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March 2018

DOD CONTRACTED SERVICES

Long-Standing Issues Remain about Using Inventory for Management Decisions

Accessible Version

GAO-18-330

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GAO Highlights

Highlights of GAO-18-330, a report to congressional committees

Why GAO Did This Study

DOD obligated about $150 billion on contracted services—such as information technology support and maintenance of defense facilities—in fiscal year 2016. DOD has faced long-standing challenges in effectively managing its service acquisitions.

The National Defense Authorization Act for Fiscal Year 2017 amended existing requirements for DOD to annually collect data on contracted services and to compile and review an inventory of the functions performed by contractor personnel. The Act also contained a provision for GAO to report on the status of this data collection and to assess DOD's use of the inventory. This report addresses how DOD (1) collected data to create an inventory of fiscal year 2016 contracted services and (2) used the inventory to inform workforce planning, workforce mix, and budget decisions. GAO has reported on DOD's inventory of contracted services since 2010.

GAO reviewed OSD and the military departments' guidance, as well as the military departments' inventory submissions to OSD. GAO also analyzed contracted services data and interviewed OSD and military department officials.

What GAO Recommends

GAO is not making new recommendations in this report. Seven of 18 prior GAO recommendations related to the inventory remain open, including a recommendation for DOD to identify officials at the military departments responsible for developing plans and enforcement mechanisms to use the inventory. In its comments, DOD stated it is committed to improving its inventory processes.

View GAO-18-330. For more information, contact Timothy J. DiNapoli at (202) 512-4841 or dinapolit@gao.gov.

What GAO Found

GAO found that the Department of Defense (DOD) used the same sources as it did in prior years to collect data and create an inventory of fiscal year 2016 contracted services, which is intended, in part, to help DOD make more strategic workforce decisions and better align resources. Office of the Secretary of Defense (OSD) guidance, issued in September 2017 to implement congressional direction, required the military departments to include in their submissions, at a minimum, purchases of services with a total contract value of $3 million or more, and in four services acquisition portfolio groups—logistics management, equipment-related, knowledge-based, and electronics and communications.

As permitted under OSD's inventory guidance, the military departments varied somewhat in how they reported their contracted services data to OSD. For example, the Army and Air Force included purchases both over and under $3 million and the Air Force also identified purchases by the four portfolio groups. The Navy submitted summary data of contracted services but did not provide a list of purchases in time to be included in an inventory summary for Congress. An OSD official said, however, that the information provided was sufficient to prepare the inventory summary, which OSD submitted to Congress in February 2018. The Navy subsequently provided a list of its fiscal year 2016 service purchases to OSD in March 2018.

Military departments generally have not developed plans to use the inventory for workforce and budget decisions, as statutorily required. This is consistent with what GAO found in November 2014 and October 2016. GAO's analysis found that the military departments' guidance generally does not require using the inventory in workforce and budget decisions (see table).

Military Department Guidance for Workforce and Budget Decisions, as of February 2018

Guidance document category	Total
Total number of guidance documents for workforce and budget decisions	14
Number of guidance documents that direct use of the inventory	2

Source: GAO analysis of military department documents. | GAO-18-330

Army manpower officials told GAO that inventory information such as the number of contractor full-time equivalents and the functions performed can be used to inform workforce mix decisions. However, workforce and budget officials at the Army, Navy, and Air Force stated they make limited use of the inventory to inform decision-making, in part because by the time the inventory is available, the data reflected are often too outdated to inform strategic decisions. GAO has previously recommended ways to improve use of the inventory. In November 2014, for example, GAO found that a lack of officials at the military departments who are accountable for integrating the use of the inventory leaves the department at continued risk of not complying with the legislative requirement to use the inventory to support management decisions. This issue persists, as the military departments have not made final designations for accountable officials responsible for developing plans and enforcement mechanisms to use the inventory.

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Abbreviations

Comptroller	Under Secretary of Defense (Comptroller)
DOD	Department of Defense
DPAP	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

FY	fiscal year
NDAA	National Defense Authorization Act
OSD	Office of the Secretary of Defense
POM	program objective memorandum
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics
USD(P&R)	Under Secretary of Defense for Personnel and Readiness

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Congressional Committees

The Department of Defense (DOD) is the federal government's largest purchaser of contractor-provided services, which obligated about $150 billion on contracted services in fiscal year 2016. DOD relies on contractors to provide a wide array of services, including support for management, information technology, and weapon systems. There are benefits to using contractors to perform services for the government, but the government can become overly reliant on contractors and risk contractors performing inherently governmental functions. This risk is increased for certain types of services, including program evaluation, systems engineering, and information technology support services, as the Office of Federal Procurement Policy and our prior work has found.[1]

Beginning in 2001, 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 conduct certain activities, including:

- establishing a data collection system to provide management information with regard to service purchases by the military departments and defense agencies;[2] and
- annually compiling an inventory of services contracted for or on behalf of DOD during the preceding fiscal year. This inventory is intended, in part, to help provide better insight into the number of contractor full-

[1]Office of Management and Budget, Office of Federal Procurement Policy, *Service Contract Inventories*, Memorandum for Chief Acquisition Officers and Senior Procurement Executives (Nov. 5, 2010); and GAO, *Managing Contracts: Recent Efforts to Address Associated Risks Can Be Further Enhanced*, GAO-12-87 (Washington, D.C.: Dec. 7, 2011).

[2]10 U.S.C. § 2330a(a).

time equivalents (FTE) providing services to the department and the functions they are performing.[3]

Further, this section requires the military departments and defense agencies to undertake certain actions using the inventory, including:

- reviewing the contracts and activities in the inventory for which the secretary or agency head is responsible to ensure that personal services contracts in the inventory are performed under applicable statutes and regulations and to identify contracted functions that DOD should consider for conversion to government performance, also known as insourcing;[4] and
- developing a plan, including an enforcement mechanism and approval process, to use the inventory for strategic workforce planning, workforce mix determinations, and budget decisions.[5]

Section 812 of the National Defense Authorization Act (NDAA) for Fiscal Year 2017 amended these requirements by changing the scope of the data to be collected and the type of activities to be reported to Congress.[6] Specifically, section 812 increased the minimum value of service purchases for which information is to be collected from those in excess of $150,000 to those in excess of $3 million, reduced the types of services included, and changed DOD's reporting requirements. Section 812 also contained a provision for us to report on the status of data collection and assess DOD's efforts to develop a plan and enforcement mechanism to use the inventory.[7] This report addresses how DOD (1) collected data on its service purchases to create an inventory of fiscal year 2016 contracted services and (2) used the inventory to inform workforce planning, workforce mix, and budget decisions.

[3]10 U.S.C. § 2330a(c). 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 were 2,096 in fiscal year 2016.

[4]10 U.S.C. § 2330a(d).

[5]10 U.S.C. § 2330a(e).

[6]Pub. L. No. 114-328 (2016).

[7]10 U.S.C. § 2330a(f).

To determine how DOD collected data to create an inventory of fiscal year 2016 contracted services (fiscal year 2016 inventory), we reviewed relevant legislation and the Office of the Secretary of Defense's (OSD) *Fiscal Year 2016 Guidance Related to the Inventory and Tracking of Contracted Services* (OSD's inventory guidance), issued in September 2017.[8] We focused on the fiscal year 2016 inventory because it was the most recent inventory at the time of our review and is the inventory to which the September 2017 guidance pertains. We interviewed officials at the Under Secretary of Defense offices for Personnel and Readiness (USD(P&R)); Acquisition, Technology, and Logistics (USD(AT&L)); and the Under Secretary of Defense (Comptroller) about their roles in establishing OSD's inventory guidance for fiscal year 2016 and other aspects of the inventory process.[9] We focused our review of the process for compiling data for the inventory on the military departments because they represented about 79 percent of overall service contract obligations in fiscal year 2016, though other DOD components, such as combatant commands and defense agencies, are also responsible for creating inventories under OSD's inventory guidance. We interviewed officials at the military departments—Army, Navy, and Air Force—to understand their approach to collecting contracted services data, including their use of data systems, and compiling their inventories.

To understand the potential impact on data collection of the recent statutory changes, as implemented in OSD's inventory guidance, we reviewed and analyzed information from USD(AT&L)'s Defense Procurement and Acquisition Policy (DPAP) office. Specifically, we analyzed the contracted services data from the Federal Procurement Data System-Next Generation (FPDS-NG) that DPAP posted on its website in sets showing fiscal year 2016 service purchases before and after scope changes were applied.[10] To ascertain the reliability of the

[8]Department of Defense, Office of the Secretary of Defense, *Fiscal Year 2016 Guidance Related to the Inventory and Tracking of Contracted Services*, Memorandum (Washington, D.C.: Sept. 25, 2017).

[9]The National Defense Authorization Act for Fiscal Year 2017 eliminated the position of USD(AT&L) effective February 1, 2018. The position has been divided into the Under Secretary of Defense for Research and Engineering and the Under Secretary of Defense for Acquisition and Sustainment. Pub. L. No. 114-328, § 901(a) and (b) (2016) (codified at 10 U.S.C. §§ 133a and 133b). We generally use USD(AT&L) in this report to reflect the office's structure during the time the fiscal year 2016 inventories were to be collected and submitted.

[10]FPDS-NG is the government's central repository for contracting data.

data, we replicated USD(AT&L)'s process for extracting data from FPDS-NG based on officials' descriptions of that process and compared the results with the data on USD(AT&L)'s website. We found minimal differences (0.4 percent or less) in the number of and amounts of fiscal year 2016 obligations for service purchases between the two data sets and determined the data were reliable for estimating the potential changes in the amount of data reported. We also reviewed the military departments' inventory submissions to OSD to determine how they incorporated key aspects of OSD's inventory guidance, such as the dollar value and types of contracts included.

To determine how DOD used the inventory for workforce planning, workforce mix, and budget decisions, we updated the information we collected for our October 2016 report on this issue to establish the extent to which each military department's strategic workforce planning, workforce mix, and budgeting guidance and processes required or cited the use of the inventory of contracted services, as of February 2018.[11] To do so, we interviewed and obtained information from manpower and budget officials at the military departments about the status of their efforts to develop plans and to use the inventory, confirmed whether the guidance identified in our October 2016 report remained current as of February 2018, and, as appropriate, obtained and reviewed any new or revised guidance issued after our October 2016 report. In responding to our draft report, the Navy provided additional information about its guidance in March 2018. In addition, we interviewed USD(P&R), USD(AT&L), and Comptroller officials regarding their department-wide perspectives on the utility of the inventory to inform management decisions.

We conducted this performance audit from June 2017 to March 2018 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[11]GAO, *DOD Inventory of Contracted Services: Timely Decisions and Further Actions Needed to Address Long-Standing Issues*, GAO-17-17 (Washington, D.C.: Oct. 31, 2016).

Background

Contracted Services Data Collection and Inventory Requirements and Process

In part to improve the information available and management of DOD's acquisition of services, Congress enacted section 2330a of title 10 of the U.S. Code in 2001, 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.[12] Congress amended section 2330a in 2008 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.[13]

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 military department or defense agency administering the contract, and the organization whose requirements are being met through contractor performance of the function;
- the funding source for the contract by appropriation and operating agency;
- the fiscal year the activity first appeared on an inventory;
- the number of contractor employees (expressed as FTEs) for direct labor hours and associated cost data collected from contractors;[14]

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

[13]National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 807(a). Congress made additional amendments to various aspects of the requirements in section 2330a in the National Defense Authorization Acts for Fiscal Years 2010, 2011, 2012, and 2017.

[14]Estimates of FTEs 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).

- a determination of whether the contract pursuant to which the activity is performed is a personal services contract;[15] and
- a summary of the contracted services data required to be collected in subsection 2330a(a) of title 10 of the U.S. Code.[16]

The secretaries of the military departments and heads of the defense agencies are required to review the contracts and activities in the inventory for which they are responsible to ensure that personal services contracts were performed appropriately and that the activities listed do not include inherently governmental functions, among other factors.[17] In addition, in 2011 Congress amended section 2330a to add a requirement that the secretaries of the military departments and heads of the defense agencies develop a plan, including an enforcement mechanism and approval process, to

- provide for the use of the inventory by the military department or defense agency to implement requirements of section 129a of title 10, U.S. Code (section 129a requires policies and procedures for determining the appropriate mix of military, civilian, and contractor personnel to perform DOD's mission);
- facilitate the use of the inventory for compliance with section 235 of title 10, U.S. Code (section 235 requires budget justification materials to include the amount requested for procurement of contract services and the number of full-time contractor employees projected);
- provide for appropriate consideration of the conversion of activities identified under section 2463 of title 10, U.S. Code (section 2463 requires procedures to ensure civilian employees are considered for performing critical functions); and

[15]A personal services contract is 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. Federal Acquisition Regulation (FAR) §§ 2.101, 37.104(b).

[16]10 U.S.C. § 2330a(c)(2).

[17]10 U.S.C. § 2330a(d). 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 judgements 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.

- ensure that the inventory is used to inform strategic workforce planning.[18]

In section 812 of the National Defense Authorization Act for Fiscal Year 2017, enacted in December 2016, Congress further amended section 2330a by reducing the scope of the required data collection, specifying the type of contracted services to be included in an inventory summary submitted to Congress, and calling for particular attention to the military departments' review of certain high-risk contracts (see table 1).[19]

[18]10 U.S.C. § 2330a(e). Section 1102 of the National Defense Authorization Act for Fiscal Year 2017, Pub. L. No. 114-328, repealed a different statutory requirement, previously 10 U.S.C. § 115b, for DOD to submit a strategic workforce plan. However, the requirement under section 2330a of title 10, U.S. Code, to use the inventory to inform strategic workforce planning, was not repealed or amended and remains in effect.

[19]National Defense Authorization Act for Fiscal Year 2017, Pub. L. No. 114-328, § 812 (2016).

Table 1: Key Changes Related to the Contracted Services Data Collection and Inventory Process as Directed by Section 812 of the National Defense Authorization Act (NDAA) for Fiscal Year 2017

Requirement prior to fiscal year 2017 NDAA category	Requirement prior to fiscal year 2017 NDAA	Requirement after fiscal year 2017 NDAA
Data collection required for service purchases…	• in excess of the simplified acquisition threshold (generally $150,000); • no acquisition portfolio groups specified.	• in excess of **$3 million**; and • in the following **four service acquisition portfolio groups**:[a] 1. logistics management services; 2. equipment-related services; 3. knowledge-based services;[b] and 4. electronics and communications services.
Secretary of Defense required to …	• Submit to Congress an annual inventory of the activities performed during the preceding fiscal year pursuant to contracts for services.	• Prepare an annual inventory, and submit to Congress a summary of the inventory, of activities performed during the preceding fiscal year pursuant to **staff augmentation contracts**.[c]
Secretaries of the military departments and heads of defense agencies required to review…	• The contracts and activities in the inventory under their responsibility.	The contracts and activities in the inventory under their responsibility **with particular focus on the following high-risk product service codes**:[d] A. special studies or analysis that is not research and development; B. information technology and telecommunications; and C. support, including professional, administrative, and management.

Source: GAO summary of selected provisions in 10 U.S.C. § 2330a, as amended by section 812 of the fiscal year 2017 NDAA. | GAO-18-330

[a]Nine portfolio groups are assigned to the acquisition of services in DOD: transportation services, logistics management services, equipment-related services, electronic and communication services, medical services, facilities-related services, knowledge-based services, research and development, and construction services.

[b]Knowledge-based services include engineering and technical services, program management services, management support services, administrative and other services, professional services, and education and training.

[c]Section 812 of the fiscal year 2017 NDAA defined staff augmentation contracts as services contracts for personnel who are physically present in a government work space on a full-time or permanent part-time basis, for the purpose of advising on, providing support to, or assisting a government agency in the performance of the agency's missions, including authorized personal services contracts as defined in section 2330a of title 10 of the U.S. Code.

[d]A single contract may include more than one product or service. The product service code selected in the Federal Procurement Data System-Next Generation represents the predominant product or service being purchased.

To address the requirements of section 2330a of title 10, U.S. Code, DOD is to conduct several key steps for each fiscal year (see table 2).

Table 2: Key Steps in DOD's Contracted Services Data Collection and Inventory Process

DOD action	Approximate timeframe	Responsible parties	Description
Enter data	Throughout the fiscal year, but no later than September 30 for FPDS-NG and October 31 for ECMRA.	DOD contracting officers, contractors	The Federal Procurement Data System-Next Generation (FPDS-NG) is a comprehensive, web-based tool for contracting officers to report contract transactions. It is the primary data source for DOD's inventory of contracted services, though it was created prior to the inventory's existence and is used for a range of other purposes across the federal government. For the purpose of the inventory, DOD uses FPDS-NG to capture data on the type of service purchased and the obligated amount of the purchase, among other things. The Enterprise-wide Contractor Manpower Reporting Application (ECMRA) is a DOD-wide system intended primarily to support DOD's inventory of contracted services. ECMRA is used to augment data extracted from FPDS-NG and other systems. ECMRA captures data input from contractors, such as direct labor hours, direct labor costs, location where the service is performed, and the requiring activity. In November 2012, the Office of the Secretary of Defense issued a memorandum that instructed DOD components, including the military departments, to require contractors to report all contractor labor hours into ECMRA and ensure the accuracy of the contractor-reported data.
Issue inventory guidance	Varies; generally winter or spring	USD(AT&L), USD(P&R), Comptroller	The Office of the Secretary of Defense—through the Under Secretaries of Defense for Acquisition, Technology, and Logistics (USD(AT&L)); Personnel and Readiness (USD(P&R)); and (USD)Comptroller—issues guidance to DOD components.
Compile inventory	Varies	DOD components, USD(AT&L), USD(P&R)	DOD components compile inventories of their respective service purchases, drawing primarily from the data collected in FPDS-NG and ECMRA, and submit them to USD(AT&L) and USD(P&R).
Submit inventory summary to Congress	Required by June 30	USD(AT&L)	USD(AT&L) submits an inventory summary to Congress.
Review inventory	Required by September 28	Secretaries of the military departments and defense agency heads	Secretaries of the military departments and defense agency heads review the inventory for activities closely associated with inherently governmental functions, and identify those that should be considered for conversion to performance by civilian employees, among other aspects. Military departments and defense agencies certify completion of their review to USD(P&R).
Develop plans and enforcement mechanisms	Ongoing	Secretaries of the military departments and defense agency heads	Secretaries of the military departments and defense agency heads develop plans and enforcement mechanisms to use the inventory for management decisions regarding workforce planning, workforce mix, and budgeting.

Source: GAO summary of DOD documents and information. | GAO-18-330

DOD has submitted to Congress annual, department-wide inventories for fiscal years 2008 through 2015. As shown in table 2, each inventory is required to be submitted to Congress by June 30, and is to reflect activities performed during the preceding fiscal year. DOD has not always submitted the inventory to Congress on time. For example, DOD was required to submit the fiscal year 2015 inventory to Congress on June 30, 2016, but did not do so until September 20, 2016. For the inventory of fiscal year 2016 contracted services, the department submitted its summary of the inventory to Congress in February 2018.[20]

Prior GAO Work

Over the past 8 years, we have issued several reports on DOD's efforts to compile and review its inventory of contracted services. We have made 18 recommendations, 7 of which are still open, on a variety of issues related to the inventory.[21] Key findings and recommendations in our prior work that pertain to this review are included below.

- In November 2014, we found the military departments generally had not developed plans to use the inventory to facilitate DOD's workforce planning, workforce mix, and budget decision-making processes, and that numerous offices were responsible for the various decision-making processes at the military departments.[22] This, in turn, left the department at risk of not complying with legislative requirements. We recommended that secretaries of the military departments identify an accountable official within their departments with responsibility for leading and coordinating efforts across their manpower, budgeting, and acquisition functional communities, and, as appropriate, revise guidance, develop plans and enforcement mechanisms, and establish processes. DOD concurred with the recommendation, but as of January 2018, the Army and Navy still had not identified accountable officials. The Air Force has identified an interim accountable official in

[20]This is later than what is required in 10 U.S.C. § 2330a(c), which directs the Secretary of Defense to submit the summary by the end of the third quarter of the fiscal year, or June 30, 2017.

[21]In October 2016, we summarized our past reports and recommendations on the inventory of contracted services. See GAO-17-17, appendix I. The current status of those recommendations can be found on our website, www.gao.gov.

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

its Program Executive Office for Combat and Mission Support, according to an Air Force official.

- In November 2015, we found that DOD's effort to establish an office to implement and support a common, enterprise-wide contractor manpower data system had encountered a number of challenges and lacked clearly defined roles and responsibilities for the office.[23] DOD had not outlined the relationships between the support office, military departments, and other stakeholders in exploring the longer-term solution to collect contractor manpower data and integrate inventory data within the military departments' decision-making processes. We recommended DOD clearly identify the longer-term relationships between the support office, military departments, and other stakeholders. DOD concurred and has since stood up the support office (now called the Total Force Management Support Division) and implemented the Enterprise-wide Contractor Manpower Reporting Application (ECMRA) department-wide. However, DOD has not yet fully identified longer-term relationships. By doing so, DOD would help ensure that efforts to integrate contracted services data into decision-making processes will meet user needs and expectations.
- Most recently, in October 2016, we found that DOD components (which include the military departments) continued to improve their reviews of the inventory compared to prior years, but that they may continue to underreport contractors providing services that are closely associated with inherently governmental functions.[24] Specifically, our analysis found that in fiscal year 2014 DOD obligated about $28 billion for contracts in the product service codes that the Office of Federal Procurement Policy and GAO identified as more likely to include closely associated with inherently governmental functions. In comparison, the components identified a total of $10.8 billion in obligations or dollars invoiced for contracts that included such work. We also found that the military departments had not yet developed plans to use the inventory to inform workforce mix, strategic workforce planning, and budget decision-making. We did not make new recommendations in that report.

[23]GAO, *DOD Inventory of Contracted Services: Actions Needed to Help Ensure Data Are Complete and Accurate*, GAO-16-46 (Washington, D.C.: Nov. 18, 2015).

[24]GAO-17-17. 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. FAR § 7.503(d).

DOD Collected Data for the Inventory of Fiscal Year 2016 Contracted Services Using the Same Sources as in Prior Years

To facilitate DOD's submission of an inventory summary to Congress, OSD's inventory guidance required each military department to submit to the offices of the USD(AT&L) and USD(P&R) a list of all services provided under contract consistent with the guidance and within the scope of section 2330a of title 10, U.S. Code, as amended by section 812 of the fiscal year 2017 NDAA. The military departments collected data for the fiscal year 2016 inventory using the same data sources—FPDS-NG and ECMRA—as they had in prior years, though each department used slightly different processes from one another.

OSD's inventory guidance provided for flexibility in how the military departments compiled and submitted data. For example, the guidance required that the inventory submissions include, at a minimum, all purchases of services with a total contract value of $3 million or more and in the following service acquisition portfolio groups: logistics management services; equipment-related services; knowledge-based services; and electronics and communications services.[25] It did not, however, preclude the military departments from submitting additional information beyond the minimum threshold. In addition, under the guidance, military departments were encouraged to augment FPDS-NG data with data from ECMRA, as has been the process in the past. We analyzed the effect of the recent statutory changes, as implemented in OSD's inventory guidance, on fiscal year 2016 contracted services data reported in FPDS-NG and compiled by USD(AT&L). We found that the number of service purchases reported under the inventories across the department would be reduced to about 2 percent of the total service purchases if the components reported only the minimum information required under OSD's guidance. This approach would capture about 30 percent of the total service contract dollars.

Officials responsible for overseeing the data collection effort within each of the three military departments stated that for fiscal year 2016 they

[25]OSD's inventory guidance identified a minimum threshold value of service purchases with a total value of $3 million or more, a slight variation from the fiscal year 2017 NDAA, which specified purchases in excess of $3 million.

collected data captured in FPDS-NG and ECMRA, as they have done for previous inventories. The military departments varied somewhat in how they collected and reported their data, which is permitted under OSD's guidance. The following is a description of the military departments' processes for collecting data and key aspects of their inventories:

- Army officials stated that they extracted their inventory data for fiscal year 2016 primarily from ECMRA and used FPDS-NG data to fill gaps in data not collected in ECMRA, such as data on aspects of contract competition (e.g., number of offers and small business considerations). Army officials estimated that the total invoices in ECMRA represented approximately 80 percent of contracted services obligations for fiscal year 2016.[26] In its inventory, submitted to OSD in January 2018, the Army reported services purchased under contract actions with fiscal year 2016 invoiced amounts both above and below $3 million. The Army reported that its fiscal year 2016 inventory accounts for $31 billion in invoiced amounts and 157,000 contractor FTEs.
- Navy officials stated that they captured nearly all of their inventory data for fiscal year 2016 from FPDS-NG and combined it with ECMRA data. Navy officials estimated that approximately 75 percent of the Navy services contracts that it believed should have been reported in ECMRA were reported during fiscal year 2016. The Navy submitted summary data, including fiscal year 2016 obligations and contractor FTEs by command and in total, to OSD in December 2017. The Navy did not provide a list of its fiscal year 2016 service purchases in time to be included in the inventory summary for Congress, but a USD(AT&L) official said the information provided was sufficient to allow OSD to prepare the summary. The Navy subsequently submitted its full inventory of fiscal year 2016 contracted services to OSD in March 2018 and reported over $6.5 billion in obligations and over 45,000 contractor FTEs.
- Air Force officials stated that they drew approximately 75 percent of the data elements required for the inventory for fiscal year 2016 from FPDS-NG. Air Force officials stated that they also extracted data from the Air Force financial management system, such as total contracted dollar amounts, and manpower data from ECMRA. Air Force officials did not have an estimate of the percentage of service contracts that

[26]OSD guidance for prior inventories directed components to report the percentage of their total contracts reported by contractors in ECMRA, though this was not required in OSD's inventory guidance for the fiscal year 2016 inventory.

were reported in ECMRA in fiscal year 2016. The Air Force submitted its inventory to OSD in December 2017 and included services purchased under contract actions with fiscal year 2016 invoiced amounts or obligations both above and below $3 million. In addition, the Air Force specifically identified purchases within each of the four service acquisition portfolio groups specified in OSD's inventory guidance. The Air Force reported approximately $14.6 billion in obligations with an estimated 73,400 contractor FTEs in its fiscal year 2016 inventory.

A USD(AT&L) official stated that he used the information provided by the military departments and defense components to help create the inventory summary required by section 812 of the fiscal year 2017 NDAA. OSD submitted this inventory summary to Congress in February 2018. This official added that OSD will discuss whether changes in its guidance for the next inventory are needed to clarify what information the military departments and defense components should submit.

Military Departments Have Not Developed Statutorily Required Plans and Continue to Make Limited Use of the Inventory to Inform Management Decisions

The military departments generally have not developed plans to use the inventory to inform management decisions as required by subsection 2330a(e) of title 10 of the U.S. Code and OSD's inventory guidance. Further, manpower and budget officials said they make limited use of the inventory to inform strategic workforce planning, workforce mix, and budget decisions. This situation is similar to what we have found in our past work. Manpower and budget officials we spoke with stated the inventory is often too outdated to inform their decision-making, though the inventory provides a single source of certain types of information that are not readily available elsewhere. This limited use may also reflect, in part, the lack of accountable officials responsible for developing plans and enforcement mechanisms to use the inventory, as we recommended in November 2014.

Military Departments Generally Have Not Developed Plans to Use the Inventory for Decision-Making

Subsection 2330a(e) of title 10 of the U.S. Code, DOD Instruction 5000.74, and OSD's inventory guidance direct the military departments and defense agencies to use the inventory to inform workforce and budget decisions.[27] When we last reported on this issue in October 2016, we identified 12 guidance documents from the military departments related to strategic workforce planning, workforce mix, and budget decisions. Our current work found that 14 documents, some of which are the same as what we reported in October 2016, make up the current set of military departments' guidance in these areas.[28] Further, we found the degree to which these guidance documents require the use of the inventory in these areas is still minimal—3 of the 14 documents include requirements related to the inventory (see table 3).

Table 3: Role of the Inventory of Contracted Services in Current Military Department Guidance for Workforce and Budget Decisions

Military department	Guidance	Issuance or updated date	Type of guidance	Requirements related to inventory
Army	Army Regulation 570-4, "Manpower Management"	February 2006	Workforce mix	None
Army	Memorandum, *Army Policy for Civilian Workforce Management and Service Contracts*	July 2009	Workforce mix	Use inventory for insourcing plans
Army	Memorandum, *Concept Plan Guidance*	March 2010	Workforce mix	Use inventory for insourcing plans
Army	Memorandum, *Guidance for Justifying Transfers of Workload*	November 2014	Workforce mix	None
Army	Memorandum, *Delegation of Insourcing Approval Authority*	September 2016	Workforce mix	None
Army	Memorandum, *Fiscal Year (FY)19 Command Plan Guidance*	February 2017	Budgeting and workforce mix	None
Navy	Department of the Navy Budget Guidance Manual	April 2016	Budgeting	None

[27]DOD Instruction 5000.74, *Defense Acquisition of Services* (Jan. 5, 2016, incorp. change 1, Oct. 5, 2017).

[28]The Navy does not have department-wide guidance for strategic workforce planning or workforce mix, but the Navy and Marine Corps each have their own guidance in these areas, which do not mention the inventory.

Military department	Guidance	Issuance or updated date	Type of guidance	Requirements related to inventory
Navy	Budget Guidance Memorandum BG 18-1, *Guidance for the Preparation and Submission of the FY2020 Program/Budget Estimates for the Department of the Navy Program/ Budget Review*	March 2018	Budgeting	None
Air Force	Air Force Instruction 65-601, Volume 3, "The Air Force Budget Corporate Process"	August 2011	Budgeting	None
Air Force	Air Force Instruction 65-601, Volume 1, "Budget Guidance and Procedures"	August 2012, incorp. ch. 1, July 2015	Budgeting	None
Air Force	Air Force Instruction 38-201, "Management of Manpower Requirements and Authorizations"	January 2014	Workforce mix	Directs manpower division to support review of the inventory
Air Force	Broad framework for long-range planning	July 2014	Strategic workforce planning	None
Air Force	Air Force Instruction 65-601, Volume 2, "Budget Management for Operations"	July 2017	Budgeting	None
Air Force	Air Force Policy Directive 38-2, "Manpower"	August 2017	Workforce mix	None

Source: GAO analysis of military department documents. | GAO-18-330

Two documents, the Army's July 2009 memorandum on civilian workforce management and the Army's March 2010 concept plan guidance, require the use of the inventory for insourcing plans to convert contracted activities to performance by government personnel. Air Force Instruction 38-201 on management of manpower requirements directs the Air Force manpower division to support the review of the inventory, but does not require its use for workforce mix decisions.

As noted previously, in November 2014 we found that no single office or individual at the military departments was responsible for leading or coordinating efforts between the various functional areas to develop a plan to use the inventory to inform management decisions.[29] As a result we recommended that the secretaries of the military departments identify accountable officials to do so. As of January 2018, the Army and Navy still had not named accountable officials responsible for developing plans and enforcement mechanisms to use the inventory for workforce and budget decisions, according to officials at those departments. Navy

[29]GAO-15-88.

officials said they have not reached agreement on the appropriate managerial level of an accountable official. According to an Air Force official, the Air Force has named an official from the Program Executive Office for Combat and Mission Support to serve on an interim basis. We continue to believe this recommendation is valid and should be fully implemented.

Military Departments Make Limited Use of the Inventory for Decision-Making

Army manpower officials we interviewed stated that the inventory provided information that was not readily available elsewhere and the information collected in the inventory process may be useful for making workforce mix decisions. For example, Army manpower officials said the inventory provides a single source for information like the number of contractor FTEs, contractor labor hours and costs, the location of work performance, and the functions performed. Army officials said they can use this information to analyze cost factors and contract expenditures and compare them to in-house costs. In addition, Army officials noted the inventory provides information to address questions from Congress, DOD, and Army leadership about the number and cost of contractors, and that it is the only source of detailed data that supports analysis of the contractor workforce mix that is statutorily required. Comptroller, Navy, and Air Force officials added that they use information from the inventory to estimate the average number of contractor FTEs that are reported in DOD's annual budget request.

However, representatives from the workforce and budgeting offices within the military departments we interviewed also noted that the inventory has limitations that hinder its use. These officials noted that the data reflected in the inventory are often too outdated to help inform strategic decisions that are usually made at the local level—such as a specific military installation—based on real-time data. For example, Air Force officials said that under the program objective memorandum (POM) process, the Air Force identifies future budget requests and workforce needs 2 years before the beginning of a fiscal year, whereas the most recent inventory data available may already be 2 years old when that process starts.[30] To illustrate the issue, the officials noted that they were already planning for the 2020 POM in early fiscal year 2018, although the fiscal year 2016 inventory was not yet available. As a result, if the Air Force were to use inventory data to plan for the 2020 POM, they would have to rely on fiscal year 2015 inventory data.

[30]The program objective memorandum is established by each DOD component for their programs and is a 5-year funding plan for the specific capabilities needed to meet planning guidance objectives.

Air Force officials also said certain types of information that are useful for strategic planning, such as planned contracts for services and the scope and duration of the existing contracts, are not captured in the inventory process. Army officials had a similar perspective and said they do not use the inventory to plan for the POM because collecting data on past contracted services is not as relevant to estimating future requirements and funding needs.

As part of Congress's efforts to inform DOD's management of its acquisition of contracted services, it enacted the inventory legislation. We concluded in January 2011 that the real benefit of the inventory process would ultimately be measured by its ability to inform management's decision-making.[31] As noted above, we have made recommendations to help improve this decision-making, which we continue to believe should be fully implemented. DOD officials have also identified ways in which the inventory can be useful.

Recent legislation and our prior work in other related areas have identified additional means through which DOD can manage its acquisitions of contracted services.

- In December 2017, the National Defense Authorization Act for Fiscal Year 2018 was enacted. Section 851 requires DOD to regularly analyze past spending patterns and anticipated future requirements for its procurement of services and use these analyses to inform decisions on the award of and funding for such service contracts.[32]
- In August 2017, we found DOD had not fully implemented three key leadership positions that were intended to enable DOD to more strategically manage service acquisitions.[33] We recommended the USD(AT&L) reassess the roles, responsibilities, authorities, and organizational placement of key leadership positions to help foster strategic decision-making and improvements in the acquisition of services. DOD concurred with our recommendation. In December

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

[32]Pub. L. No. 115-91.

[33]GAO, *Defense Contracted Services: DOD Needs to Reassess Key Leadership Roles and Clarify Policies for Requirements Review Boards*, GAO-17-482 (Washington, D.C.: Aug. 31, 2017).

2017, the Deputy Secretary of Defense appointed a reform leader for service contracts and category management—an approach intended to manage entire categories of spending across government for commonly purchased goods and services—and established related reform teams to help ensure department-wide efficiency in contract spending.

- In February 2016, we found that DOD's and Congress's insight into future spending on contracted services was limited because DOD did not identify service contract spending needs beyond the current budget year.[34] Although program offices generally kept track of their future service contract needs and estimated costs for 5 years out, they were not required to identify planned service contract spending beyond the budget year. We recommended that the military departments revise their programming guidance to collect information on how contracted services will be used to meet requirements beyond the budget year. DOD partially concurred with our recommendation, but noted that the volatility of requirements and each budget cycle constrain the department's ability to accurately quantify service contract requirements beyond the budget year. We agreed that requirements and budgets change over time, but our work showed that the needed data already exists and is not captured in such a way to inform senior leadership on future service contract spending. We continue to believe that implementing this recommendation will assist the department in gaining better insight into contracted service requirements and enable more strategic decisions about the volume and type of services it plans to acquire.

Agency Comments

We are not making new recommendations in this report. We provided a draft of this report to DOD for comment. In its written comments, which are reprinted in appendix I, DOD stated that it remains committed to improving its processes for collecting, analyzing, and reporting contracted services data. DOD also provided technical comments, which we incorporated as appropriate.

[34]GAO, *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, GAO-16-119 (Washington, D.C.: Feb. 18, 2016).

We are sending copies of this report to the appropriate congressional committees; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Under Secretary of Defense for Personnel and Readiness; the Under Secretary of Defense for Acquisition and Sustainment; and the Under Secretary of Defense (Comptroller). In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

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

Timothy J. DiNapoli
Director, Contracting and National Security Acquisitions

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House of Representatives

The Honorable Kay Granger
Chairwoman
The Honorable Pete Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Comments from the Department of Defense

MANPOWER AND RESERVE AFFAIRS

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

MAR 19 2018

Mr. Timothy 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-18-330, 'DOD Contracted Services: Long-Standing Issues Remain about Using Inventory for Management Decisions,' dated March 1, 2018 (GAO Code 102122). We appreciate the GAO's continued work in this area.

As the Department seeks to maximize the effectiveness of the warfighter; improve and sustain readiness; grow the lethality of the force; and increase capability and capacity, we must improve the overall management and rationalization of our Total Force of active and reserve military, government civilians, and contracted services. Accordingly, the Department remains committed to improving our processes for the collection, analysis, and reporting of contracted services to ensure our Total Force is appropriately, and efficiently, sized and balanced to support our diverse mission set. We consider the inventory, and subsequent reviews, as an effective tool to: (1) ensure that DoD components are not inappropriately leveraging contract support for inherently governmental or critical work; (2) assess the level or reliance on contractor support and capabilities; and (3) facilitate and inform workforce rationalization and mix determinations, force management decisions, risk assessments, mission prioritization, and resource allocation. We also recognize this is just one tool/process that DoD components have at their disposal. The Department is also continuously improving on and executing Service Requirements Review Boards to validate and prioritize contract requirements, as well as ensuring effective and efficient acquisition strategies. Furthermore, as part of continued reform efforts, the Department has established a Services Contract Reform Team to initiate key reforms in how the Department acquires and utilizes service contracts.

Should you have any questions, please contact my primary action officer for this engagement, Mr. Thomas Hessel at 703-697-3402 or thomas.j.hessel.civ@mail.mil.

Sincerely,

Rich Robbins
Director, Total Force Manpower & Resources

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the contact named above, Katherine Trimble (Assistant Director); Brenna Derritt (Analyst-in-Charge); Pete Anderson; Dennis Antonio; Vincent Balloon; Lorraine Ettaro; Gina Flacco; Kristine Hassinger; and Julia Kennon made significant contributions to this review.

Appendix III: Accessible Data

Agency Comment Letter

Accessible Text for Appendix I Comments from the Department of Defense

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Director, Total Force Manpower & Resources

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