue policies implementing a standard pre-solicitation checklist similar to the Army's Request for Service Contract Approval form.<sup>4</sup> This Army form provides a justification for the planned contract and basic cost information as well as several checklists to help identify whether the functions the contractor will perform meet the definition of inherently governmental, closely associated with inherently governmental, or personal services, among others.

Section 951(a) of the National Defense Authorization Act for Fiscal Year 2014 included a provision for GAO to report on DOD's implementation of title 10 section 2330a subsections (e) and (f).<sup>5</sup> Further, the Joint Explanatory Statement referenced above included a provision requiring GAO to report on the

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<sup>3</sup>An 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 2013.

<sup>4</sup>Joint Explanatory Statement, 160 Cong. Rec. H8671, 8701 (daily ed., Dec. 4, 2014).

<sup>5</sup>Pub. L. No. 113-66 (2013).

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defense agencies' and military departments' implementation of a standard pre-solicitation checklist.<sup>6</sup>

This report assesses DOD's efforts to implement various subsections of section 2330 of title 10, specifically (1) subsection (e) to review contracts and activities in the inventory of contracted services for the fiscal year 2013 inventory and (2) subsection (f) to develop plans and processes to use the inventory for strategic workforce planning, workforce mix, and budget decisions. This report also provides information on DOD's efforts to implement a standard pre-solicitation checklist.

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 activities in its inventory of contracted services pursuant to subsection (e), we focused on DOD's fiscal year 2013 inventory and associated review, which was the latest inventory and review available when we initiated our work. We reviewed DOD's fiscal year 2013 inventory submission and review guidance, issued on March 18, 2014 by USD(AT&L) and the Acting Under Secretary of Defense for Personnel and Readiness (USD(P&R)). This guidance required the military departments and defense agencies to certify—through submission of a certification letter to the USD(P&R)—that their review was conducted in accordance with subsection (e). The guidance required components to 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 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, among other elements. We assessed all unclassified fiscal year 2013 inventory review certification letters submitted by 35 DOD components by September 2015 to determine if components addressed the seven elements specified in

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<sup>6</sup>Joint Explanatory Statement, 160 Cong. Rec. H8671, 8701 (daily ed., Dec. 4, 2014).

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DOD's inventory guidance.<sup>7</sup> Further, to gauge the extent to which DOD components identified instances in which contractors may be performing activities closely associated with inherently governmental functions, we identified total obligations for contracts in the inventory that were categorized under one of the 17 product service codes that the Office of Federal Procurement Policy (OFPP) and GAO identified as likely to be closely associated with inherently governmental functions.<sup>8</sup> We then compared these obligations to total obligations certified by DOD components as being for contractors performing closely associated with inherently governmental functions in the fiscal year 2013 certification letters. We compared the inventory submission data to the Federal Procurement Data System-Next Generation (FPDS-NG) data for fiscal year 2013 and determined the data were sufficiently reliable for this purpose.

In addition, we selected 28 non-generalizable contract actions across the major command at each military department with the highest obligations for knowledge based services in fiscal year 2013. These commands included the Army Materiel Command, the Air Force Materiel Command, and the Naval Sea Systems Command. We selected the contract actions based on the fiscal year 2013 inventory submission data and, in part, because of their high dollar value and categorization under product service codes that OFPP and GAO identified as often including closely associated with inherently governmental functions. We reviewed the documents in the file for each contract action, including the statements of work and pre-award documentation, to identify any planned contractor

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<sup>7</sup>In 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). In April 2015, the DOD Inspector General reported that USD(P&R) identified 8 components that should have submitted a fiscal year 2013 inventory but did not. 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 2013*, DODIG-2015-106, (Alexandria, VA: April 15, 2015).

<sup>8</sup>Office of Management and Budget (OMB), Office of Federal Procurement Policy (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).

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activities that appeared to be closely associated with inherently governmental functions. For the purposes of this report, we considered a contract action to include such functions if any activity described in the statement of work appeared to be closely associated with inherently governmental functions as defined under section 7.503(d) of the Federal Acquisition Regulation (FAR) and appendix B of OFPP Policy Letter 11-01. To inform the file review, we interviewed officials at the commands responsible for compiling and reviewing the inventory as well as contracting, program and resource management officials for the selected contract actions. In addition, we interviewed officials from USD(P&R) and USD(AT&L). We also interviewed command and department-level officials to determine plans to implement a standard pre-solicitation form similar to the Army's.

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 used the data we collected for our November 2014 report on this issue to establish the extent to which each military department's strategic workforce planning, manpower mix, and budgeting guidance and documentation required or cited the use of the inventory of contracted services. We then interviewed officials from each military department and collected any updated policies to determine what updates, if any, had been made to those policies and procedures. We also interviewed acquisition and manpower officials at the three military departments to assess the status of the military department's plans to appoint an accountable official to facilitate efforts to develop a plan, including an enforcement mechanism, pursuant to subsection (f). We also assessed DOD's efforts to develop a common contractor manpower data system by interviewing officials from USD(P&R) and the Defense Manpower Data Center (DMDC) and reviewing briefing slides resulting from the December 2014 strategic review of options. To assess the completeness of the data from DOD's four Contractor Manpower Reporting Application (CMRA) systems, we reviewed policy and guidance and interviewed contractor and government officials responsible for inputting and verifying the data. We also compared data from the FPDS-NG for the 30 service contracts with the highest obligations from October 2012 through July 2013 at the Army, Navy, and Air Force to determine the extent to which the contractors reported direct labor hours and invoice amounts for these contracts in these CMRA systems. We did not independently assess the data provided by contractors. A detailed description of our scope and methodology is included in appendix I.

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We conducted this performance audit from December 2014 to November 2015 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.

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## Background

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### 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.<sup>9</sup> 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.<sup>10</sup>

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;

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<sup>9</sup>National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, § 801(c) (2001).

<sup>10</sup>National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 807(a).

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- 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;<sup>11</sup>
  - a determination of whether the contract pursuant to which the activity is performed is a personal services contract;<sup>12</sup> and
  - a summary of the information required by section 2330a(a) of title 10 of the U.S. Code.<sup>13</sup>

Within DOD, USD(AT&L), USD(P&R), and the Office of the Under Secretary of Defense (Comptroller) have shared responsibility for issuing guidance for compiling and reviewing the inventory. USD(P&R) compiles the inventories prepared by the components, and USD(AT&L) submits a consolidated DOD inventory to Congress no later than June 30 of each fiscal year. DOD has submitted annual, department-wide inventories for fiscal years 2008 through 2014, the most recent submitted on August 31, 2015 (see table 1).<sup>14</sup>

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<sup>11</sup>Estimates 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).

<sup>12</sup>A 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).

<sup>13</sup>10 U.S.C. § 2330a(c)(2).

<sup>14</sup>The 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**

<b>Fiscal year</b>	<b>Estimated number of contractor FTEs</b>	<b>Total obligations (in billions)</b>
2008	655,000	\$127
2009	767,000	\$155
2010	623,000	\$121
2011	710,000	\$145
2012	670,000	\$129
2013	629,000	\$123
2014	641,000	\$131

Source: DOD's inventory of contracted services | GAO-16-46

Notes: 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 agree that caution should be exercised when making direct comparisons between fiscal years 2008 through 2014 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. See [GAO-13-491](#).

Since DOD implemented the department-wide inventory of contracted services, the primary source used by most DOD components to compile their inventories, with the exception of the Army, has been FPDS-NG.<sup>15</sup> The Army developed its CMRA system in 2005 to collect information on labor-hour expenditures by function, funding source, and mission supported on contracted efforts, and has used its CMRA as the basis for its inventory. The Army's CMRA is intended to capture 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 for which the services are being performed. In instances where contractors are providing different services under the same order, or are providing services at multiple locations, contractors can enter additional

<sup>15</sup>Our previous work identified data limitations with those DOD components using data from FPDS-NG as the basis for their inventories. GAO, *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).

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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.

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## Inventory Review and Use Requirements

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 activities in the inventory for which they are responsible within 90 days after an inventory is submitted to Congress. USD(P&R), as supported by the Comptroller, is responsible for, among other things, developing guidance for the conduct and completion of this review.<sup>16</sup> 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 functions closely associated with inherently governmental functions.<sup>17</sup>

This review also requires the secretaries of the military departments and heads of defense agencies to identify activities 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 to give special consideration to converting those functions to DOD civilian performance.

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<sup>16</sup>10 U.S.C. § 2330a(c)(1)(A)(iii).

<sup>17</sup>10 U.S.C. § 2330a(e)(2). With respect to closely associated with inherently governmental functions, OFPP policy requires agencies to take certain actions when contracting for such functions such as limiting or guiding a contractor's exercise of discretion and retaining control of government operations, and assigning a sufficient number of qualified government employees, with expertise to administer or perform the work, to give special management attention to the contractor's activities. OFPP Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, Appendix C, 76 Fed. Reg. 56227, 56242.

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Further, section 808 of the National Defense Authorization Act for Fiscal Year 2012 required DOD to issue guidance requiring the components to eliminate contractor positions identified as being responsible for performing inherently governmental functions and reduce by 10 percent the funding for contracts for the performance of functions closely associated with inherently governmental in fiscal years 2012 and 2013.<sup>18</sup> DOD issued guidance in June 2012 instructing components to rely on the annual inventory review to demonstrate compliance with these requirements, using the fiscal year 2011 inventory review as the baseline for reductions. However, we found in December 2014 that the annual inventory review did not include the obligation data necessary to establish a baseline for reductions and recommended that DOD identify additional data sources to corroborate data reported in the annual inventory review.<sup>19</sup> DOD concurred with our recommendation. In September 2015, we found the Comptroller intended to measure these reductions based on the advisory and assistance service obligations in the fiscal year 2017 budget submission. Our analysis found that using these revised measures, the military departments achieved the required funding reductions.<sup>20</sup>

In addition, section 2330a(f) of title 10 of the U.S. Code requires the secretaries of the military departments or heads of the defense agencies responsible for contracted services in the inventory to develop a plan, including an enforcement mechanism and approval process for using the inventory to inform management decisions (see figure 1).

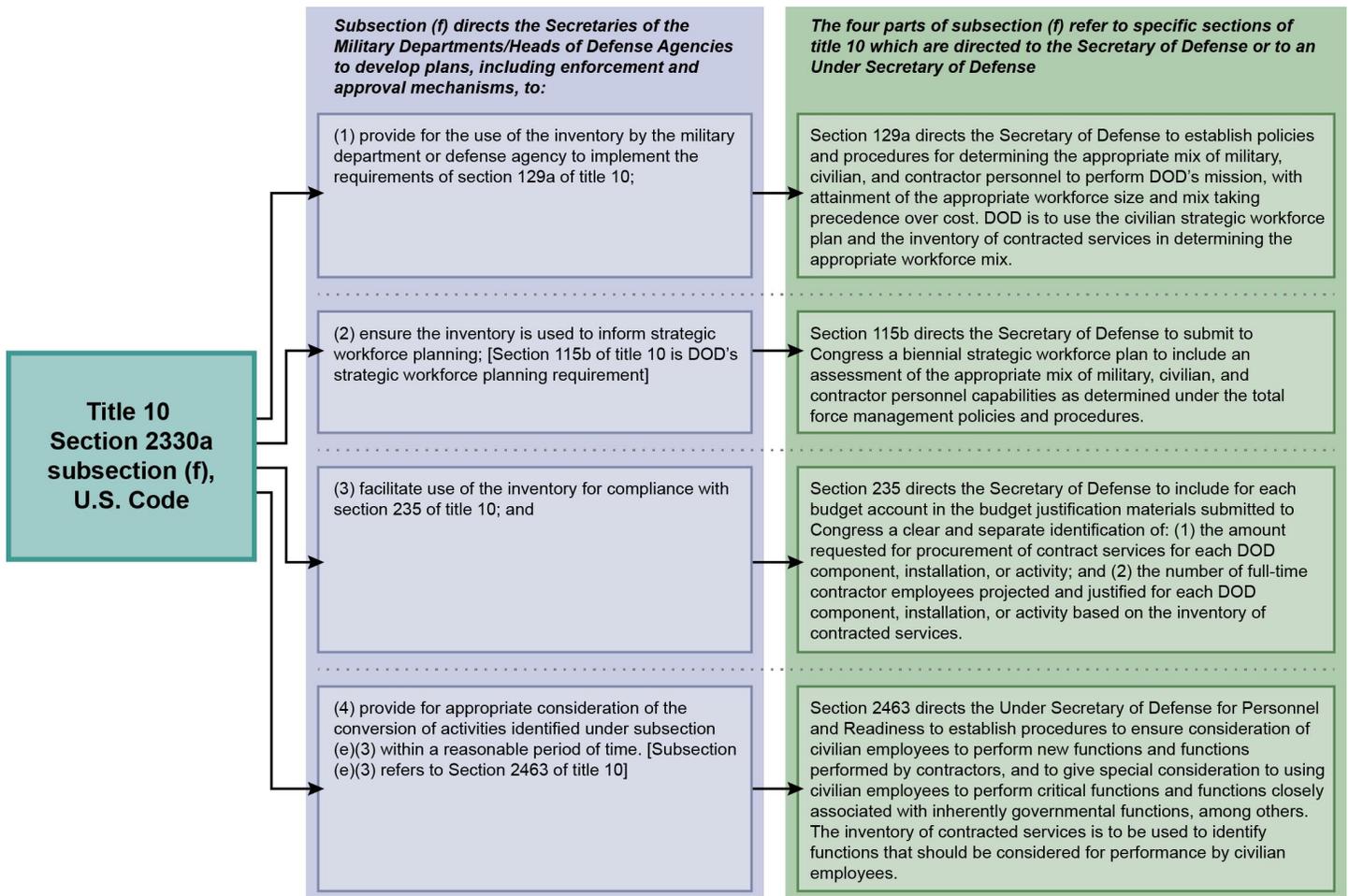
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<sup>18</sup>Pub. L. No. 112-81, § 808(c) (2011).

<sup>19</sup>GAO, *DOD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed*, [GAO-15-115](#) (Washington, D.C.: December 11, 2014).

<sup>20</sup>GAO, *DOD Contract Services: Improvements Made to Planning and Implementation of Fiscal Controls*, [GAO-15-780](#) (Washington, D.C.: September 30, 2015).

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



Source: GAO analysis of title 10 statutory requirements | GAO-16-46

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.

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## 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 April 2012 we found that DOD issued a plan in November 2011 to develop a common technology solution that would allow the department to collectively meet the inventory requirements and planned to have the system available to help inform the 2013 inventory of contracted services with full reporting by the fiscal year 2016 inventory.<sup>21</sup> To achieve a uniform approach to collecting contractor manpower data, USD(P&R) and USD(AT&L) issued a joint memorandum in November 2012 that reiterated its goal for all components to report contractor manpower data using a common system, which it termed the Enterprise-wide Contractor Manpower Reporting Application (ECMRA). In May 2013, we reported that the Navy and Air Force had each taken steps to develop their own interim system to collect and store contractor manpower data based on the Army's existing CMRA system.<sup>22</sup> In May 2014, we reported that DOD fielded the last of the four CMRA systems for the defense agencies in September 2013.<sup>23</sup>

Most recently, in November 2014, we found DOD continued to lack a plan with timeframes and milestones to implement a common contractor manpower reporting system and faced continued delays in doing so.<sup>24</sup> Additionally, we reported that USD(P&R) initiated a strategic review to assess all data collection options, raising the question of whether DOD would continue to establish a common data system, ECMRA, as it indicated it intended to do in a November 2012 memorandum. Noting that continued delays in developing an implementation plan for a common data system increased the risk that DOD would be unable to collect the statutorily required data needed to serve as the basis for DOD's inventory process, we recommended that USD(P&R) approve a plan of action, with timeframes and milestones, for rolling out and supporting a department-wide data collection system as soon as practicable following the strategic review.

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<sup>21</sup>GAO, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, [GAO-12-357](#) (Washington, D.C.: Apr. 6, 2012).

<sup>22</sup>[GAO-13-491](#).

<sup>23</sup>GAO, *Defense Acquisitions: Update on DOD's Efforts to Implement a Common Contractor Manpower Data System*, [GAO-14-491R](#) (Washington, D.C.: May 19, 2014).

<sup>24</sup>GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: November 19, 2014).

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Further, should a decision be made to use or develop a system other than ECMRA, we recommended that USD(P&R) provide a documented rationale for doing so and assure that the new approach will provide statutorily required data. DOD concurred with these recommendations. Additionally, we found that the military departments had not developed plans with enforcement and approval mechanisms to facilitate the use of the inventory in management decisions, including workforce planning and budgeting and that the responsibility for developing such plans was not clearly assigned. Consequently, to help ensure the inventory is integrated into key management decisions, as statutorily required, we recommended that the military departments appoint an accountable official within their departments with responsibility for leading and coordinating efforts across manpower, budgeting, and acquisition functional communities and, as appropriate, revise guidance, develop plans and enforcement mechanisms, and establish processes. DOD concurred, but had not done so at the time we began our current work. We discuss the status of DOD's efforts in this report. A listing of GAO's prior work on DOD's inventory of contracted services may be found in appendix IV.

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## DOD Components' Certification Letters Included More Required Information, but Reviews May Understate Contractors Performing Closely Associated with Inherently Governmental Functions

We found that DOD components' 2013 inventory review certifications better addressed required reporting elements than in prior years; however, for the second consecutive year, the Air Force, which accounts for about 20 percent of DOD's obligations for contracted services, did not submit a certification letter. Further, DOD may be understating the number of contractors performing closely associated with inherently governmental functions. For example, the Army identified nearly 80 percent of its contracts for certain types of services as including such functions. The Navy and other defense components identified 13 percent of their contracts as doing so for similar categories of services. Further, our review of 28 selected contract actions found that commands' pre-contract award reviews of the proposed contract did not consistently identify or document whether contractors would potentially perform closely associated with inherently governmental functions, which may contribute to inaccurate reporting of the functions contractors performed during the inventory review process. Overall, our analysis found that at least 12 of the 28 contract actions we reviewed appeared to include closely associated with inherently governmental functions, but—of those 12—DOD identified only one prior to contract award and only two during the inventory review process as including such functions.

**More Components Submitted Certification Letters Addressing All Required Elements than in Prior Years**

USD(AT&L) and USD(P&R)'s March 18, 2014 guidance governing the fiscal year 2013 inventory of contracted services instructed components to address seven elements in their certification letters, the same seven elements contained in DOD's guidance for the fiscal year 2012 inventory. The elements include discussions of the inventory review methodology, the identification of inherently governmental and closely associated with inherently governmental functions, and the role of the inventory review in budget formulation (see table 2).

**Table 2: DOD's Guidance for Completing the Review of the Fiscal Year 2013 Inventory of Contracted Services**

Information to be included in component certification letters based on a review of all contract functions.	
<ul style="list-style-type: none"> <li>• an explanation of the methodology used to conduct the reviews and criteria for selection of contracts to review;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> </ul>	<ul style="list-style-type: none"> <li>• delineation of the results in accordance with all applicable title 10 provisions and the guidance;</li> <li>• 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;</li> <li>• 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.</li> </ul>

Source: GAO analysis of DOD's March 2014 guidance | GAO-16-46

DOD components continued to make progress in addressing more of the required elements in their fiscal year 2013 certification letters compared to prior years. For example, 15 of the 35 components reporting for 2013 addressed all required elements compared to none of the 31 components reporting for fiscal year 2011. Further, 32 of the 35 components submitting fiscal year 2013 certification letters addressed at least four of the required reporting elements and 28 components addressed at least five of the required reporting elements. The Air Force, which represented about 20 percent of DOD's obligations for contracted services in fiscal year 2013, did not submit a certification letter for the second consecutive year (see table 3).

**Table 3: Components' reporting of required data elements in certification letter for fiscal years 2011, 2012, and 2013**

Category	Fiscal Year 2011 <sup>a</sup>	Fiscal Year 2012 <sup>b</sup>	Fiscal Year 2013 <sup>c</sup>
Total number of components required to submit a certification letter based on inventory submission	31	33	37
Number of required elements	6	7	7

Number of components reporting required elements	Fiscal Year 2011 <sup>a</sup>	Fiscal Year 2012 <sup>b</sup>	Fiscal Year 2013 <sup>c</sup>
At least 1 element	29	32	35
At least 2 elements	27	31	35
At least 3 elements	24	31	32
At least 4 elements	15	30	32
At least 5 elements	5	26	28
At least 6 elements	0	16	24
At least 7 elements	N/A	7	15

Source: GAO analysis of DOD component certification letters for fiscal years 2011, 2012, and 2013; GAO-13-491 | GAO-15-88 | GAO-16-46.

<sup>a</sup>The Defense Microelectronics Activity and US Forces Korea did not submit a certification letter for fiscal year 2011; however, both provided letters in fiscal years 2012 and 2013.

<sup>b</sup>The Air Force did not submit a certification letter in fiscal year 2012.

<sup>c</sup>The Test Resource Management Center and the Air Force did not submit a certification letter in fiscal year 2013.

While more components are addressing more of the elements in their certification letters, DOD's guidance on how to conduct the reviews is not clear. In November 2014, we recommended, in part, that DOD's guidance for the inventory compilation and review clearly identify the basis for selecting contracts to review and provide approaches the components may use to conduct the reviews.<sup>25</sup> DOD concurred with this recommendation and stated that it intended to have components review 100 percent of the services reported in their respective inventories. We found that 12 of the 35 components we reviewed specifically stated the percentage of the contract actions reviewed. Of those 12 components, 11, including the Navy, stated they reviewed 100 percent of contract actions, while the Army stated it reviewed 85 percent of its contracts. The other 23 components, including the Air Force, did not identify the percentage of contracts they reviewed and whether any of these components used a risk based approach. More recently, a USD(P&R) official stated that, while the intention was to have all components review

<sup>25</sup>GAO-15-88.

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100 percent of the contracts in their inventory, the nature and level of the review may vary. For example, this official noted a larger component may, based on its knowledge of its contracting activities, prioritize its review on selected areas or types of contracting activities, and then based on its review of those areas, certify it has reviewed its inventory of contracted services. DOD's March 2014 guidance for the fiscal year 2013 inventory, however, did not provide clarification on the appropriate criteria for such an approach.<sup>26</sup> DOD's December 29, 2014 guidance for the fiscal year 2014 inventory—the first issued after our November 2014 recommendation—also did not provide a specific percentage of contracts to be reviewed or the basis for selecting the contracts to review or any additional clarity on approaches. Without such clarification, components may miss opportunities to properly identify contractors performing closely associated with inherently governmental functions.

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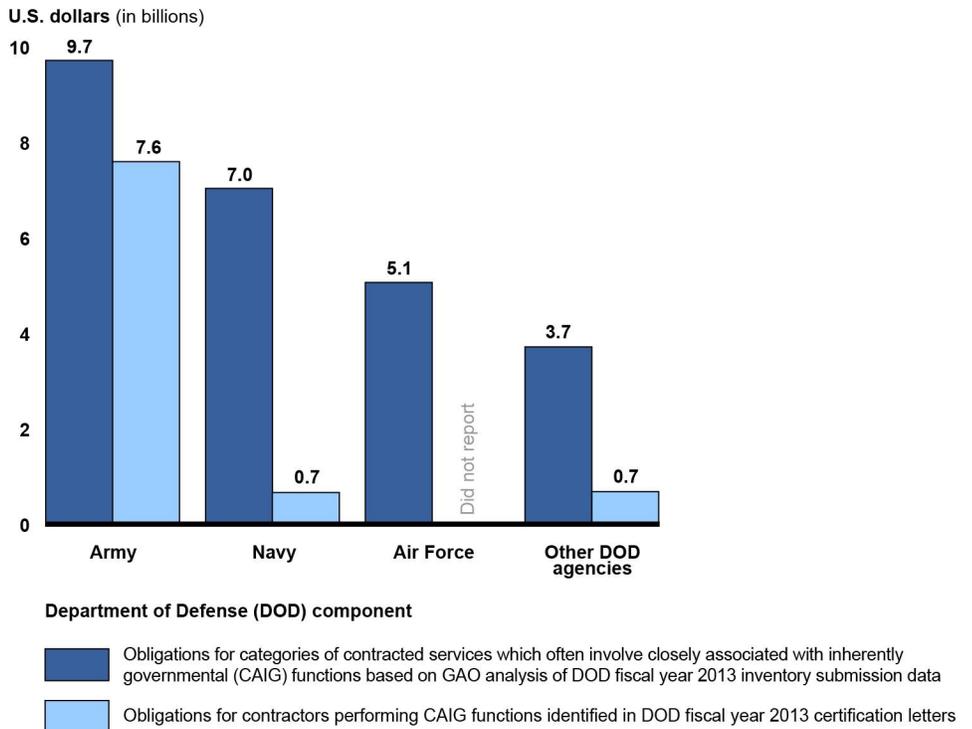
### DOD May Be Underreporting Contractors Performing Closely Associated with Inherently Governmental Functions during the Inventory Review

We found that DOD obligated about \$25.5 billion for contracts in the 17 product service codes that OFPP and GAO identified as often including services that are closely associated with inherently governmental functions. After excluding the contracts awarded by the Air Force, DOD obligated \$20.4 billion for contracts in these product service codes. Overall, 17 components reported about \$8.9 billion—or 44 percent—of these obligations as being on contracts actually including work identified as closely associated with inherently governmental functions. Appendix II provides detailed data reported by the components. There was significant disparity, however, among the components. For example, the Army identified nearly 80 percent of its \$9.7 billion in contract actions in these 17 product service codes, by obligation value, as including work that is closely associated with inherently governmental functions. In contrast, the Navy and other defense agencies identified less than \$1.4 billion of the \$10.7 billion—or about 13 percent—of their contracts in these same 17 codes, by obligation value, as having such work (see figure 2).

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<sup>26</sup>Prior DOD inventory guidance that required reviewing less than 100 percent of contracts stated that priority shall be given to contracts previously not reviewed or those that may present a higher risk of inappropriate performance.

**Figure 2: DOD Components Reporting of Contracts That Included Activities Closely Associated with Inherently Governmental Functions Differed Significantly in Fiscal Year 2013**



Source: GAO analysis of DOD's inventory of contracted services data. | GAO-16-46

Our analysis of the obligations in fiscal year 2013 by the three major commands we reviewed found similar results. For example, the Army Materiel Command identified \$1.6 billion, or nearly 70 percent of its contracts in the 17 product service codes, by obligation value, as including work that is closely associated with inherently governmental functions. In contrast, the Naval Sea Systems Command identified about two percent of their contracts in these codes, by obligation value, as having such work. While the Air Force did not submit a certification letter, the Air Force Materiel Command reported that none of the \$2.7 billion obligated for contracts categorized under these product service codes included work that was closely associated with inherently governmental functions in two reviews of its fiscal year 2013 contract actions. According to Air Force officials, neither the Air Force's Annual Execution Review of contracts for programs over \$100 million or the Air Force Materiel Command's Health of Services assessment of all contracts over

\$150,000 identified contracts with contractors performing such functions in fiscal year 2013.

**Inconsistent Processes May Contribute to Inaccurate Identification of Contractor Functions**

Each military department and major command we reviewed took different approaches to reviewing contracts prior to award and during the inventory review process (see table 4).

**Table 4: Pre-Award and Inventory Review Processes for Identifying Closely Associated with Inherently Governmental Functions at the Military Departments and Selected Major Commands for Fiscal Year 2013**

<b>Military Department</b>	<b>Summary of Pre-Award Process for Identifying Closely Associated with Inherently Governmental Functions</b>	<b>Summary of Inventory Review Process for Identifying Closely Associated with Inherently Governmental Functions</b>
Army	The Army requires documentation of a determination whether a contract includes closely associated with inherently governmental functions through its Services Contract Approval checklist. Army officials noted that the checklist is based on OFPP Policy Letter 11-01 and the FAR, among other sources.	The Army delegates the inventory review process to the command level with Army Manpower and Reserve Affairs oversight. The Army's Panel for Documentation of Contractors (PDC) process is delegated to the manpower and programing functions at the commands. The PDC process collects information from the pre-award checklist and uses it to inform the Army's inventory review process.
Navy	The Navy requires contracting officials to document the determination of closely associated with inherently governmental functions in FPDS-NG, but does not require a written documentation in the contract files. In July 2015, the Naval Surface Warfare Center, Carderock Division began requiring documentation of a determination whether a contract includes closely associated with inherently governmental functions through its pre-award checklist. When a contract includes such functions, the contract file is required to include a determination and finding document that outlines the specific tasks and plans to provide the appropriate level of oversight.	The Navy delegates the inventory review process to the command level. The Naval Sea Systems Command (NAVSEA) receives its list of services contracts from Navy headquarters and delegates inventory review responsibility to its field activities and headquarters purchase divisions.
Air Force	The Air Force does not require documentation of a determination that a contract includes closely associated with inherently governmental functions in the contract files. The Enterprise Acquisition Directorate at the Air Force Materiel Command (AFMC) reflects the primary contracting officer's determination that a contract includes closely associated with inherently governmental functions in FPDS-NG.	The Air Force delegates the inventory review process to the command level. Programs within the AFMC conduct a two-part review of service contracts annually. The results of one of these reviews, for programs over \$100 million, are compiled into one AFMC assessment, which is reported to Air Force Headquarters to inform the inventory review, including identification of the contracts that include closely associated with inherently governmental functions.

Source: GAO analysis of Army, Navy, and Air Force data | GAO-16-46

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We identified several factors that may contribute to incorrectly identifying contracts that may include closely associated with inherently governmental functions during the pre-contract award process. Overall, we identified at least 12 of the 28 contract actions we reviewed that appeared to include such functions, but—of those 12—commands only identified one prior to contract award. For example:

- Office of the Secretary of Defense and military department officials indicated that a lack of understanding of the definition of closely associated with inherently governmental functions remains and may have led components to incorrectly identify the potential for contractors to perform these types of functions.
- The lack of a requirement for acquisition officials to document, during the pre-award process, whether a proposed contract may include closely associated with inherently governmental functions hinders DOD's ability to consistently identify contractors that perform such functions. There is no requirement in statute, the FAR, DOD Federal Acquisition Regulation Supplement (DFARS), or OFPP Policy Letter 11-01 to document a pre-award determination regarding closely associated with inherently governmental functions; however, there are requirements for agencies, and DOD specifically, to take certain steps to mitigate the risk of using contractors for such functions.<sup>27</sup> For example, section 2383 of title 10, U.S. Code, provides that DOD may only enter into such a contract if the contracting officer ensures that DOD personnel cannot reasonably be made available to perform the function; that appropriate DOD personnel supervise contractor performance and perform all inherently governmental functions under the contract; and that the agency addresses any potential organizational conflict of interest of the contractor in performance of these functions. We found the Army's pre-award process, specifically the Service Contract Approval checklist, documents the determination of closely associated with inherently governmental functions and other determinations of planned contractor functions. By contrast, the Air Force and Navy do not have department-wide requirements to document this determination in its contract files. Acquisition officials documented their pre-award determinations in eight of the 28 contract actions. In

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<sup>27</sup>DOD Federal Acquisition Regulation Supplement (DFARS) § 207.503 S-70; FAR § 37.114; and OFPP Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, Appendix C, 76 Fed. Reg. 56227, 56242.

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one case involving a Navy contract, the command clearly identified that the proposed contract included closely associated with inherently governmental functions. In another case involving an Army contract, the pre-award documentation identified closely associated with inherently governmental functions, but our review did not identify such functions in the statement of work. The remaining 20 contract actions in our review did not include documentation of a pre-award determination. Our analysis of the statements of work and other pre-award documentation found 11 of these 20 contract actions potentially included these functions.

- All three military departments are required to follow DOD guidance that required, effective March 1, 2013, contracting officers to identify whether or not contractors were performing such functions in an FPDS-NG narrative data field. None of the 17 contracts we reviewed awarded after this date included the required information.
- In several cases, command officials used one determination to cover more than one contract action. For example, the Army identified one contract action in our review as including closely associated with inherently governmental functions based on a blanket Service Contract Approval form for contracts within the Software Engineering Center.<sup>28</sup> We found, however, that the activities described in the form were not consistent with the activities outlined in the statement of work, which did not appear to include closely associated with inherently governmental functions. We also found that the Navy and Air Force commands used a blanket or class determination and finding document to cover multiple contract actions under which contractors would perform evaluations and analyses of proposals or advisory and assistance services, as permitted by the FAR.<sup>29</sup> For example, for six of the Air Force contract actions, the contract files included blanket approvals to use non-government personnel in source selection and sole source evaluations. However, these

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<sup>28</sup>According to officials, the Center used a blanket Service Contract Approval form for all contract actions within the range of \$760 million for fiscal year 2011. In fiscal year 2012, the Army Communications-Electronics Command, under which the center falls, no longer allowed blanket forms. Army officials noted that Army policy requires each requiring activity to complete a separate Service Contract Approval form for each contract or delivery order.

<sup>29</sup>In some cases these determination documents covered multiple orders under a blanket purchase agreement, while in other cases the determination covered multiple contracts awarded to support a single organization or program. FAR § 37.204(e) permits the use of a single determination.

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services are clearly identified in FAR § 7.503(d)(8) and OFPP Policy Letter 11-01, appendix B, paragraph (1)(e)(ii) as closely associated with inherently governmental functions, but there was not documentation in the contract files identifying these activities as being closely associated with inherently governmental functions.

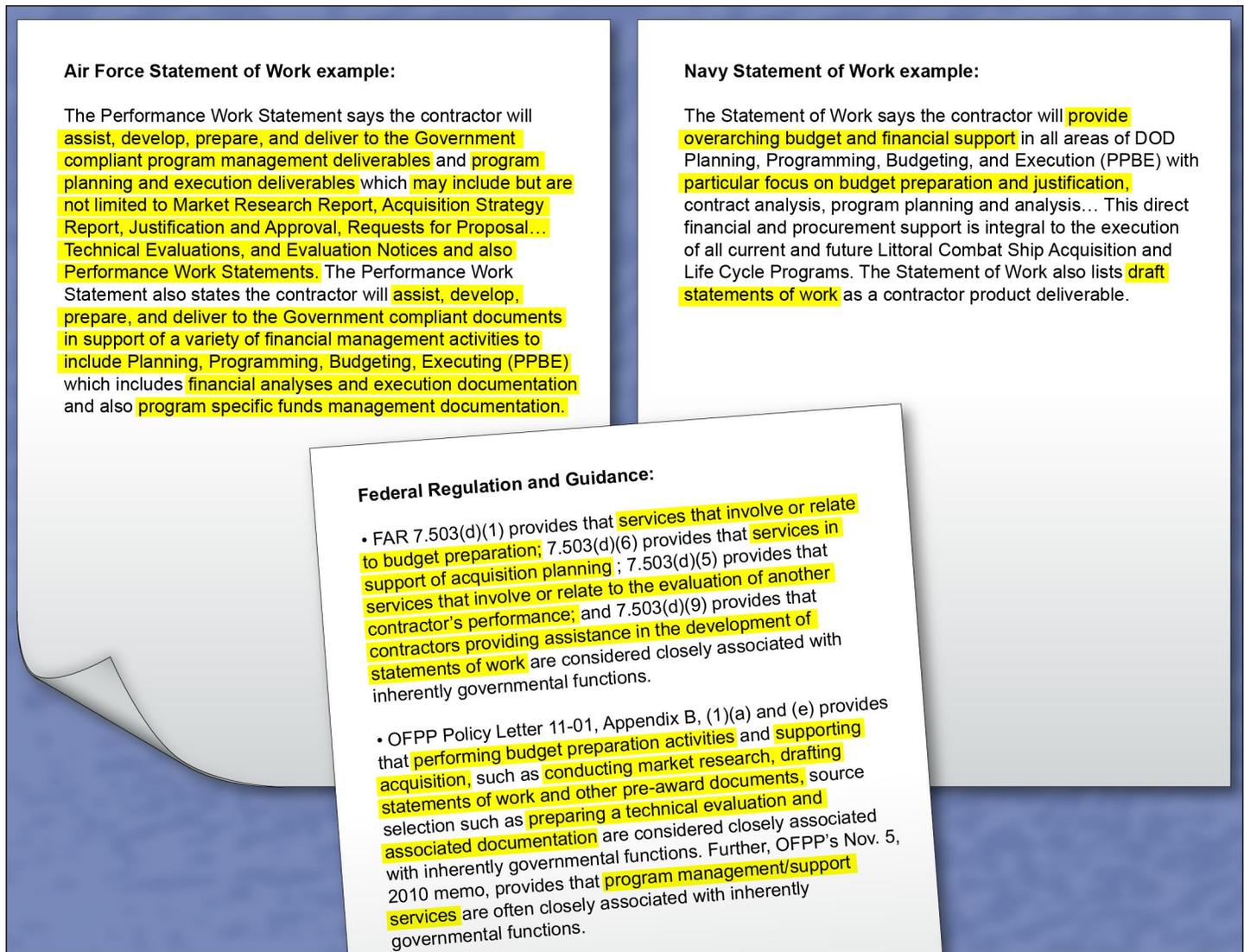
Having contractors perform closely associated with inherently governmental functions is often necessary to support an agencies' mission. However, using contractors for these functions poses several risks to an agency, including the inappropriate transfer of inherently governmental functions to the contractor. To mitigate these risks, the FAR and OFPP Policy Letter 11-01 requires agencies to ensure appropriate oversight of contractors performing closely associated with inherently governmental functions.<sup>30</sup> Further, section 2383 of title 10 of the U.S. Code and the DFARS require that DOD take certain steps before entering into a contract for such functions, such as ensuring that appropriate DOD military or civilian personnel will oversee contractor performance and will perform all inherently governmental functions associated with the contract.<sup>31</sup> To carry out these steps, it is critical for DOD to identify contracts that may include closely associated with inherently governmental functions during the pre-contract award process. Both the OFPP guidance and the FAR offer descriptions of tasks that are closely associated with inherently governmental functions (see figure 3).

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<sup>30</sup>FAR § 37.114 and OFPP Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, Appendix C, 76 Fed. Reg. 56227, 56242.

<sup>31</sup>10 U.S.C. § 2383; DFARS § 207.503 S-70.

**Figure 3: Comparison of Functions Described in Statements of Work versus Federal Acquisition Regulation and Policy Defining Closely Associated with Inherently Governmental Functions**



Source: GAO analysis of Department of Defense (DOD) contract actions and Federal Acquisition Regulation and OFPP Guidance. | GAO-16-46

As the inventory review process at the Army and Navy relies, in part, on pre-award determinations and documentation, inaccurate identification of contractors performing closely associated with inherently governmental functions prior to contract award may hinder the review process at these departments. Our review of inventory review processes at the three

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commands we reviewed found that the commands may not have accurately identified contract activities that included closely associated with inherently governmental functions during the review process. In our review of the 28 contract actions, we did not assess whether the contractor actually performed closely associated with inherently governmental functions, which could potentially account for some differences between our pre-award assessment and assessments commands made for the inventory review. In some cases, however, it is unclear whether the major commands adequately considered planned activities in their inventory reviews. The following examples illustrate these issues.

- Our analysis found all nine Air Force Materiel Command contract actions included closely associated with inherently governmental functions in the statements of work. These functions included assisting, preparing, developing, and delivering compliant documents in support of planning, programming, budgeting, and execution; and developing documents such as the acquisition strategy, performance work statements, requests for proposal, technical evaluations, and evaluation notices. The Air Force Materiel Command, however, did not identify these contracts as having closely associated with inherently governmental functions in its reviews for the fiscal year 2013 inventory. In response to our review, Air Force officials re-examined the contract actions and agreed with our determination that all nine included closely associated with inherently governmental functions.
- The Naval Sea Systems Command (NAVSEA) identified four of the nine selected contract actions as including closely associated with inherently governmental functions in its inventory review letter. In two of these cases, our review of the statements of work matched NAVSEA's determination, but in the third case we found the statement of work did not include closely associated with inherently governmental functions. In the fourth case, it was unclear whether the contract activities would include these functions. Of the selected Navy contract actions, we also identified one where the statement of work included requirements for contractors to perform closely associated with inherently governmental functions that was not identified by NAVSEA.
- At the Army, it is unclear whether eight of the 10 contract activities were included in the Army's inventory review results. Army's PDC tool, used to inform the inventory review, tracks by location and functional requirement—such as administrative or logistics support.

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Officials who input data into this system noted that there is no data field specifically for contract number but stated they can include this information in the description field if they choose to do so. For the two contracts we could confirm were included in the inventory review results we agreed with the Army determination that the contractor activities did not include closely associated with inherently governmental functions based on our review of the statements of work.

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### Initiatives Underway to Better Identify Contracts that Include Closely Associated with Inherently Governmental Functions Prior to Contract Award

The Joint Explanatory Statement accompanying the National Defense Authorization Act for Fiscal Year 2015 directed the senior acquisition executives from the Navy and Air Force, along with the USD(AT&L) for the defense agencies, to issue policies implementing a standard checklist to be completed before awarding a contract for services, similar to the Army's current process that identifies whether contractors are performing closely associated with inherently governmental functions, among other things. Neither USD(AT&L) nor the two military departments met the March 30, 2015 deadline.<sup>32</sup> USD(AT&L) delegated the requirement to the Office of Defense Procurement and Acquisition Policy (DPAP)—the office within USD(AT&L) responsible for contracting and acquisition policy. In lieu of developing a standard checklist, representatives from DPAP and the two military departments indicated they intended to address the issue in a different manner. Specifically,

- DPAP officials stated that the forthcoming DOD Instruction on service acquisitions will include direction to consider the planned activities under a contract during the service requirement review boards. DPAP officials plan to issue supplemental guidance on the service requirement review boards, including direction for components to identify and document plans to have contractors perform closely associated with inherently governmental functions. DPAP officials stated that this supplemental guidance would apply to all military departments and defense components.

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<sup>32</sup>As previously described, DOD is required to take certain steps to mitigate the risk of using contractors for closely associated with inherently governmental functions before entering into a contract for such functions, and accurate identification before contract award of contracts that may include such functions is critical to carrying out these steps. 10 U.S.C. § 2383; DFARS 207.503 S-70.

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- According to Navy officials, an upcoming revision to the Navy's instruction governing services acquisitions will include a service contract approval form requirement. Navy officials stated that the service contract approval form will address the mission needs, requirements, and consideration of inherently governmental and closely associated with inherently governmental functions. Requirements owners completing the form will need to certify that closely associated with inherently governmental functions were considered, but not necessarily document a determination that contractors will or will not be performing such functions.
  - According to an Air Force official, the Air Force is developing a Service Management Tool that will require documentation that closely associated with inherently governmental functions were considered prior to contract award. It is not certain whether contracting officers would be required to document this determination in the contract files.

Until DPAP, Air Force, and Navy take action to develop and implement these pre-award processes, we cannot determine the extent to which they will address challenges we found with identifying contract activities that may include closely associated with inherently governmental functions. In turn, without accurate identification of the number of contractors performing these functions, 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. Federal internal control standards state that documentation is a necessary part of an effective control system.<sup>33</sup> In particular, management should have the information necessary to identify the risks related to its objectives and design appropriate control activities.

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<sup>33</sup>[GAO/AIMD-00-21.3.1](#) (11/99).

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## Military Departments Have Not Developed Statutorily Required Plans or Addressed Challenges to Compiling and Using the Inventory

The military departments generally have not developed statutorily-required plans or enforcement mechanisms to use the inventory to inform workforce mix, strategic workforce planning, or budget decision-making processes. At the same time, DOD components and contractors are increasing their use of CMRA for reporting purposes, and the 28 contract actions we reviewed generally included requirements for contractors to report manpower data, such as direct labor hours, into the system. DOD is in the process of defining the roles and responsibilities of a support office that is intended to help manage the inventory of contracted services reporting processes and continues to explore options for an enhanced reporting system that may better meet user needs. Until DOD identifies these roles and responsibilities for collecting and validating the data, it is unclear how the information may be used for decision making.

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## Military Departments Have Not Developed Plans to Facilitate Use of the Inventory

The military departments generally have not developed plans or enforcement mechanisms as required by title 10 U.S.C. § 2330a(f), to use the inventory of contracted services to inform workforce mix, strategic workforce planning, and budget decision-making processes. In November 2014, we found that the military departments lacked plans and processes to incorporate the inventory in decision making, with the exception of workforce mix and insourcing decisions at the Army. We did not identify any updates to guidance, policy, or processes that incorporated the use or consideration of the inventory of contracted services since our November 2014 report. Appendix III provides details on policies and processes identified in that report.

Further, we previously found that the responsibility for developing such plans was not clearly assigned and was divided across multiple offices.<sup>34</sup> We recommended that the secretaries of the military departments identify an accountable official to lead and coordinate efforts across the functional communities to develop plans and establish processes for using the inventory for decision making. DOD concurred with this recommendation, but the military departments have not appointed an accountable official responsible for coordinating these efforts as of September 2015.<sup>35</sup>

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<sup>34</sup>GAO-15-88.

<sup>35</sup>The Navy identified the Deputy Assistant Secretary of the Navy (Reserve Affairs/Total Force Integration) within the office of Assistant Secretary of the Navy for Manpower and Reserve Affairs as the appropriate official for this role, but the appointment has not been formalized.

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## DOD Components and Contractors Are Beginning to Use CMRA Data for Reporting Purposes

Our review found that, in addition to the Army, some DOD components used data captured in their CMRA systems to support the fiscal year 2013 inventory. DOD's March 18, 2014 guidance for the fiscal year 2013 inventory required components to include the percentage of their total contracts that were reported by contractors in their CMRA in fiscal year 2013 and the extent to which reported data were used to support their inventory submission. A USD(P&R) official noted that this was the best metric given the difficulty of determining the number of contracts that include the reporting requirement. Contractors are required to report labor hour data for labor executed during the period of performance during each government fiscal year, no later than October 31.<sup>36</sup> We found that nine out of the 37 components reported using CMRA data for the fiscal year 2013 inventory submissions, comprising about 40 percent of total FTEs reported in the DOD inventory, while other components continued to rely on FPDS-NG. Specifically,

- The Army reported relying 100 percent on its CMRA data to compile its inventory in fiscal years 2013 and 2014. Army officials noted that CMRA is prepopulated with data from its Army Contracting Business Information System and FPDS-NG. The Army estimated its CMRA data accounted for the labor and associated costs of at least 78 percent of the fiscal year 2013 contract service obligations recorded in various accounting systems, including the General Fund Business Enterprise System. In its inventory submission letter, the Army attributes the differences to an over reporting of obligations for contract services and under reporting of invoices for overseas contingency operation services where limited network access prevents complete reporting in CMRA by vendors. Our analysis also found that contractors input data on direct labor hours and invoices for 26 of the 30 largest services contract actions based on FPDS-NG obligations in fiscal year 2013. In the four remaining cases, one contract action was for foreign military sales, which the Army does not include in its CMRA data, one contract action included contractor reported invoice information, and contractors did not enter invoice or direct labor hours for the two remaining contract actions.

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<sup>36</sup>According to an Army official, a contract reported in FPDS-NG in a given fiscal year may not necessarily be captured in a CMRA system for that fiscal year due to a difference in timing for when data are entered into each respective system.

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- The Air Force reported that 31 percent of the contractor FTEs in its fiscal year 2013 submission and 28 percent in its fiscal year 2014 submission were based on direct labor hours reported by contractors in the Air Force CMRA. Our analysis found that contractors provided data for nine of the 30 largest services contract actions based on FPDS-NG obligations in fiscal year 2013 to the Air Force CMRA. Four of the remaining 21 contract actions were for foreign military sales. Similar to the Army, the Air Force also excludes these from its CMRA.
  - The Navy did not use CMRA data to compile its inventory submission for fiscal year 2013 and reported that less than one percent of its calculated FTEs were reported directly by contractors into the Navy CMRA. As such, Navy officials stated that they relied on FPDS-NG rather than its CMRA to compile its inventory for fiscal year 2013. The Navy reported that about 15 percent of the reported contractor FTEs in its fiscal year 2014 inventory submission were based on data reported in its CMRA. Our analysis found that contractors provided data for 15 of the 30 largest services contract actions based on FPDS-NG obligations in fiscal year 2013.

DOD's November 2012 memorandum directed all DOD components to include the reporting requirement in new contracts and modifications to existing contracts, except contracted services for construction and utilities.<sup>37</sup> At the contract level, we found that 24 of the 28 contract actions we reviewed included the reporting requirement in the statement of work. Four Navy contract actions did not include the reporting requirement, including two that were awarded after the November 2012 memorandum. DOD is in the process of finalizing a DFARS rule that will require the use of a new contract clause requiring contractors to report data into ECMRA for all new contracts.<sup>38</sup> DOD officials estimated that the rule will be finalized in October 2015.

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<sup>37</sup>Currently, ECMRA consists of a website that makes available the four contractor manpower reporting applications (CMRAs) for each of the Army, Navy, Air Force, and the defense agencies.

<sup>38</sup>A proposed rule was published on June 5, 2014. 79 Fed. Reg. 32522.

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DOD Has Not Identified the Longer Term Relationships Between Its Planned Management Support Office and DOD Stakeholders Needed to Integrate Inventory Data into Decision-Making Processes

DOD provided funding to establish an office to implement and support a common enterprise-wide contractor manpower data system in March 2014, but this effort has encountered a number of challenges and continues to lack a formal agreement, including clearly defined roles and responsibilities for the office. DOD officials noted that it planned to finalize a memorandum of agreement identifying the roles and responsibilities for the support office, which they termed the Total Force Management Support Office, to be agreed upon by the offices with primary responsibility—the Assistant Secretary of Defense for Manpower and Reserve Affairs and the Director of the Defense Human Resource Activity—by September 2015. The two offices have not yet finalized this agreement but expect to do so in the near term. The responsibilities that DOD officials indicated would need clarification include:

- Establishing common business rules for compiling the inventory data, developing related policies and procedures, performing quality control audits of the data, and potentially assessing the data for management review.
- Identifying the need for guidance and training. In this regard, our current work found that in several cases, contractors had not received any training or guidance on how to access and accurately input data into the CMRA systems. Additionally, several contracting officer's representatives we interviewed said they were unclear as to how to ensure that contractors enter the appropriate data and verify the accuracy of contractor entered data.
- Exploring options for a longer-term solution to potentially replace the current CMRA systems. In September 2014, DOD initiated a strategic review to consider all options—in the short and long-term—for developing an enterprise data collection solution to collect the necessary contractor manpower data for the review of contracted services and for use in management decisions. The review concluded in December 2014 and found that the current CMRA systems did not address data needs across the planning, programming, and budgeting communities. For example, the budgeting and financial management communities use the object class codes, while the acquisition community uses the product service codes to distinguish between types of services. Further, the strategic workforce planning community expressed more interest in data on contractor FTEs than the other user communities because FTE data are useful in comparing military, civilian, and contractor workforces.

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DOD officials stated that the memorandum of agreement between the Assistant Secretary of Defense for Manpower and Reserve Affairs and the Director of the Defense Human Resource Activity will be issued shortly and will address the near-term responsibilities of the support office. Currently, DOD is in the process of hiring of six federal employees with the goal for the office to be fully operational by March 2016. As part of DOD's current efforts, DMDC awarded a contract in September 2015 that tasked the contractor with migrating the four CMRA systems to a single DMDC server and with conducting an analysis to recommend options for the next generation of ECMRA or an alternative solution. DOD officials stressed that no decision has been made to implement an alternative to ECMRA. As we noted in November 2014, should a decision be made to use or develop a system other than the ECMRA system currently being fielded, the USD(P&R) should document the rationale for doing so and ensure that the new approach will provide data that satisfies the statutory requirements for the inventory.<sup>39</sup>

DOD officials indicated that the memorandum of agreement will not address the roles to be played by the support office, military departments, and other stakeholders in exploring the longer-term solution to collect contractor manpower data and integrating inventory data within the military departments' decision-making processes. DOD hopes to formalize these relationships between the support office, DMDC, and other stakeholders within the military departments and other defense agencies after finalizing the memorandum of agreement. Federal internal control standards call for management and employees to establish and maintain an environment that supports a positive control environment.<sup>40</sup> A good internal control environment requires, in part, that an agency's organizational structure to clearly define key areas of authority and responsibility and establish appropriate lines of reporting. Clearly identifying the relationships between the support office and other stakeholders would help ensure that efforts to implement an enterprise-wide data collection system and integrate the data into decision-making processes will meet user needs and expectations.

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<sup>39</sup>GAO-15-88.

<sup>40</sup>GAO/AIMD-00-21.3.1 (11/99).

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## Conclusions

In the seven years since DOD first submitted its initial department-wide inventory of contracted services and conducted the associated reviews, it has continued to lack the means to reliably identify functions performed by contractors. Currently, there is no DOD-wide requirement for acquisition officials to document their determination as to whether the expected activities may include contractors performing closely associated with inherently governmental functions prior to contract award. Having contractors perform closely associated with inherently governmental functions is necessary to support an agencies' mission, but statutory law, the FAR, DFARS, and OFPP guidance require that DOD provide sufficient oversight to mitigate the risks when contractors perform such work. DOD intends to require its services requirement review boards to identify contractor functions prior to awarding a contract and is expected to issue supplemental guidance to implement this requirement. Additional actions are planned by the Air Force and Navy. Until such time that the new instruction and supplemental guidance is issued, however, the military departments and defense agencies may be missing opportunities to improve their capability to identify and mitigate the risks of contractors performing closely associated with inherently governmental functions.

Overall, while components are addressing more of the required elements in DOD's inventory review guidance, the results of DOD's fiscal year 2013 inventory review raises questions about the accuracy and completeness of the reviews. In this case, the Army identified nearly 80 percent of its contracts in the 17 product service codes OFPP and GAO identified as often including closely associated with inherently governmental functions, as including such work. In contrast, the Navy and other defense agencies identified about 13 percent of their contracts as doing so in these same codes. Additionally, the Air Force did not submit a letter certifying they had completed the review for the second consecutive year, without explanation. The lack of documentation on whether a proposed contract includes closely associated with inherently governmental functions may result in inventory review processes incorrectly reporting these contracts. At least 12 of the 28 contract actions we reviewed appeared to include these activities, but—of those 12—the DOD components identified one prior to contract award and two during the inventory review process as including such activities. More recently, DOD officials noted that it may be unrealistic for components to review all contracts in their inventory and added that a risk-based approach to select which contracts to review may be appropriate. Neither DOD's March 2014 guidance nor its December 2014 guidance for fiscal years 2013 and 2014 inventories, respectively, provided a specific percentage of contracts to be reviewed or the basis for selecting the contracts to review. At a minimum, DOD components should

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review the contracts that are more likely to include closely associated with inherently governmental functions. Without clear guidance outlining an appropriate risk-based approach, DOD components may continue to misreport contractors performing closely associated with inherently governmental functions.

The military departments have not updated or revised the guidance for budgeting, manpower, and workforce planning to incorporate the use of the inventory of contracted services data, nor have they appointed an accountable official to help determine how best to use inventory data when it becomes available. We continue to believe that implementing the recommendations we previously made to do so would facilitate the use of the inventory for decision-making purposes. Critical to making sure that the data are useable and consistent is clearly defining the roles and responsibilities of the management support office and formalizing relationships between this office and DOD stakeholders. This office is expected to provide a wide range of support activities for the inventory of contracted services, including exploring options for an alternative to the current ECMRA system. DOD officials noted that an agreement on the short-term roles and responsibilities of the office is imminent. We encourage the department to work expeditiously to do so. However, until such time as DOD clearly outlines the longer term relationships between the support office, military departments, and other stakeholders, the department faces increased risk that efforts to implement an enterprise-wide data collection system and integrate the data into decision-making processes will not meet user needs and expectations.

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## Recommendations for Executive Action

To ensure proposed contract activities, as reflected in the statement of work and other contract documents, are assessed against the criteria provided by the FAR and OFPP policy, we recommend that the Under Secretary for Defense for Acquisition, Technology, and Logistics ensure that the Director of the Office of Defense Procurement and Acquisition Policy

- provide clear instructions, in a timely manner, on how the service requirement review boards are to identify whether contract activities include closely associated with inherently governmental functions; and
- require acquisition officials to document, prior to contract award, whether the proposed contract action includes activities that are closely associated with inherently governmental functions.

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To assist components in appropriately identifying contracts that include closely associated with inherently governmental functions in the inventory review more generally, 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 ensure that military departments and defense agencies review, at a minimum, those contracts within the product service codes identified as requiring heightened management attention and as more likely to include closely associated with inherently governmental functions.

To help facilitate the collection and use of inventory data in decision-making processes, we recommend that the Under Secretary of Defense for Personnel and Readiness clearly identify the longer term relationships between the support office, military departments, and other stakeholders.

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## 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 V, DOD concurred with our recommendations and described the actions it plans to take. DOD, however, generally did not provide timeframes for completing such actions. Given the magnitude, significance, and risk associated with contracted services, we encourage the department to move out expeditiously and set appropriate timeframes for completing these actions. DOD also provided technical comments, which we incorporated in the report as appropriate.

In response to our recommendation that DPAP provide clear instructions, in a timely manner, on how the service requirement review boards are to identify whether contract activities include closely associated with inherently governmental functions, the department noted that the pending DOD instruction for service acquisitions will provide such guidance. The department also noted it will provide supplemental direction to acquisition officials in response to our recommendation that the Director, Defense Procurement and Acquisition Policy, require acquisition officials to document, prior to contract award, whether the proposed contract action includes activities that are closely associated with inherently governmental functions.

In response to our recommendation that Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness work jointly to ensure that military departments and defense agencies, at a minimum, review contracts within the product service codes identified as requiring heightened

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management attention and as more likely to include closely associated with inherently governmental functions, the department stated it will update its inventory of contracted services guidance.

In response to our recommendation that the Under Secretary of Defense for Personnel and Readiness clearly identify the longer term relationships between the support office, military departments, and other stakeholders, the department noted that it will implement, as appropriate, a memorandum of agreement or service level agreements to clearly identify relationships and roles of the various stakeholders.

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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, Navy, and Air Force; 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](mailto: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 VI.



Timothy J. DiNapoli  
Director  
Acquisition and Sourcing Management

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*List of Committees*

The Honorable John McCain  
Chairman  
The Honorable Jack Reed  
Ranking Member  
Committee on Armed Services  
United States Senate

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

The Honorable Mac Thornberry  
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

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# Appendix I: Objectives, Scope, and Methodology

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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).<sup>1</sup> To satisfy the mandate for 2015, 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 2013 inventory and (2) implement subsection (f) to develop plans and processes to use the inventory for strategic workforce planning, workforce mix, and budget decisions. We used data from the fiscal year 2013 inventory as it was the most recent inventory at the time of our review. Further, the Joint Explanatory Statement accompanying the National Defense Authorization Act for Fiscal Year 2015 mandated GAO to report on the defense agencies' and military services' implementation of a standard pre-solicitation checklist.

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 activities in the inventory of contracted services pursuant to subsection (e), we focused on DOD's fiscal year 2013 inventory and associated review, which was the latest inventory and review available when we initiated our work. We reviewed DOD's fiscal year 2013 inventory submission and review guidance, issued by Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) and the Acting Under Secretary of Defense for Personnel and Readiness (USD(P&R)) issued on March 18, 2014. The March 2014 guidance requires military departments and defense agencies to certify—through submission of a certification letter to USD(P&R)—that their review was conducted in accordance with subsection (e). The guidance required components to report on seven elements including the contract selection criteria and methodologies used to conduct the reviews; the extent to which contactors 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. We analyzed all unclassified fiscal year 2013 certification letters submitted by 35 of 37 components to USD(P&R) as of September 2015 to determine if components reported on all seven required

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<sup>1</sup>Pub. L. No. 113-66 (2013).

elements.<sup>2</sup> The Air Force and the Test Resource Management Center did not submit a certification letter in fiscal year 2013. We did 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.<sup>3</sup> This guidance directs agencies to give priority consideration to reviewing certain categories on contracted services that the guidance and GAO's prior work have indicated often include closely associated with inherently governmental functions.<sup>4</sup> The guidance and GAO's work identifies 17 product service codes describing these categories of contracted services. We identified total obligations for contracts categorized under the product service codes identified in the OFPP guidance and two additional product services codes identified in GAO's prior work and compared these obligations to total obligations certified by DOD components as being for contractors performing closely associated with inherently governmental functions in the fiscal year 2013 certification letters. We did not independently assess the accuracy or reliability of the underlying data supporting the components' inventories of contracted services and associated reviews.

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 2013 inventory, we selected a major command from each of the military departments—Army Materiel

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<sup>2</sup>In 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 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). In April 2015, the DOD Inspector General reported that USD(P&R) identified 8 components that should have submitted a fiscal year 2013 inventory but did not. 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 2013*, DODIG-2015-106, (Alexandria, VA: April 15, 2015)

<sup>3</sup>OFPP, Memorandum for Chief Acquisition Officers and Senior Procurement Executives, *Service Contract Inventories*, November 5, 2010.

<sup>4</sup>GAO, *Managing Service Contracts: Recent Efforts to Address Associated Risks Can Be Further Enhanced*, [GAO-12-87](#), (Washington, D.C. Dec. 7, 2011).

Command, Air Force Materiel Command, and Naval Sea Systems Command. The commands were selected because they had the highest obligations in knowledge based services for fiscal year 2013, based on data from the Federal Procurement Data System-Next Generation (FPDS-NG). At each command, we reviewed a selection of 28 non-generalizable contract actions. These contract actions were selected, in part, because of their high dollar value and categorization under the product service codes OFPP and we have identified as often including closely associated with inherently governmental functions. We compared the inventory submission data to the Federal Procurement Data System-Next Generation (FPDS-NG) data for fiscal year 2013 and determined the data were sufficiently reliable for these purposes. We reviewed each contract action and supporting documentation in the contract file to identify any planned contractor activities that appeared to be closely associated with inherently governmental functions. For the purposes of this report, we considered a contract action to include such functions if any activity described in the statement of work appeared to be closely associated with inherently governmental functions as defined under section 7.503(d) of the Federal Acquisition Regulation (FAR) and appendix B of OFPP Policy Letter 11-01. We then compared our assessment with the determination made by contracting and program officials at the time the contract was awarded and when the contract was reviewed as part of the fiscal year 2013 inventory of contracted services review and certification process. Our results are not intended to be generalizable and as such, results from non-generalizable samples cannot be used to make inferences about all service contracts.

To better understand the pre-award and inventory of contracted services review processes, we met with relevant contracting, program, and resource management officials at the major commands with knowledge of the contract actions in our sample. The components and officials we identified through the sample and met with were:

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## Army

- Army Contracting Command
- Army Materiel Command
  - Research, Development, and Engineering Command
    - Aviation and Missile Research, Development, and Engineering Center
  - Communications Electronics Command
- Program Executive Office–Aviation
- Installation Management Command

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Air Force

- Air Force Materiel Command
- Air Force Life Cycle Management Center – Enterprise Acquisition Division

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Navy

- Naval Sea Systems Command
- Naval Surface Warfare Center–Carderock Division

Finally, to better understand how, if at all, DOD guidance has improved over time and the challenges, if any, components have with the inventory review process, we selected seven defense agencies based on completeness of the certification letters over the last three years and the percent of total obligations identified for contracts including closely associated with inherently governmental functions. The defense agencies were Defense Advanced Research Projects Agency; Defense Contract Audit Agency; Defense Finance and Accounting Services; Defense Human Resource Activity; DOD Educational Activity; US Northern Command; and US Southern Command. In addition, we interviewed officials from USD(P&R) and USD(AT&L).

To assess the extent to which the Defense agencies' and military services have implemented a standard pre-solicitation checklist pursuant to the Joint Explanatory Statement accompanying of the National Defense Authorization Act for Fiscal Year 2015, we met with officials from USD(AT&L) Office for Defense Procurement and Acquisition Policy (DPAP) and the Departments of the Air Force and Navy.

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 used the data we collected for our November 2014 report on this issue to establish the extent to which each military department's strategic workforce planning, manpower mix, and budgeting guidance and documentation required or cited the use of the inventory of contracted services.<sup>5</sup> We then interviewed officials from each military department to determine what updates, if any, had been made to those policies and procedures. We also interviewed acquisition and manpower officials at the three military departments to assess the status of the military

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<sup>5</sup>GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: November 19, 2014).

departments' plans to appoint an accountable official to facilitate efforts to develop a plan and enforcement mechanisms pursuant to subsection (f).

We also assessed DOD's efforts to develop a common contractor manpower reporting application by interviewing officials from USD(P&R) and the Defense Manpower Data Center (DMDC), reviewing briefing slides resulting from the December 2014 strategic review of options, and reviewing meeting minutes from a work group charged with developing such a system.

To assess the completeness of the data from the Contractor Manpower Reporting Application (CMRA) systems, we reviewed policy and guidance for the system. In addition, we identified officials responsible for verifying CMRA data based on our selected contract actions. We also selected six contractors associated with the contracts in our sample—three large businesses and three small businesses—to discuss the data entry and data verification processes. In addition, we compared data from FPDS-NG for the 30 service contracts with the highest obligations from October 2012 through July 2013 at the Army, Navy, and Air Force to determine the extent to which contractors reported direct labor hours and invoice amounts for these contracts into CMRA. We did not independently assess the data provided by contractors.

We conducted this performance audit from December 2014 to November 2015 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 finding and conclusions based on audit objectives.

# Appendix II: Comparison of Components' Identification of Contractors Providing Services Closely Associated With Inherently Governmental Functions in their Fiscal Year 2011, 2012, and 2013 Certification Letters

Component	2011	2012	2013
Army	44,541	27,378	46,471
<b>Air Force<sup>a</sup></b>	<b>1,398</b>	<b>Did not report</b>	<b>Did not report</b>
Navy	The Navy did not identify the number of FTEs, but noted they had 25 contracts that contained these functions.	2,524	3,739
Defense Advanced Research Projects Agency	The agency did not identify the number of FTEs, but noted they had contracts that contained these functions.	115	534
Defense Commissary Agency	The agency did not identify the number of FTEs, but noted that they had contractors performing these functions.	0	0
Defense Contract Audit Agency	0	Did not report	0
Defense Contract Management Agency	0	2 contracts	The agency did not identify the number of FTEs in current contracts, but noted they had one contract that contained these functions.
Defense Finance and Accounting Service	0	0	0
Defense Human Resource Activity	0	0	0
Defense Information Systems Agency	0	0	7
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	815
Defense Media Activity	0	0	0
Defense Legal Services Agency	Did not report	Did not report	The agency did not identify the number of FTEs in current contracts, but noted they have one contract that contained these functions.
Defense Micro-Electronics Activity	Did not report	0	The agency did not identify the number of FTEs in current contracts, but noted they had one contract that contained these functions.
Office of the Inspector General	Did not report	Did not report	0
Defense Security Cooperation Agency	0	0	0
Defense Security Service	0	164	84

**Appendix II: Comparison of Components'  
Identification of Contractors Providing  
Services Closely Associated With Inherently  
Governmental Functions in their Fiscal Year  
2011, 2012, and 2013 Certification Letters**

<b>Component</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Defense Threat Reduction Agency	The agency did not identify the number of FTEs, but noted that several contracts contained these functions.	261	687
Department of Defense Education Activity	0	0	The agency did not identify whether they had any contract actions that contained these functions.
Joint Chiefs of Staff	0	0	22
Missile Defense Agency	0	89	66
Office of the Secretary of Defense Washington Headquarters Service Director, Operational Test & Evaluation Pentagon Force Protection Agency	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	27
Test Resource Management Center <sup>b</sup>	0	0	Did not report
Tricare Management Activity	The activity did not identify the number of FTEs, but stated that some contracts contained these functions	2	66
U.S. Africa Command	0	0	0
U.S. Central Command	Did not report	25	28
U.S. European Command	0	0	8 contracts
U.S. Forces Korea	Did not report	0	0
U.S. Northern Command	The commands did not identify the number of FTEs, but noted that "some requirements" contained these functions.	171	119
U.S. Pacific Command	Did not report	Did not report	79
U.S. Special Operations Command	0	106	1069
U. S. Strategic Command	Did not report	0	0
U.S. Southern Command	0	Did not report	2 contracts
U.S. Transportation Command	0	0	161

Source: GAO-13-391, GAO-15-88, and GAO analysis of Military Department and Defense Agency Certification Letters for fiscal years 2011, 2012, and 2013 | GAO-16-46.

<sup>a</sup>As of September 2015, the Air Force has yet to provide a certification letter for the fiscal year 2013 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 provided a final certification letter for fiscal year 2011. The Air Force also did not provide a certification letter for fiscal year 2012.

<sup>b</sup>As of September 2015, the Test Resource Management Center has yet to provide a certification letter for the fiscal year 2013 inventory.

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# Appendix III: Summary of Prior Findings on the Military Departments' Implementation of Plans to Facilitate Use of the Inventory

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In November 2014, GAO reported on the status of efforts by the military departments to develop plans with enforcement mechanisms to use the inventory of contracted services to inform management decisions in three primary areas, including strategic workforce planning; workforce mix; and budgeting.<sup>1</sup> In that report, we determined that the military departments generally had not developed plans and processes to incorporate the inventory in these decisions. The following summarizes the degree to which DOD and the military departments' guidance required the use or consideration of the inventory in these areas:

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

The Under Secretary of Defense for Personnel and Readiness (USD(P&R)) has overall responsibility for developing and implementing DOD's strategic workforce plan to shape and improve DOD's civilian workforce, including an assessment of the appropriate total force mix. USD(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 pre-dates 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 November 2014 review, stated that DOD's plans for identifying and assessing workforce mix will leverage the inventory of contracted services, but it did not provide any additional details on using the inventory.

None of the three military departments had developed a statutorily required plan or enforcement mechanism to use the inventory of contracted services and generally they had not developed guidance or processes for these purposes (see table 5).

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<sup>1</sup>GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: November 19, 2014).

**Appendix III: Summary of Prior Findings on the  
Military Departments' Implementation of Plans  
to Facilitate Use of the Inventory**

**Table 5: Strategic Workforce Planning Guidance and Processes at the Three Military Departments**

	<b>Air Force</b>	<b>Army</b>	<b>Navy</b>
<b>Plans and enforcement mechanisms</b>	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services.		
<b>Guidance</b>	No department-unique strategic workforce guidance. The Air Force issued a broad framework in July 2014 to guide long-range planning, but it did not mention the inventory of contracted services.	No department-unique strategic workforce guidance.	No department-unique strategic workforce guidance.
<b>Processes</b>	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 were 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 did not meet regularly.

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

DOD had two department-wide policies for determining workforce mix—DOD directive 1100.4 and DOD instruction 1100.22—but neither required the use of the inventory to inform workforce mix planning. DOD Directive 1100.4, dated February 2005, provided general guidance concerning determination of manpower requirements, managing resources, and manpower affordability. According to USD(P&R) officials, revisions to this directive, which were under review during our November 2014 review, would 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 did 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.

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**Appendix III: Summary of Prior Findings on the  
Military Departments' Implementation of Plans  
to Facilitate Use of the Inventory**

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DOD's primary insourcing guidance was reflected in April 4, 2008 and May 28, 2009 memoranda.<sup>2</sup> These memoranda reiterated 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 the Army had guidance and a process that requires use of the inventory of contracted services for insourcing. However, the military departments had not issued guidance for managing workforce mix that requires the use of the inventory of contracted services (see table 6).

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<sup>2</sup>The 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."

**Appendix III: Summary of Prior Findings on the  
Military Departments' Implementation of Plans  
to Facilitate Use of the Inventory**

**Table 6: Role of the Inventory of Contracted Services in Existing Workforce Mix and Insourcing Guidance and Processes at the Three Military Departments**

	<b>Air Force</b>	<b>Army</b>	<b>Navy</b>
<b>Plans and enforcement mechanisms</b>	No documented plan and enforcement mechanism to provide for the use of the inventory of contracted services.		
<b>Guidance</b>	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 did 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 did 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 Insourcing Approval Authority memorandum provided 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, mentioned use of the inventory of contracted services as a total workforce tool and provided some guidance on using the inventory to determine whether a function can be contracted. While this instruction was linked to the inventory of contracted services, it was not department-wide, as it does not apply to the Marine Corps.
<b>Processes</b>	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 was in the beginning stages, at the time of our review in November 2014. However, it was not using the inventory to inform workforce mix and insourcing decisions.	<p>Army used the Panel for Documentation of Contractors review process to determine whether to insource a contracted function.</p> <p>Additionally, Army used the Services Contract Approval Form, developed in 2009, to inform contract award and insourcing decisions.</p>	Navy was 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 did not require use of the inventory of contracted services to do so.

Source: GAO analysis of DOD guidance and processes | [GAO-15-88](#)

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

DOD's Financial Management Regulation provided, among other things, guidance to the military departments on budget formulation and presentation; however, these regulations did not require the military departments to use the inventory in formulating and presenting their budgets.<sup>3</sup> At the military department level, the Air Force had issued additional instructions in terms of budget formulation and presentation. However, the Air Force's guidance did not require the use of the inventory.

The Comptroller 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 did not require reporting the amount of funding requested for contracted services. The Comptroller guidance for budget submissions from all components had remained similar for the past three fiscal years, instructing DOD components to ensure that contractor FTEs reported in the budget exhibit were consistent with those in the DOD's inventory of contracted services.<sup>4</sup> 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 did 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 7).

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<sup>3</sup>DOD 7000.14-R Department of Defense Financial Management Regulation.

<sup>4</sup>The 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".

**Appendix III: Summary of Prior Findings on the  
Military Departments' Implementation of Plans  
to Facilitate Use of the Inventory**

**Table 7: Role of the Inventory of Contracted Services in Existing Budgeting Guidance and Processes at the Three Military Departments**

	<b>Air Force</b>	<b>Army</b>	<b>Navy</b>
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 did not link to using the inventory of contracted services. The Air Force also followed guidance issued by the DOD Comptroller.	No Army-specific budget guidance. The Army followed guidance issued by the DOD Comptroller.	No Navy-specific budget guidance. The Navy followed guidance issued by the DOD Comptroller.
Processes	The Air Force did not have a process for using the inventory of contracted services for budget formulation and execution.	The Army did not have a process for using the inventory of contracted services for budget formulation and execution.	The Navy did not have a process for using the inventory of contracted services for budget formulation and execution.
Budget Formulation and Execution			
Estimating Contractor Full-time Equivalents (FTEs)	To estimate contractor FTEs, the Air Force budget office used the inventory to arrive at an average cost of contractors. The Air Force then divided the contractor dollar amounts reported in the budget submission to arrive at an estimated number of contractor FTEs and submitted this number for the DOD budget exhibit.	The Army budget office did not use the inventory of contracted services to inform budgeting or estimate contractor FTEs.	To estimate contractor FTEs, the Navy budget office used the inventory to arrive at average cost of contractors. The Navy then divided the contractor dollar amounts reported in the budget submission to arrive at an estimated number of contractor FTEs and submitted this number for the DOD budget exhibit.

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

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# Appendix IV: Related GAO Reports

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## **DOD's Inventory of Contracted Services**

GAO, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DOD's Inventory of Contracted Services*, [GAO-15-88](#) (Washington, D.C.: November 19, 2014).

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

GAO, *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).

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

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

GAO, *Defense Acquisitions: Observations on the Department of Defense Service Contract Inventories for Fiscal Year 2008*, [GAO-10-350R](#) (Washington, D.C.: January 29, 2010).

## **DOD Service Contracting and Workforce**

GAO, *DOD Contract Services: Improvements Made to Planning and Implementation of Fiscal Controls*, [GAO-15-780](#) (Washington, D.C.: September 30, 2015).

GAO, *DOD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed*, [GAO-15-115](#) (Washington, D.C.: December 11, 2014).

GAO, *Human Capital: DOD Should Fully Develop Its Civilian Strategic workforce Plan to Aid Decision Makers*, [GAO-14-565](#) (Washington, D.C.: July 9, 2014).

GAO, *Human Capital: Opportunities Exist to Further Improve DOD's Methodology for Estimating the Costs of its Workforces*, [GAO-13-792](#) (Washington, D.C.: September 25, 2013).

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*GAO, Human Capital: Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce, [GAO-13-470](#) (Washington, D.C.: May 29, 2013).*

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

*GAO, Defense Acquisitions: Further Actions Needed to Address Weaknesses in DOD's Management of Professional and Management Support Contracts, [GAO-10-39](#) (Washington, D.C.: November 20, 2009).*

*GAO, Department of Defense: Additional Actions and Data Are Needed to Effectively Manage and Oversee DOD's Acquisition Workforce, [GAO-09-342](#) (Washington, D.C.: March 25, 2009).*

# Appendix V: Comments from the Department of Defense



MANPOWER AND  
RESERVE AFFAIRS

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

NOV -- 9 2015

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

Dear Mr. DiNapoli,

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-16-46, "DOD INVENTORY OF CONTRACTED SERVICES: Actions Needed to Help Ensure Inventory Data are Complete and Accurate," dated October 8, 2015 (GAO Code 100050). The Department appreciates the GAO's work on this engagement, as well as the opportunity to review and comment on this draft report. The below constitutes the Department's response to the GAO's recommendations.

**RECOMMENDATION:** To ensure proposed contract activities, as reflected in the statement of work and other contract documents, are assessed against the criteria provided by the FAR and OFPP policy, the GAO recommends that the Under Secretary for Defense for Acquisition, Technology, and Logistics ensure that the Director of the Office of Defense Procurement and Acquisition Policy:

- provide clear instructions, in a timely basis, on how the service requirement review boards are to identify whether contract activities include closely associated with inherently governmental functions; and
- require acquisition officials to document, prior to contract award, whether the proposed contract action includes activities that are closely associated with inherently governmental functions.

**DoD RESPONSE:** Concur. DoD I 5000.ac, *Defense Acquisition of Services*, which is in its final review before signature, will provide clear instructions on the service requirements review board and data collection process with respect to identifying those requirements that are closely associated with inherently governmental functions. In terms of pre-award documentation, the Department, in the future, will provide further supplemental direction to acquisition officials on this subject.

**RECOMMENDATION:** To assist components in appropriately identifying contracts that include closely associated with inherently governmental functions in the inventory review more

generally, the GAO 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 ensure that military departments and defense agencies review, at a minimum, those contracts within the product service codes identified as requiring heightened management attention and as more likely to include closely associated with inherently governmental functions.

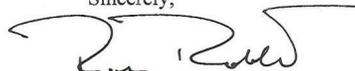
**DoD RESPONSE:** Concur. The Department will update its guidance to the military departments and defense agencies, at a minimum, to ensure the review of those requirements and contracts containing product service codes identified by the Office of Federal Procurement Policy as requiring heightened management attention or more likely to include closely associated with inherently governmental functions.

**RECOMMENDATION:** To help facilitate the collection and use of inventory data in decision-making processes, the GAO recommends that the Under Secretary of Defense for Personnel and Readiness clearly identify the longer term relationships between the support office, military departments, and other stakeholders.

**DoD RESPONSE:** Concur. The Department will implement, as appropriate, memoranda of agreement, service level agreements, and/or other agreements and arrangements between the support office, military departments, and other stakeholders to identify the relationships and roles/responsibilities of each.

The Department looks forward to working with the GAO on future engagements pertaining to the DoD's Inventory of Contracted Services. Should you have any questions, please contact my primary action officer, Mr. Thomas Hessel at 703-697-3402 or [thomas.j.hessel.civ@mail.mil](mailto:thomas.j.hessel.civ@mail.mil).

Sincerely,



Rich Robbins  
Director, Total Force Planning &  
Requirements

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

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

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## Staff Acknowledgments

In addition to the contact named above, Penny Berrier, Assistant Director; Saqib Ahsan, Andrea C. Evans, Laura Greifner, Kristine Hassinger, Julia Kennon, Caryn E. Kuebler, Jean McSween, Brian Smith, and Oziel Trevino.

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# Appendix VII: Accessible Data

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## Agency Comment Letter

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### Text of Appendix V: Comments from the Department of Defense

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Page 1

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4000 DEFENSE PENTAGON WASHINGTON, DC 20301-4000

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Page 2

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Sincerely,

Rich Robbins

Director, Total Force Planning &

Requirements

## Data Tables

**Data Table for Highlights Figure and Figure 2: DOD Components Reporting of Contracts That Included Activities Closely Associated with Inherently Governmental Functions Differed Significantly In Fiscal Year 2013**

Department of Defense component	U.S. dollars (in billions)	Description
Army	9.7	Obligations for categories of contracted services which often involve closely associated with inherently governmental (CAIG) functions based on GAO analysis of DOD fiscal year 2013 inventory submission data
	7.6	Obligations for contractors performing CAIG functions identified in DOD fiscal year 2013 certification letters
Navy	7.0	Obligations for categories of contracted services which often involve closely associated with inherently governmental (CAIG) functions based on GAO analysis of DOD fiscal year 2013 inventory submission data
	0.7	Obligations for contractors performing CAIG functions identified in DOD fiscal year 2013 certification letters
Air Force	5.1	Obligations for categories of contracted services which often involve closely associated with inherently governmental (CAIG) functions based on GAO analysis of DOD fiscal year 2013 inventory submission data
	Did not	Obligations for contractors performing CAIG functions identified in DOD fiscal year 2013

Appendix VII: Accessible Data

	report	certification letters
Other DOD agencies	3.7	Obligations for categories of contracted services which often involve closely associated with inherently governmental (CAIG) functions based on GAO analysis of DOD fiscal year 2013 inventory submission data
	0.7	Obligations for contractors performing CAIG functions identified in DOD fiscal year 2013 certification letters

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## Public Affairs

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