



September 2023

# DOD SERVICE CONTRACTS

## Actions Needed to Identify Efficiencies and Forecast Budget Needs

Accessible Version

# GAO Highlights

Highlights of [GAO-23-106123](#), a report to congressional committees

## Why GAO Did This Study

DOD obligates hundreds of billions of dollars each year on service contracts. Despite some progress, DOD has faced challenges with managing service contracts. As such, law required that DOD refine processes to validate service requirements and begin forecasting budget needs across a 5-year period.

A Joint Explanatory statement and House Committee report included provisions for GAO to assess DOD's processes for validating service requirements. This report assesses DOD's (1) trends in service contract obligations for fiscal years 2017–2022, (2) processes for validating service requirements, and (3) progress forecasting budget needs for service contracts over a 5-year period.

GAO reviewed federal procurement data for fiscal years 2017–2022, and selected a major command from each military department based on service contract obligations. GAO reviewed DOD and military department policies and analyzed a nongeneralizable sample of service requirements from each selected major command. GAO also reviewed DOD budget guidance for fiscal years 2023 and 2024, and interviewed DOD officials.

## What GAO Recommends

GAO is making five recommendations, including that: the Air Force and Army update guidance to aggregate and review data on service requirements, and DOD specifies how to forecast budget needs for service contracts. DOD concurred with three recommendations and partially concurred with two based on terminology. GAO believes the recommendations are sound as stated.

View [GAO-23-106123](#). For more information, contact W. William Russell at (202) 512-4841 or [russellw@gao.gov](mailto:russellw@gao.gov).

# DOD SERVICE CONTRACTS

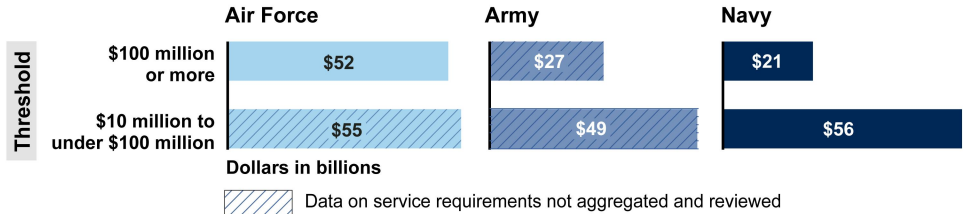
## Actions Needed to Identify Efficiencies and Forecast Budget Needs

### What GAO Found

Services performed by contractors, such as administrative and technical support, account for about half of the Department of Defense's (DOD) contract obligations. Obligations on contracts for services increased from fiscal year 2017 through 2020 before decreasing in fiscal years 2021 and 2022, and ranged from \$184 billion to \$226 billion over the period.

DOD has processes to validate individual service requirements but lacks some data needed to identify broader efficiencies among those requirements. DOD requires the military departments—the Air Force, Army, and Navy—to provide data that can be reviewed to identify efficiencies for service requirements valued at \$10 million or more. GAO found that the Navy aggregates and reviews data on service requirements at that threshold. However, the Army does not aggregate data on service requirements, and the Air Force only does so for service requirements with a value at or above \$100 million. This results in missed opportunities to identify efficiencies and potential cost savings among service requirements on contracts totaling billions of dollars, as shown in the figure.

**Military Departments' Obligations on Contracts for Services by Different Dollar Value Thresholds, Fiscal Years 2017–2022**



Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

**Data for Military Departments' Obligations on Contracts for Services by Different Dollar Value Thresholds, Fiscal Years 2017–2022**

Category	\$10M-\$100M	\$100M or more
Air Force	\$55,194,458,591	\$51,871,940,447
Army	\$48,701,616,765	\$26,724,361,949
Navy	\$56,316,810,046	\$21,382,022,976

Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

DOD made progress forecasting budget needs for service contracts across a 5-year period, as required by law, but communication challenges affected the military departments' ability to provide reliable data. For example, the military departments lacked timely guidance on implementing the forecasting requirement and the methodology and data sources to use. In January 2023, DOD established a working group to develop a path forward for fully implementing the forecasting requirement. But, this working group is in its early stages, having just recently developed a charter. Further, it has not established timeframes for communicating the methodology and data sources that the military departments should use. Without setting timeframes and clarifying how to forecast service contract budget needs, DOD cannot ensure that future budget

submissions—starting with fiscal year 2026—will provide Congress with reliable and useful information for decision-making and oversight.

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### **Abbreviations**

CAPE	Cost Assessment and Program Evaluation
DOD	Department of Defense
FPDS	Federal Procurement Data System
FYDP	Future-Years Defense Program
NDAA	National Defense Authorization Act
USD (A&S)	Under Secretary of Defense for Acquisition and Sustainment
USD (C)	Under Secretary of Defense Comptroller

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September 7, 2023

Congressional Committees

The Department of Defense (DOD) obligates hundreds of billions of dollars each year on service contracts. Service contracts involve paying a contractor to perform tasks like administrative and technical support. DOD has faced long-standing challenges with managing service contracts, some of which have been highlighted on our high-risk list since 2001.<sup>1</sup> For example, our past work has found that DOD’s approach to acquiring services is largely fragmented and uncoordinated with little visibility into service contract spending. To address such challenges, we have made recommendations and law has required DOD to take certain actions. For example, in August 2017 we recommended that DOD refine its processes for validating service requirements—an assessment against various factors to determine if a service is genuinely needed prior to awarding a contract.<sup>2</sup> DOD was also required by law to begin identifying budget needs across the Future-Years Defense Program (FYDP)—the department’s funding plan for the budget year and subsequent four fiscal years—as we recommended in February 2016.<sup>3</sup> Over the last several years, DOD has taken various actions in this regard.

The Joint Explanatory Statement accompanying the National Defense Authorization Act (NDAA) for Fiscal Year 2022, and the House Report 117-397, for the NDAA for Fiscal Year 2023, contained provisions for us to assess DOD’s processes for validating service requirements.<sup>4</sup> The House Report 117-397 for the NDAA for Fiscal Year 2023 also contained a provision for us to assess DOD’s forecasting of associated budget

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<sup>1</sup>GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023).

<sup>2</sup>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).

<sup>3</sup>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). 10 U.S.C. § 4506 (b).

<sup>4</sup>167 Cong. Rec. H7265, H7304 (Dec. 7, 2021) (joint explanatory statement to the National Defense Authorization Act for Fiscal Year 2022); and H.R. Rep. No. 117-397 at 276 (2022).

needs across the FYDP. This report assesses DOD's (1) trends in obligations on contracts for services for fiscal years 2017 through 2022, (2) processes for validating service requirements, and (3) progress forecasting budget needs for service contracts across the FYDP.

To conduct our work, we analyzed the 6 most recent fiscal years of data from the Federal Procurement Data System (FPDS)—fiscal years 2017 through 2022. We assessed the reliability of the FPDS data by reviewing existing information about the FPDS system and the data it collects, performing electronic testing, and reviewing DOD's Data Quality Certification Reports for the relevant fiscal years. We determined the data were sufficiently reliable for the purposes of reporting on trends in DOD's obligations on contracts for services. We selected the three military departments—the Air Force, Army, and Navy—for our review because they had the highest obligations on contracts for services over this period. From each of these military departments, we selected one major command based on fiscal year 2021 obligations on contracts for services: Air Force Materiel Command, Army Materiel Command, and Naval Sea Systems Command.

We reviewed relevant DOD, military department, and major command guidance, policies, and templates for validating service requirements and forecasting budget needs for service contracts across the FYDP. We selected a random, nongeneralizable sample of 15 results from service requirement reviews—five from each major command—and assessed those results against the factors outlined in DOD Instruction 5000.74.<sup>5</sup> We also interviewed DOD, military department, and major command officials involved with validating service requirements and budgeting for service contracts. For more details on the scope and methodology, see appendix I.

We conducted this performance audit from June 2022 to September 2023 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.

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<sup>5</sup>Department of Defense, *Defense Acquisition of Services*, DOD Instruction 5000.74 (Jan. 5, 2016 and Jan. 10, 2020, incorporating change 1, effective June 24, 2021).

## Background

In 2002, as required by law, DOD established an initial management structure for service acquisitions.<sup>6</sup> This structure was subsequently revised. In 2020, the Under Secretary of Defense for Acquisition and Sustainment (USD (A&S)) was designated the responsibility for developing and maintaining policies, procedures, and best practices for service acquisitions. As shown in table 1, officials at various levels within DOD are involved in managing service contracts.

**Table 1: DOD Entities Involved in Managing Service Acquisitions**

DOD entity		Responsibilities
Under Secretary of Defense (USD)	Acquisition and Sustainment (A&S)	<ul style="list-style-type: none"> <li>Responsible for the oversight of service acquisition across DOD.</li> <li>Develops, distributes, and oversees the implementation of policies for the acquisition of services across DOD.</li> <li>Serves as the senior official responsible for the defense agencies' acquisition of services.</li> <li>Annually conducts DOD-wide reviews—Senior Review Panels—of DOD components' policies and processes to identify best practices and efficiencies.<sup>a</sup></li> </ul>
Military departments (Air Force, Army, and Navy)	Senior Services Managers	<ul style="list-style-type: none"> <li>Responsible for the oversight of service acquisition within the military department.</li> <li>Work with stakeholders to develop processes for validating service requirements.</li> <li>Attend reviews to validate service requirements, as applicable.</li> <li>Identify opportunities to reduce duplication and increase efficiencies.</li> <li>Provide data on service acquisitions to USD (A&amp;S) to support assessments, trend analysis, and improvements for the acquisition of services.</li> </ul>
	Major commands	<ul style="list-style-type: none"> <li>Approve the validation of service requirements, as applicable.</li> <li>Track data on service requirements.</li> </ul>
	Requirement owners <sup>b</sup>	<ul style="list-style-type: none"> <li>Identify service requirements.</li> <li>Track data on service requirements.</li> <li>Determine the budget needs and obtain funding for the service requirement.</li> </ul>

Source: GAO analysis of Department of Defense (DOD) and military department policies. | GAO-23-106123

<sup>a</sup>This specific responsibility is not outlined in DOD Instruction 5000.74, but was recently outlined in DOD memorandums issued in November 2022 and February 2023.

<sup>b</sup>The requirement owner is the organization responsible for determining the requirements to meet its mission. The organization can be the military department, major command, unit, center, or installation.

<sup>6</sup>National Defense Authorization Act for Fiscal Year 2001, Pub. L. No. 107-107, § 801, as amended in the National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 812 (codified at 10 U.S.C. § 2330, renumbered § 4501). The management structure for the review and approval of service acquisitions established in 2002 was superseded by DOD Instruction 5000.74 in 2016.

In January 2016, DOD issued an overarching policy for service acquisitions—DOD Instruction 5000.74—that includes responsibilities and processes for the acquisition of services.<sup>7</sup> This instruction outlined that DOD components, such as the military departments, must have a process for analyzing, validating, and prioritizing service requirements, known as service requirements reviews. In January 2020, DOD revised this instruction to adjust the services it governed and encourage the alignment of service requirement reviews and budget processes, among other things.<sup>8</sup> Hereafter, the January 2020 instruction is the version being referenced, unless otherwise specified.

In November 2022, DOD issued a memorandum that delegated USD (A&S) the responsibility for establishing annual DOD-wide reviews of service requirements—known as Senior Review Panels.<sup>9</sup> The intent of these DOD-wide reviews is to have insight into the military departments' and the defense agencies' (e.g., Defense Intelligence Agency, Missile Defense Agency) service requirements and identify opportunities for efficiencies, among other things. USD (A&S) has issued templates to facilitate these DOD-wide reviews.

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## DOD's Service Requirement Reviews

Service requirement reviews are a structured process to validate the need for a service before awarding a contract by assessing various factors. DOD Instruction 5000.74 requires DOD components, like the military departments, to have such a process for service requirements with a

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<sup>7</sup>Department of Defense, *Defense Acquisition of Services*, DOD Instruction 5000.74 (Jan. 5, 2016).

<sup>8</sup>Department of Defense, *Defense Acquisition of Services*, DOD Instruction 5000.74 (Jan. 10, 2020, incorporating change 1 effective Jun. 24, 2021). DOD updated the services governed by this instruction to align with the statutory changes made in January 2021 to the definition of services as outlined in 10 U.S.C. § 4502(d)(2). For details on the services governed by and excluded from this instruction, see appendix I.

<sup>9</sup>Department of Defense, Memorandum for Senior Pentagon Leadership, Commanders of the Combatant Commands, Defense Agency and DOD Field Activity Directors: *Services Requirements Review Boards and Senior Review Panel Roles and Responsibilities* (Nov. 28, 2022). The Chief Management Officer previously had the responsibilities outlined in this memorandum, but this office was dissolved in October 2021.

value of \$10 million or more.<sup>10</sup> Table 2 outlines the factors that should be considered during service requirement reviews, such as how a service helps meet a specific mission, its ranking among other priorities, and the projected cost.

**Table 2: Service Requirement Review Validation Factors**

Factor	Description
Mission need	Explanation of the mission need (or requirement) for the service and the outcomes expected to be achieved.
Strategic alignment	How the service supports the broader organizational mission.
Issues and risks	Both government and contractor issues and risks affecting the successful execution of fulfilling the service requirement.
Workforce analysis	An analysis of the decision to insource or outsource for the service, including any past decisions and why the service cannot be fulfilled with military or civilian personnel.
Relationship to other requirements	How the service affects other requirements (positively or negatively).
Projected cost of requirement	Estimate of the forecasted cost of the service over at least 5 years.
Prioritization	A determination as to whether the service is a lower-priority that can be reduced or eliminated with savings transferred to higher-priorities.
Contract and work function	A review and identification of contract and work functions that may be prohibited or require heightened management attention, such as closely associated with inherently governmental or critical functions. <sup>a</sup>
Metrics	Metrics to measure the contractor's performance should be considered to the maximum extent practicable.

Source: Department of Defense Instruction 5000.74. | GAO-23-106123

<sup>a</sup>Inherently governmental and critical functions are central to an entity's mission or operation. Government personnel—civilian or military—must perform inherently governmental functions and contractors can perform critical functions if there are adequate government personnel to monitor the contractor's performance.

Service requirement reviews inform acquisition and budget processes. Service requirement reviews also provide senior leaders with increased visibility into service requirements to identify opportunities for savings and cost avoidance, not only at the major command level but across the military departments and DOD. However, service requirement reviews must be separate from contract reviews that verify compliance with contracting policies and procedures, laws, and regulations.<sup>11</sup>

<sup>10</sup>Department of Defense, *Acquisition of Services*, DOD Instruction 5000.74 (Jan. 10, 2020, incorporating change 1 effective June 24, 2021). DOD components include the military departments, defense agencies, DOD field activities, and other organizations within the Office of the Secretary of Defense.

<sup>11</sup>10 U.S.C. § 4506(d).

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The military departments have the flexibility to develop their own supplemental guidance and processes to ensure that service requirements are reviewed, validated, and approved. For example, each military department has its own guidance for validating service requirements, some of which include:

- identifying what type of process to use (e.g., in-person meeting, emailed correspondence, documents routed through a database, or any combination thereof);
- delegating responsibilities for validating requirements to the appropriate level, such as to major commands within the military departments; and
- setting more stringent requirements, like dollar value thresholds lower than the \$10 million threshold set forth in DOD Instruction 5000.74.

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## DOD's Budget Process for Service Contracts

Each year DOD uses the planning, programming, budgeting, and execution process (hereafter referred to as the budget process) to determine the funding needed from Congress to fulfill the department's mission. DOD's goal is to prioritize requirements and make department-wide resource allocation decisions for the most effective mix of equipment, manpower, and support attainable within fiscal constraints. During the budget process, DOD presents and justifies its budget to the Congress, which provides a means for decision-making and oversight.

The budget process is governed by DOD Directive 7045.14.<sup>12</sup> This directive designates responsibility for overseeing the budget process to the offices of the Under Secretary of Defense Comptroller (USD (C)) and Cost Assessment and Program Evaluation (CAPE). Each year, USD (C) and CAPE issue guidance for developing the upcoming budget submission. The guidance includes the information requirements, format, and completion deadlines, among other things. The end product is the President's budget request that is generally required to be submitted to Congress by the first Monday of February.

In the past, DOD identified service contract spending for the preceding 2 fiscal years and the budget needs for the current budget year. However,

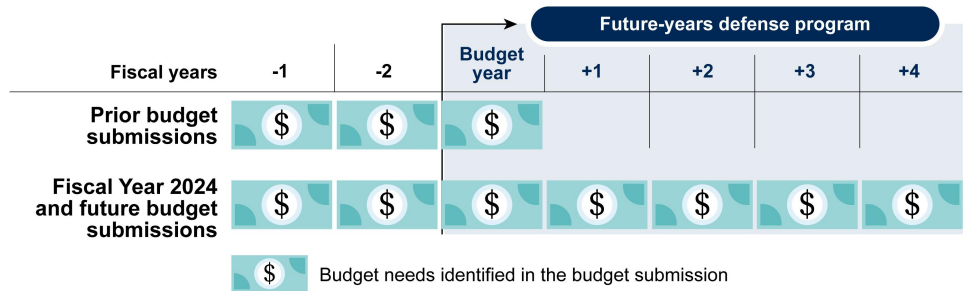
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<sup>12</sup>Department of Defense, *The Planning, Programming, Budgeting, and Execution (PPBE) Process*, DOD Directive 7045.14 (Jan. 25, 2013, incorporating Change 1, Aug. 29, 2017).



in August 2018, a law was enacted that required DOD to begin identifying its budget needs across the FYDP.<sup>13</sup> The law also established an initial implementation deadline of October 1, 2021, that was later amended to February 1, 2023.<sup>14</sup> As such, DOD and Congress are now expected to have insight into the contract spending for the preceding 2 fiscal years and the budget needs for service contracts beyond the current budget year, as shown in figure 1.

**Figure 1: Changes to Department of Defense’s Identification of Budget Needs for Service Contracts, as of February 2023**



Source: GAO analysis of Department of Defense data. | GAO-23-106123

**Data for Figure 1: Changes to Department of Defense’s Identification of Budget Needs for Service Contracts, as of February 2023**

Fiscal years	-1	-2	Budget year	Future-years defense program			
				+1	+2	+3	+4
Prior budget submissions	Budget needs identified in the budget submission	Budget needs identified in the budget submission	Budget needs identified in the budget submission	NA	NA	NA	NA
Fiscal Year 2024 and future budget submissions	Budget needs identified in the budget submission	Budget needs identified in the budget submission	Budget needs identified in the budget submission	Budget needs identified in the budget submission	Budget needs identified in the budget submission	Budget needs identified in the budget submission	Budget needs identified in the budget submission

Source: GAO analysis of Department of Defense data. | GAO-23-106123

In addition to the guidance provided by USD (C) and CAPE, the military departments have budgeting personnel at the headquarters-level that issue supplemental guidance and prepare the budget submissions. Major

<sup>13</sup>John S. McCain National Defense Authorization Act for Fiscal Year 2019, Pub. L. No. 115–232, § 818(a) (2018) required DOD to clearly and separately identify the amounts requested and projected for each category of services to be procured by each defense agency, DOD field activity, command, or military installation over the future-years defense program in the annual budget submission.

<sup>14</sup>10 U.S.C. § 4506 (b).

commands and program offices within each of the military departments provide inputs on their funding needs and day-to-day spending. Each military department has its own approach and database for developing its budget request.

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## Services Continue to Account for About Half of DOD's Contract Obligations

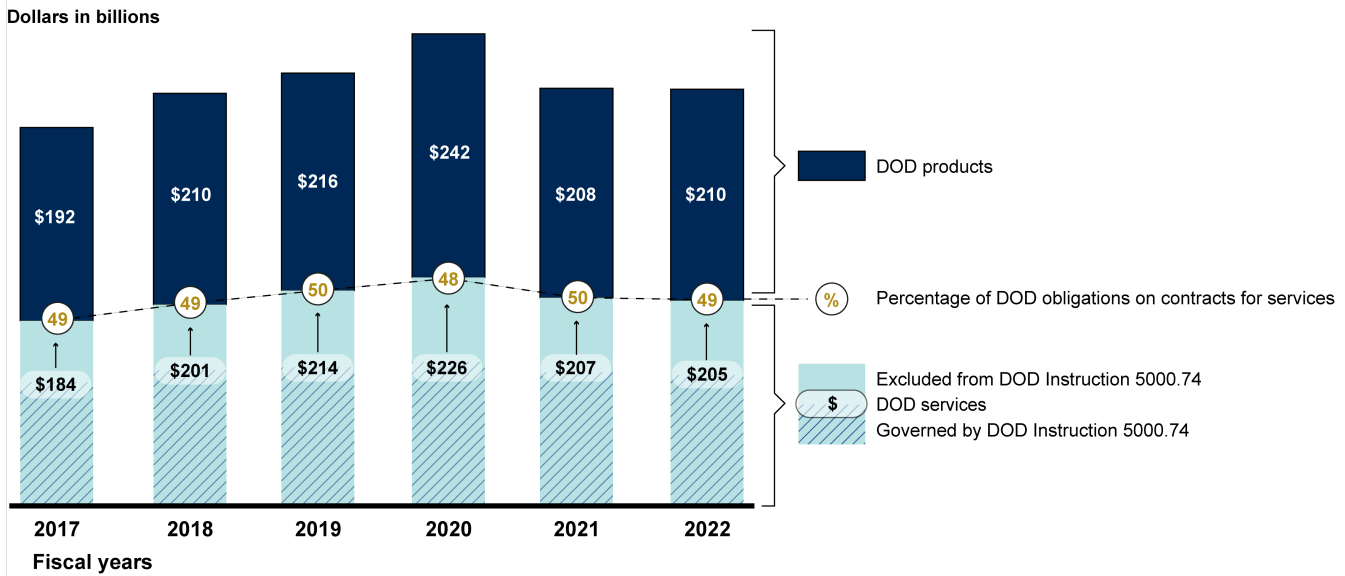
From fiscal years 2017 to 2022, acquisition of services accounted for about half of DOD's contract obligations each fiscal year, a trend that we have previously reported.<sup>15</sup> Not all of these services, however, are subject to the review processes established in DOD Instruction 5000.74. For example, in January 2020, DOD excluded some additional services, such as construction and research and development.<sup>16</sup> With the exclusion of these services, up to 59 percent of DOD's obligations on contracts for services from fiscal years 2017 to 2022 were governed by DOD Instruction 5000.74. As shown in figure 2, DOD's obligations on contracts for services peaked in fiscal year 2020, and ranged from \$184 billion to \$226 billion.

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<sup>15</sup>GAO, *Service Acquisitions: DOD's Report to Congress Identifies Steps Taken to Improve Management, But Does Not Address Some Key Planning Issues*, [GAO-21-267R](#) (Washington, D.C.: Feb. 22, 2021); [GAO-17-482](#); and [GAO-16-119](#).

<sup>16</sup>To ensure the consistency and comparability of data in our analysis, we applied the exclusions to all fiscal years irrespective of when the exclusion occurred in DOD Instruction 5000.74. See appendix I for additional details on which services are governed by and excluded from DOD Instruction 5000.74.

**Figure 2: Department of Defense’s (DOD) Obligations on Contracts for Services and Products, Fiscal Years 2017–2022**



Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

**Data for Figure 2: Department of Defense’s (DOD) Obligations on Contracts for Services and Products, Fiscal Years 2017–2022**

Acquisition Type/FY	2017	2018	2019	2020	2021	2022
Services Governed by DOD Instruction	\$113	\$124	\$128	\$131	\$122	\$116
	30%	30%	30%	28%	29%	28%
Services Not Governed by DOD Instruction	\$71	\$76	\$86	\$95	\$85	\$88
	19	19	20	20	20	21
DOD Products	\$192	\$210	\$216	\$242	\$208	\$210
	51	51	50	52	50	51
Service totals	\$184	\$201	\$214	\$226	\$207	\$205
	49	49	50	48	50	49

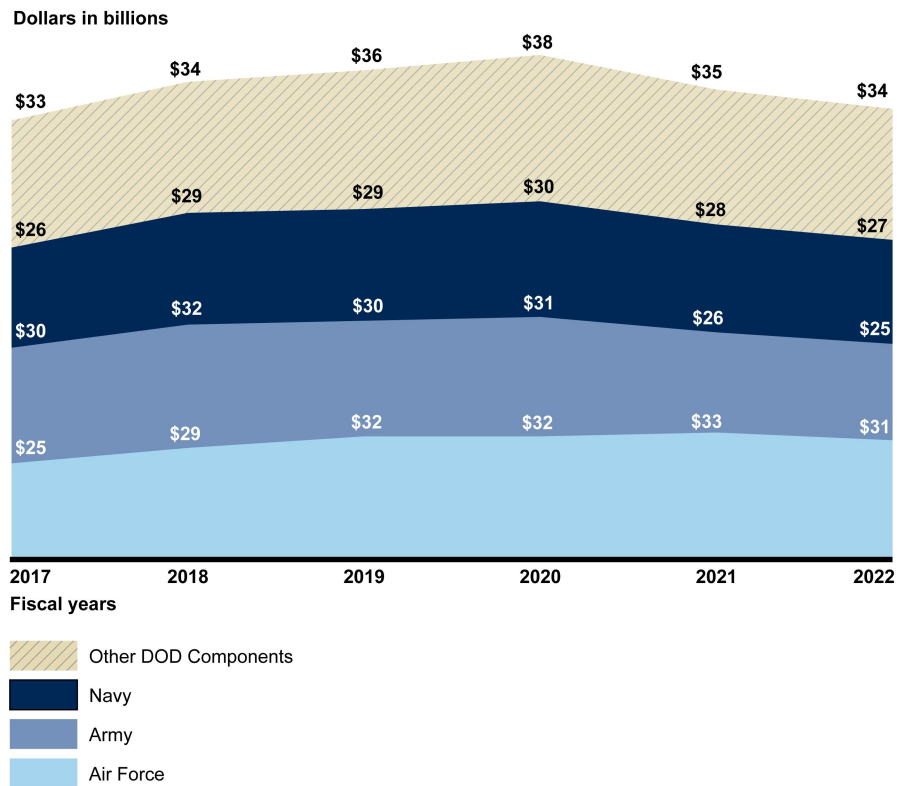
Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

Note: Contract obligations are rounded to the nearest billion and are in fiscal year 2022 dollars. Some services, like information technology support and medical services, are governed by DOD Instruction 5000.74, whereas others, like construction and research and development, have been excluded as of January 2020. For consistency and comparability, GAO applied these exclusions to all fiscal years in the analysis.

The military departments—the Air Force, Army, and Navy—accounted for about 71 percent of DOD’s obligations on contracts for services that were governed by DOD Instruction 5000.74 between fiscal years 2017 and

2022.<sup>17</sup> As shown in figure 3, the Air Force and Navy’s obligations on contracts for services increased overall from fiscal years 2017 through 2022, whereas the Army’s fluctuated but ultimately decreased by \$5 billion—or 17 percent.

**Figure 3: Military Departments’ Obligations on Contracts for Services Governed by Department of Defense (DOD) Instruction 5000.74, Fiscal Years 2017–2022**



Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

**Data for Figure 3: Military Departments’ Obligations on Contracts for Services Governed by Department of Defense (DOD) Instruction 5000.74, Fiscal Years 2017–2022**

Acquisition Type/FY	2017	2018	2019	2020	2021	2022
Air Force	\$25	\$29	\$32	\$32	\$33	\$31
Army	\$30	\$32	\$30	\$31	\$26	\$25

<sup>17</sup>Given the scope of this review, from this point forward, our analysis is limited to only those service contract obligations that are governed by DOD Instruction 5000.74. See appendix I for additional details.

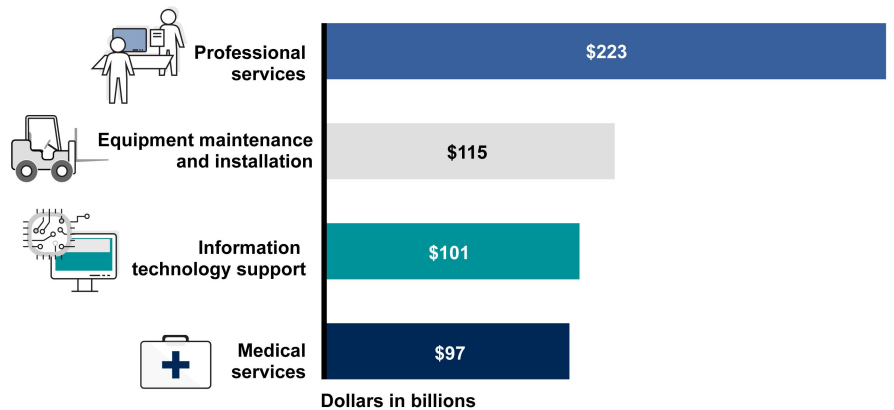
Acquisition Type/FY	2017	2018	2019	2020	2021	2022
Navy	\$26	\$29	\$29	\$30	\$28	\$27
Other DOD Components	\$33	\$34	\$36	\$38	\$35	\$34

Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

Note: Contract obligations are rounded to the nearest billion and are in fiscal year 2022 dollars. Some services, such as construction and research and development, have been excluded from DOD Instruction 5000.74 as of January 2020. For consistency and comparability, GAO applied these exclusions to all fiscal years in the analysis.

Most of DOD’s obligations on contracts for services governed by DOD Instruction 5000.74 from fiscal years 2017 to 2022 were in four categories: (1) professional services, (2) equipment maintenance and installation, (3) information technology support, and (4) medical.<sup>18</sup> Professional services—which include tasks like engineering and technical support and advisory and administrative services—was the top category for DOD and accounted for a third of its obligations on contracts for services each fiscal year. As shown in figure 4, contract obligations for professional services totaled \$223 billion from fiscal years 2017 to 2022. Professional services was also the top category for the Air Force, Army, and Navy over this period, accounting for about 43 percent, 35 percent, and 30 percent of their contract obligations, respectively.

**Figure 4: Department of Defense’s (DOD) Top Service Categories Governed by DOD Instruction 5000.74, Fiscal Years 2017–2022**



Source: GAO analysis of Federal Procurement Data System data; GAO (icons). | GAO-23-106123

<sup>18</sup>For a list of the categories and the types of services included in them, see appendix II.

**Data for Figure 4: Department of Defense’s (DOD) Top Service Categories Governed by DOD Instruction 5000.74, Fiscal Years 2017–2022**

Service category	Dollars in billions
Professional services	223
Equipment maintenance and installation	115
Information technology support	101
Medical services	97

Source: GAO analysis of Federal Procurement Data System data; GAO (icons). | GAO-23-106123

Note: Contract obligations are rounded to the nearest billion and are in fiscal year 2022 dollars. Some services, such as construction and research and development, are excluded from DOD Instruction 5000.74 as of January 2020. For consistency and comparability, GAO applied these exclusions to all fiscal years in the analysis.

When contracting for services, DOD must determine the type of contract vehicle, contract pricing type, and whether or not competition and small businesses will be used. Between fiscal years 2017 and 2022, of those services governed by DOD Instruction 5000.74:

- About 54 percent of DOD’s obligations on contracts for services were on indefinite delivery contracts.<sup>19</sup> Indefinite delivery contracts are used to acquire services from a contractor when the government does not know the exact timeframes and number of personnel needed at the time of the contract award, which allows orders to be placed when these are known.<sup>20</sup>
- Approximately 58 percent of DOD’s obligations on contracts for services were fixed-price. Our prior work has shown that fixed-priced contracts are beneficial because the government generally pays a set price and the contractor generally assumes the risk and responsibility for any cost overruns.<sup>21</sup>

<sup>19</sup>There are three types of indefinite-delivery contracts: definite-quantity contracts, requirements contracts, and indefinite-quantity contracts. The appropriate type of indefinite-delivery contract may be used to acquire supplies and/or services when the exact times and/or exact quantities of future deliveries are not known at the time of contract award. FAR 16.501-2.

<sup>20</sup>GAO, *Defense Contracting: Use by the Department of Defense of Indefinite-Delivery Contracts from Fiscal Years 2015 through 2017*, [GAO-18-412R](#) (Washington, D.C.: May 10, 2018).

<sup>21</sup>Fixed-price types of contracts provide for a firm price or, in appropriate cases, an adjustable price. Federal Acquisition Regulation 16.202-1. GAO, *Contracting Data Analysis: Assessment of Government-wide Trends*, [GAO-17-244SP](#) (Washington, D.C.: Mar. 9, 2017).

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- Nearly 70 percent of DOD’s obligations on contracts for services were competed contracts. The Office of Federal Procurement Policy—the entity that provides government-wide policies and procedures for acquisitions—has emphasized that competition presents the opportunity for significant cost savings and improves contractor performance, among other benefits.<sup>22</sup>
  - About 27 percent of DOD’s obligations on contracts for services were awarded to small businesses.

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## DOD Validates Individual Service Requirements but Lacks Data Needed to Collectively Prioritize and Identify Efficiencies

The military departments have processes to validate individual service requirements as required by DOD Instruction 5000.74. The Air Force’s process, however, does not consistently include comprehensive reviews to collectively prioritize service requirements across each major command. Further, we found that two of the three military departments do not aggregate and review data on service requirements needed to facilitate the recently reinstated DOD-wide reviews intended to identify broader efficiencies.

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## Military Departments Have Processes to Validate Service Requirements, but the Air Force Does Not Consistently Prioritize Across Major Commands

The military departments have processes to review, prioritize, and validate individual service requirements. We found, however, that the Air Force does not consistently conduct comprehensive reviews to collectively prioritize service requirements at its major commands. DOD Instruction 5000.74 mandates that service requirements valued at or above \$10 million be reviewed, prioritized, and validated and outlines nine

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<sup>22</sup>The Office of Management and Budget’s Office of Federal Procurement Policy has issued various memorandums on increasing competition in government contracting. See appendix I for details on how we defined competitive contracts for our analysis.

factors that should be considered.<sup>23</sup> One of the factors is prioritization—a determination as to whether a service requirement is lower-priority and can be reduced or eliminated with savings transferred to higher-priorities. According to the instruction, comprehensive reviews tiered at different levels within a military department, such as the major commands, enhance the quality of requirements prioritization. In August 2017, we reported that collectively prioritizing service requirements can provide opportunities to reduce duplicative requirements and identify cost savings and efficiencies.<sup>24</sup>

Based on our review of policies and validated service requirements, we found that the Army and Navy major commands we assessed conduct comprehensive reviews to collectively prioritize service requirements. The Army Materiel Command conducts quarterly reviews of service requirements. Army Materiel Command officials told us that these reviews are for service requirements with a value at or above \$10 million. The Naval Sea Systems Command holds annual reviews for service requirements at or above \$1 million. Officials from both major commands told us that they have been able to identify efficiencies through such reviews. For example, Army Materiel Command officials told us that they were able to consolidate multiple service requirements for training under a single contract as part of their quarterly reviews.

The Air Force Materiel Command also has reviews that involve a comprehensive look at service requirements, but these are only mandated for service requirements valued at \$100 million or more and are not held on a recurring basis. Air Force policy assigns major commands the responsibility for reviewing service requirements with a value under \$100 million.<sup>25</sup> Air Force Materiel Command officials told us that they, in turn, assigned the responsibility to their six centers.<sup>26</sup> Five of the six centers have a senior official who can review service requirements under \$100 million to identify enterprise-wide solutions and other

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<sup>23</sup>DOD Instruction 5000.74.

<sup>24</sup>[GAO-17-482](#).

<sup>25</sup>Department of the Air Force, *Acquisition of Services*, Air Force Instruction 63-138 (Sept. 30, 2019).

<sup>26</sup>The Air Force Materiel Command's six centers include: (1) Air Force Installation and Mission Support Center, (2) Air Force Life Cycle Management Center, (3) Air Force Nuclear Weapons Center, (4) Air Force Research Laboratory, (5) Air Force Sustainment Center, and (6) Air Force Test Center.



efficiencies that could result in cost savings.<sup>27</sup> For example, the Air Force Life Cycle Management Center senior official cited an example of consolidating 26 separate task orders for advisory services into a single contract.

Nonetheless, we found that collective prioritization of service requirements under \$100 million occurs on an informal and ad hoc basis. Specifically, two of the four service requirements we assessed with a value between \$10 million and under \$100 million were not comprehensively reviewed and collectively prioritized within the center or major command. Air Force Materiel Command officials said that this is because recurring comprehensive reviews of service requirements with a value between \$10 million and under \$100 million are not required by Air Force policy. Air Force officials told us that reviewing and prioritizing service requirements under \$100 million is a best practice, but there is no requirement to do so within the Air Force Materiel Command's centers which could then inform comprehensive reviews at the major command level.

Air Force Materiel Command officials told us that they are in the process of revising the responsibilities for the senior officials over the centers, but the revisions do not include recurring comprehensive reviews to collectively prioritize service requirements. Conducting recurring comprehensive reviews of service requirements valued between \$10 million and under \$100 million, would ensure all service requirements that must be reviewed, prioritized, and validated are captured. Thus, until the Air Force clarifies its policy to ensure service requirements with a value between \$10 million and under \$100 million are comprehensively reviewed and prioritized on a recurring basis, the Air Force may be missing opportunities to reduce duplication and achieve cost savings and efficiencies.

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## DOD-Wide Reviews of Service Requirements Reinstated to Identify Broader Efficiencies, but Some Military Departments Are Not Aggregating Data

USD (A&S) recently reinstated DOD-wide reviews of service requirements with a value of \$10 million or more to identify efficiencies

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<sup>27</sup>Department of the Air Force, *Air Force Materiel Command Strategic Services Program Manager's (SSPM) Roles and Responsibilities* [memorandum] (Apr. 7, 2020).

across the department and best practices, among other things.<sup>28</sup> But, these reviews may be limited due to inconsistencies in the military departments' aggregation and review of data on service requirements. USD (A&S) is the lead for these DOD-wide reviews, which are attended by the military departments' Senior Services Managers. To accomplish these reviews, USD (A&S) issued a template to aggregate data for all service requirements valued at or above \$10 million, identify possible efficiencies, and discuss any barriers to achieving them. DOD Instruction 5000.74 requires the military departments to provide USD (A&S) with data on the acquisition of services and the Senior Services Managers are responsible for identifying efficiencies. In order to do so, however, the necessary data must be aggregated and reviewed.

We found, however, that only one of the three military departments requires a senior official, such as the Senior Services Manager, to aggregate and review data on service requirements with a value of at least \$10 million to facilitate more comprehensive reviews across a military department or DOD-wide. Specifically, the Navy Senior Services Manager aggregates and reviews such data. The Navy Senior Services Manager provided an example where this review enabled the Navy to consolidate multiple requirements for professional services under one enterprise-wide contract, thereby saving resources by not having multiple major commands taking the time to award contracts for the same services. Navy officials said that identifying these types of efficiencies can free up funding to spend on higher priorities, such as acquiring ships and aircraft.

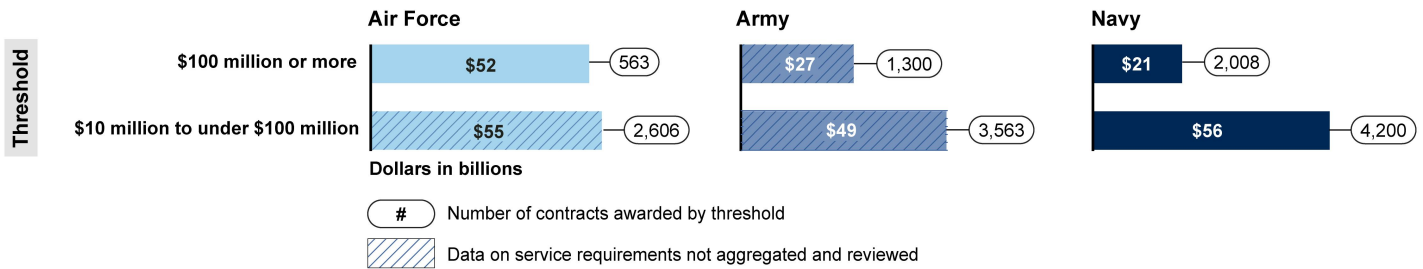
In contrast, however, the Air Force and Army do not consistently aggregate and review data on service requirements valued at or above \$10 million. The Air Force does not currently aggregate and review data for service requirements with a value between \$10 million and under \$100 million. The Army does not currently aggregate and review data on any service requirements. Air Force and Army officials told us that their Senior Services Managers, for example, are not aggregating and reviewing this

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<sup>28</sup>These department-wide reviews are known as Senior Review Panels. See the Department of Defense, Memorandum for Senior Pentagon Leadership, Secretaries of the Military Departments, Defense Agency and DOD Field Activity Directors: *Service Requirements Review Boards and Senior Review Panel Implementation for Fiscal Year 2023* (Feb. 13, 2023).

data because such responsibilities are not outlined in their policies.<sup>29</sup> Army officials said that they are updating their policy to aggregate and review data on service requirements but have not yet determined how to use this data to identify Army-wide efficiencies or facilitate DOD-wide reviews. As a result, data on service requirements totaling billions of dollars are not being reviewed by the Air Force and Army to identify potential cost savings and other benefits (see fig. 5).

**Figure 5: Military Departments’ Obligations on Contracts for Services by Different Dollar Value Thresholds, Fiscal Years 2017–2022**



Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

**Data for Figure 5: Military Departments’ Obligations on Contracts for Services by Different Dollar Value Thresholds, Fiscal Years 2017–2022**

Category	\$10M-\$100M	\$100M or more
Air Force	\$55,194,458,591	\$51,871,940,447
Army	\$48,701,616,765	\$26,724,361,949
Navy	\$56,316,810,046	\$21,382,022,976

Category	\$10M-\$100M	\$100M or more
Air Force	2,606	563
Army	3,563	1,300
Navy	4,200	2,008

Source: GAO analysis of Federal Procurement Data System data. | GAO-23-106123

<sup>29</sup>Air Force Instruction 63-138 and Army Directive 2017-15, *Managing and Overseeing the Acquisition of Services*, (Apr. 25, 2017), which is the interim policy for the planning, approval, and execution of service contracts until the Office of the Assistant Secretary of the Army (Acquisition, Logistics and Technology) updates Army Regulation 70-13, *Management and Oversight of Services Acquisitions*, to incorporate recent DOD and Army best practices for acquiring services. An official from the Office of the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) told us that the updated Army Regulation 70-13 will be published in fiscal year 2024.

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Note: Contract obligations are rounded to the nearest billion and are in fiscal year 2022 dollars. Some services, such as construction and research and development, were excluded from DOD Instruction 5000.74 as of January 2020. For consistency and comparability, GAO applied these exclusions to all fiscal years in the analysis.

Our prior work has noted benefits that can occur by aggregating and reviewing data on service requirements. For example, in July 2017, we reported that the defense agencies were able to identify hundreds of millions of dollars in cost savings by aggregating and reviewing data on service requirements.<sup>30</sup> While we found that the Navy Senior Services Manager is aggregating data to facilitate more comprehensive reviews of service requirements, this approach is not being leveraged by the Air Force and Army. Without aggregating and reviewing data on service requirements at the military department level, the Air Force and Army may face challenges identifying broader cost savings and efficiencies, and limit what can be achieved during DOD-wide reviews.

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## DOD Began Forecasting Budget Needs for Service Contracts, but Communication Challenges Have Hindered Efforts

DOD has actions underway to forecast budget needs for service contracts, as required by law, but communication challenges affected the military departments' ability to provide reliable data by the February 1, 2023 implementation deadline.<sup>31</sup> In past budget submissions, DOD was only required to identify its service contract budget needs for the upcoming budget year. But, in line with our 2016 recommendation, DOD is now required to identify its budget needs for services contracts over the FYDP—the current budget year and subsequent 4 fiscal years.<sup>32</sup> USD (C) and CAPE—the offices responsible for overseeing the budget process—said this is a new and considerable change that will take time to fully implement. The military departments faced challenges providing their first forecast of budget needs over the FYDP, in part, because of USD (C)'s and CAPE's lack of timely communication and guidance on the methodology and data sources to use.

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<sup>30</sup>GAO, *Defense Efficiency Initiatives: DOD Needs to Improve the Reliability of Cost Savings Estimates*, [GAO-17-724](#) (Washington, D.C.: July 24, 2017).

<sup>31</sup>10 U.S.C. § 4506 (b).

<sup>32</sup>10 U.S.C. § 4506 (b). [GAO-16-119](#).

**Timing of communication.** We found that USD (C) and CAPE did not communicate with the military departments about the forecasting requirement until just shortly before the implementation deadline.<sup>33</sup> USD (C) and CAPE told us that they notified the military departments about the forecasting requirement by including it in the budget guidance for fiscal year 2024 issued in June 2022.<sup>34</sup> However, military department officials we spoke with said they were not initially aware of the forecasting requirement being added to the budget guidance because it was not called out or highlighted in the budget guidance, which is typically lengthy and the same from year-to-year. These military department officials also said that the forecasting requirement was not discussed during recurring meetings with USD (C) and CAPE before or after the budget guidance was issued. Consequently, the military departments had about 2 months to submit their first budget forecasts for service contracts to meet DOD’s internal deadline of August 2022, although the consensus among officials was that more lead-time was needed.<sup>35</sup>

**Methodologies and data sources.** We found that USD (C) and CAPE also did not specify the methodology or data sources that the military departments should use to forecast their budget needs for service contracts across the FYDP in the fiscal year 2024 budget guidance. USD (C) and CAPE deferred the decision on what methodology and data sources to use to the military departments. Without specific guidance, the military departments completed their first forecast of budget needs for service contracts by adjusting their fiscal year 2024 budget data for inflation rather than other methods. For example, GAO’s Cost Estimating and Assessment Guide outlines methods such as building a bottoms-up estimate or using the average of data from multiple fiscal years to better

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<sup>33</sup>The forecasting requirement was in a law enacted in August 2018—John. S. McCain National Defense Authorization Act for Fiscal Year 2019, Pub. L. No. 115-232, § 818(a) (2018)—and had an initial deadline of October 1, 2021, thereby providing DOD over 3-years lead-time. A subsequent law amended the deadline to February 1, 2023, which added over a year to DOD’s lead-time. National Defense Authorization Act for Fiscal Year 2022, Pub. L. No. 117-81, § 815(a) (2021) (codified at 10 U.S.C. § 4506(b)).

<sup>34</sup>USD (C) and CAPE included the requirement to forecast budget needs for service contracts in their fiscal year 2023 budget guidance. However, DOD officials told us they did not implement it for the fiscal year 2023 budget submission because law amended the implementation deadline from October 1, 2021, to February 1, 2023. National Defense Authorization Act for Fiscal Year 2022, Pub. L. No. 117-81, § 815 (a) (2021) (codified at 10 U.S.C. § 4506 (b)).

<sup>35</sup>The DOD internal deadline is the date the budget estimate submission is due to USD (C).

account for any highs or lows.<sup>36</sup> Some military department officials we spoke with said that the forecasted amounts may not be accurate and may be under- or over-stated because changes to budget needs from new or ending service contracts are not reflected.

DOD officials told us that data was the other challenge to forecasting budget needs for service contracts across the FYDP in the fiscal year 2024 budget submission. Specifically, the military departments' budgeting databases at the headquarters level—where the budget submission is compiled—do not currently capture the out-years of the FYDP. Military department officials said they are inquiring about modifications to their budgeting databases. But, military department officials explained that such modifications will take time to complete.

Although the military departments' databases at the headquarters level do not currently capture the out-years of the FYDP, the data on budget needs over that timeframe is available. For example, consistent with what we reported in February 2016, this data continues to be maintained by program offices and requirement owners within each of the military departments.<sup>37</sup> However, military department officials at the headquarters level who compile the budget submission told us that they did not have sufficient lead-time to request it from the program offices and requirements owners. Military department officials cited similar accessibility limitations with data on the projected costs across the FYDP identified when validating a service requirement—another potential data source—because this data is also maintained by program offices and requirement owners.<sup>38</sup> USD (C) and USD (A&S) officials also noted their limited accessibility to this potential data source, but agreed that such data could be used to meet the budget forecasting requirement.

Federal internal control standards state that an entity should have a means to communicate information requirements in a timely manner to ensure objectives are achieved.<sup>39</sup> USD (C) and CAPE, per DOD policy,

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<sup>36</sup>GAO, *Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Program Costs*, [GAO-20-195G](#) (Washington, D.C.: Mar. 12, 2020).

<sup>37</sup>[GAO-16-119](#).

<sup>38</sup>Department of Defense, *Defense Acquisition of Services*, DOD Instruction 5000.74 (Jan. 10, 2020, incorporating change 1 effective June 24, 2021).

<sup>39</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

are responsible for communicating the information requirements for the annual budget submission.<sup>40</sup> USD (C) and CAPE officials told us that the February 1, 2023, statutory deadline informed the timing of their communication for the forecasting requirement. Further, these officials said that they were able to see the possible alternatives for calculating the out-years of the FYDP by not being overly prescriptive in the budget guidance for the first forecast.

USD (C) and CAPE said they are taking steps to better communicate about the forecasting requirement for future budget submissions. For example, USD (C) and CAPE, in coordination with others, have finalized an implementation plan, as directed by Congress.<sup>41</sup> However, we reviewed this plan and found that it does not include specifics on how to forecast budget needs for service contracts. Also, in January 2023 DOD established a working group to discuss various aspects of service acquisitions, which will include USD (C), CAPE, and USD (A&S), among others. USD (C) and CAPE officials told us in April 2023 that the working group could serve as a means for communicating the information requirements for forecasting budget needs, but the working group is still in its early stages and has not yet discussed the forecasting requirement. DOD completed a charter for the working group—a best practice highlighted in our prior work—in June 2023 after receiving a copy of our draft report, but officials did not establish timeframes for identifying the methodology and data sources to use for the forecasting requirement.<sup>42</sup> USD (C) and CAPE typically issue budget guidance between June and August each year, so the working group is unlikely to provide the needed information for the fiscal year 2025 budget submission. However, the working group could provide the needed information for the fiscal year 2026 budget submission to ensure the military departments are positioned to more reliably forecast budget needs for service contracts.

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<sup>40</sup>DOD Directive 7045.14.

<sup>41</sup>167 Cong. Rec. H7265, H7304 (Dec. 7, 2021) (joint explanatory statement to the National Defense Authorization Act for Fiscal Year 2022). The deadline for DOD to deliver the implementation plan to Congress was June 1, 2022, but DOD finalized and delivered the implementation plan to Congress on May 9, 2023. Officials from USD (A&S) and USD for Personnel and Readiness are involved in the implementation plan and working group.

<sup>42</sup>GAO, *IT Workforce: Key Practices Help Ensure Strong Integrated Program Teams; Selected Departments Need to Assess Skill Gaps*, [GAO-17-8](#) (Washington, D.C.: Nov. 30, 2016).

Finalizing an implementation plan and establishing a working group are positive steps, and the latter could address our February 2016 recommendation to the Secretary of Defense to establish a mechanism for requirements, budgeting, and other stakeholders to coordinate on service acquisitions.<sup>43</sup> We subsequently designated this as a priority recommendation for DOD to address.<sup>44</sup> In addition, clarifying how the working group will enable more timely communication of information requirements for forecasting budget needs, including the methodology and data sources to use, could better position DOD to ensure that the data provided to Congress is reliable and useful for decision-making and oversight.

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## Conclusions

Given the magnitude of DOD's spending on services and a finite budget, it is imperative that DOD identify efficiencies where possible. To do this, DOD must ensure that the military departments are conducting more comprehensive reviews of service requirements, as advised by DOD Instruction 5000.74. For instance, addressing gaps in the Air Force's process can ensure service requirements are collectively prioritized within major commands to identify those that may be duplicative or unnecessary. Further, aggregating and reviewing data within the Air Force and Army on service requirements valued at \$10 million or more—given the billions of dollars spent at this threshold—can provide insight into the totality of services and be explored for broader cost savings and efficiencies.

Moreover, continued emphasis and communication on forecasting budget needs for service contracts will help both DOD and Congress better understand and more efficiently manage current and future spending on services. DOD's efforts to forecast budget needs for service contracts is evolving and will take time to fully implement. In this regard, DOD plans to use the broad framework of its recently finalized implementation plan and newly established working group. Nonetheless, DOD has an opportunity

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<sup>43</sup>[GAO-16-119](#).

<sup>44</sup>GAO identifies recommendations as priority because they are important to helping save the federal government money, aiding in congressional decision-making, and improving government programs, among other things. The Comptroller General of the United States provides an annual report on priority recommendations to encourage action. See GAO, *Priority Open Recommendations: Department of Defense*, [GAO-23-106305](#) (Washington, D.C.: May 16, 2023).



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to ensure more timely communication of the information requirements for the budget submission, to include the methodology and data sources to use when forecasting budget needs for service contracts across the FYDP. Otherwise, DOD will not be well-positioned to provide Congress more reliable budget forecasts in the future to support decision-making and oversight.

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## Recommendations

We are making a total of five recommendations, including two to the Secretary of the Air Force, one to the Secretary of the Army, and two to the Secretary of Defense.

The Secretary of the Air Force should revise its service acquisition policy to ensure major commands collectively prioritize service requirements valued between \$10 million and under \$100 million. (Recommendation 1)

The Secretary of the Air Force should revise its service acquisition policy to require an official who is responsible for the oversight of services, such as the Air Force's Senior Services Manager, to aggregate and review data on service requirements valued between \$10 million and under \$100 million to identify efficiencies. (Recommendation 2)

The Secretary of the Army should revise its service acquisition policy to require an official who is responsible for the oversight of services, such as the Army's Senior Services Manager, to aggregate and review data on service requirements valued at \$10 million or more to identify efficiencies. (Recommendation 3)

The Secretary of Defense should require that the Under Secretary of Defense, Comptroller, in coordination with other relevant offices involved in the recently established services working group, to develop a charter that includes steps that ensure information requirements for the fiscal year 2026 and future budget submissions are communicated to the military departments in a timely manner. (Recommendation 4)

The Secretary of Defense should ensure that the Under Secretary of Defense, Comptroller, in coordination with other relevant offices involved in the recently established services working group, specifies the data sources and methodology for forecasting budget needs for service contracts across the Future-Years Defense Program to inform its fiscal year 2026 and future budget submission. (Recommendation 5)

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## Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In its comments, which are reprinted in appendix III and summarized below, DOD concurred with the first, second, and fourth recommendations and identified steps it has or plans to take to address them. DOD partially concurred with the third and fifth recommendations, as discussed below. DOD had no technical comments on the draft report.

DOD concurred with our first two recommendations for the Air Force to prioritize, aggregate, and review data on service requirements valued between \$10 million and under \$100 million to identify efficiencies. The Air Force plans to update pertinent agreements with each major command and other organizations to ensure (1) service requirements between those thresholds are prioritized, and (2) data on service requirements are reviewed annually by the Senior Services Manager to identify Air Force-wide efficiencies. We will monitor the Air Force's actions to determine if they meet the intent of our recommendations.

DOD partially concurred with our third recommendation for the Army to revise its service acquisition policy to require an official, such as the Senior Services Manager, to aggregate and review data on service requirements valued at \$10 million or more to identify efficiencies. The Army did not identify any issues with revising its policy or aggregating and reviewing service requirements, but noted its authority to determine which official to charge with this responsibility. We agree that it is up to the Army to determine the official to charge with this responsibility and do not believe the wording of our recommendation equates to assigning responsibility to a certain official.

DOD concurred with our fourth recommendation on establishing a charter for the Services Acquisition Working Group to ensure information requirements for the budget submission are communicated in a timely matter. However, DOD requested that we remove this recommendation because it issued a charter in June 2023 that created the Service Acquisition Executive Steering Committee as the forum to address cross-functional issues for service acquisitions. DOD stated that this charter also identifies the responsibilities of the Services Acquisition Working Group, which include sharing information and lessons learned and improving the oversight, management, and execution of service contracts. DOD provided the charter along with its response to our

recommendations. We will review the charter to determine whether it addresses our recommendation.

DOD partially concurred with our fifth recommendation on specifying the methodology and data for forecasting budget needs for service contracts across the future-years defense program. DOD requested that we revise the recommendation to use the term “identify” versus “specify.” However, as noted in our findings, the military departments lacked specific guidance on how to forecast for the fiscal year 2024 budget submission, which led to the use of projections that could under- or over-state budget needs. Thus, we continue to believe that specifying the methodology and data sources for forecasting is necessary to provide Congress with reliable data for decision-making and oversight.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense, the offices of the Under Secretary of Defense, Comptroller, and Cost Assessment and Program Evaluation, the Secretaries of the Air Force, Army, and Navy, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

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

A handwritten signature in black ink that reads "W. William Russell". The signature is written in a cursive, flowing style.

W. William Russell  
Director, Contracting and National Security Acquisitions

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*List of Committees*

The Honorable Jack Reed  
Chairman  
The Honorable Roger Wicker  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Jon Tester  
Chair  
The Honorable Susan Collins  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Mike Rogers  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Honorable Ken Calvert  
Chair  
The Honorable Betty McCollum  
Ranking Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

## Appendix I: Objectives, Scope, and Methodology

The Joint Explanatory Statement accompanying the National Defense Authorization Act (NDAA) for Fiscal Year 2022, and the House Report 117-397 for the NDAA for Fiscal Year 2023, contained a provision for us to assess the Department of Defense's (DOD) processes for validating service requirements. The House Report 117-397 accompanying the NDAA for Fiscal Year 2023 also contained a provision for us to assess DOD's forecasting of budget needs for service contracts across the Future-Years Defense Program (FYDP).<sup>1</sup> This report assesses DOD's (1) trends in obligations on contracts for services from fiscal years 2017 through 2022, (2) processes for validating service requirements, and (3) progress forecasting budget needs for service contracts across the FYDP—the budget year and subsequent 4 fiscal years.

To identify trends in DOD obligations for service contracts, we analyzed 6 fiscal years—2017 through 2022—of Federal Procurement Data System (FPDS) data adjusted for inflation using the Gross Domestic Product Price Index. We focused our analysis on the services governed by DOD Instruction 5000.74, as revised in January 2020.<sup>2</sup> We selected data elements within FPDS related to the amount obligated on services and products, types of services acquired, and various contract characteristics,

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<sup>1</sup>167 Cong. Rec. H7265, H7304 (Dec. 7, 2021) (joint explanatory statement to the National Defense Authorization Act for Fiscal Year 2022); and H.R. Rep. No. 117-397, at 276 (2022).

<sup>2</sup>Department of Defense, *Defense Acquisition of Services*, DOD Instruction 5000.74 (Jan. 10, 2020, incorporating change 1 effective June 24, 2021).

such as the contracting vehicle and pricing types, as well as the use of small businesses and competitive contracts.<sup>3</sup>

We analyzed FPDS data to identify products and services, and those services governed by DOD Instruction 5000.74 using the FPDS Product Service Code Manual.<sup>4</sup> We removed services excluded from DOD Instruction 5000.74 based on certain service and National Interest Action codes, and supplemented FPDS data for Adaptive Acquisition Framework Programs with Selected Acquisition Reports.<sup>5</sup> Figure 6 shows the services governed by and excluded from the various iterations of DOD Instruction 5000.74.

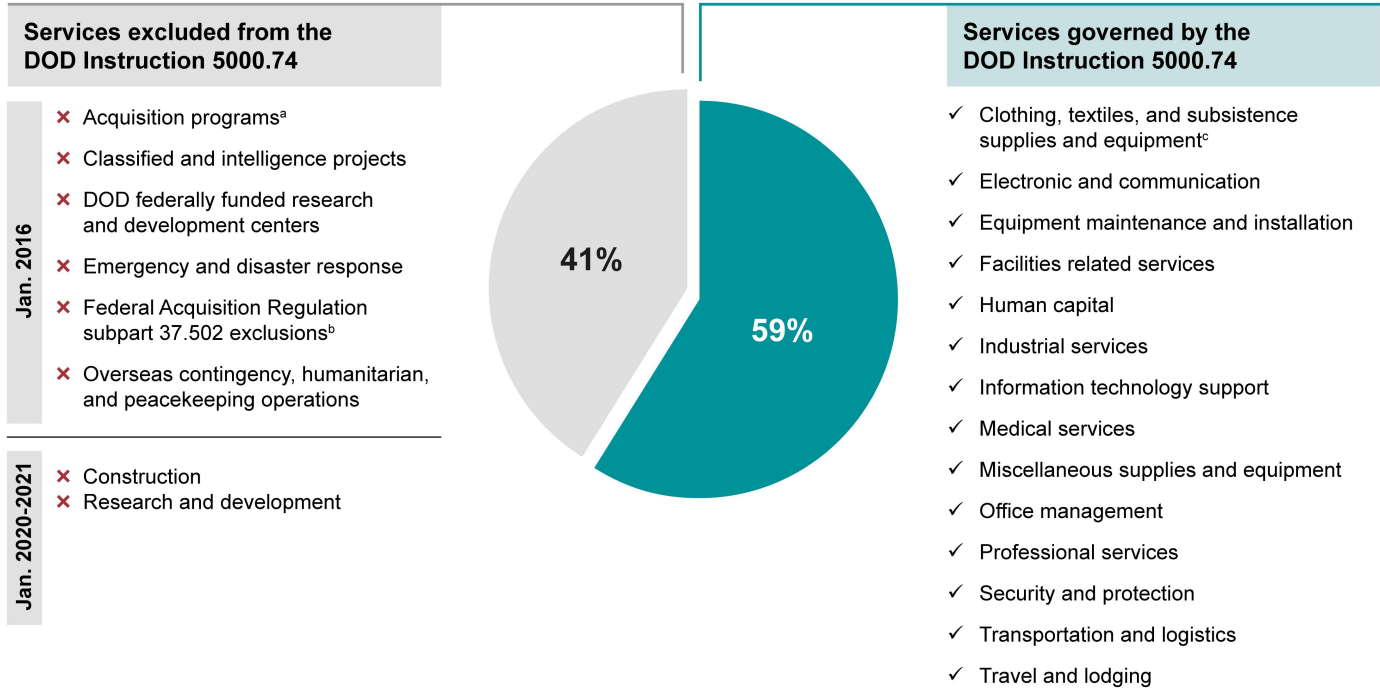
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<sup>3</sup>Competitive contracts include contracts and orders coded in the Federal Procurement Data System as “full and open competition,” “full and open after exclusion of sources,” “competed under simplified acquisition procedures” as well as orders coded as “subject to fair opportunity” and as “fair opportunity given,” and “competitive set aside.” Noncompetitive contracts included contracts and orders coded as “not competed,” “not available for competition,” and “not competed under simplified acquisition procedures,” as well as orders coded as an exception to “subject to fair opportunity,” including “urgency,” “only one source,” “minimum guarantee,” “follow-on action following competitive initial action,” “other statutory authority,” and “sole source.”

<sup>4</sup>General Services Administration, *Federal Procurement Data System Product and Service Codes Manual, Fiscal Year 2022 Edition* (April 2022).

<sup>5</sup>We cross-analyzed the FPDS data against Selected Acquisition Reports for the acquisition programs because these programs (1) are not required but can go through the validation process for a service requirement and (2) may have portions of contracts and contract obligations categorized as products.

**Figure 6: Percentage of Obligations on Contracts for Services Governed by and Excluded from the Various Iterations of the Department of Defense (DOD) Instruction 5000.74, Fiscal Years 2017–2022**



Source: GAO Analysis of Department of Defense Instruction 5000.74. | GAO-23-106123

**Data for Figure 6: Percentage of Obligations on Contracts for Services Governed by and Excluded from the Various Iterations of the Department of Defense (DOD) Instruction 5000.74, Fiscal Years 2017–2022**

**Services excluded from the DOD Instruction 5000.74 (41%)**

**Jan. 2016**

- Acquisition programs
- Classified and intelligence projects
- DOD federally funded research and development centers
- Emergency and disaster response
- Federal Acquisition Regulation subpart 37.502 exclusions
- Overseas contingency, humanitarian, and peacekeeping operations

**Jan. 2020-2021**

- Construction
- Research and development

**Services governed by the DOD Instruction 5000.74 (59%)**

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**Appendix I: Objectives, Scope, and Methodology**

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Clothing, textiles, and subsistence supplies and equipment  
Electronic and communication  
Equipment maintenance and installation  
Facilities related services  
Human capital  
Industrial services  
Information technology support  
Medical services  
Miscellaneous supplies and equipment  
Office management  
Professional services  
Security and protection  
Transportation and logistics  
Travel and lodging

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Source: GAO analysis of Department of Defense Instruction 5000.74. | GAO-23-106123

<sup>a</sup>Services associated with an acquisition program, including those managed and reviewed as part of the pathways of the Adaptive Acquisition Framework.

<sup>b</sup>Services listed in subpart 37.502 of the Federal Acquisition Regulation include those obtained through: personnel appointments and advisory committees; personal service contracts authorized by statute; construction as defined in 2.101; or interagency agreements where the work is being performed by in-house federal employees.

<sup>c</sup>Services include quality control, equipment and material testing, modification of equipment, and equipment lease or rental.

We assessed the reliability of the FPDS data by reviewing the data dictionary, data validation rules, and performing electronic testing. We also reviewed DOD's FPDS Data Certification Letters for fiscal years 2017 through 2022. We determined that the FPDS data were sufficiently reliable for the purposes of describing trends in DOD's obligations on contracts for services.

Based on our analysis of the FPDS data, we selected the military departments—Air Force, Army, and Navy—for our review because they were the DOD components with the highest obligations on contracts for services during this timeframe. We selected one major command from each military department—Air Force Materiel Command, Army Materiel Command, and Naval Sea Systems Command—based on its fiscal year



2021 obligations on contracts for services.<sup>6</sup> We also categorized the obligations on contracts for services by the various service requirement review thresholds established by DOD Instruction 5000.74 and military department policies.<sup>7</sup>

To assess DOD's processes for validating service requirements, we reviewed DOD, military department, and major command, policies, guidance, templates, and other documentation. We compared the military departments' and selected major commands' processes to the requirements outlined in DOD Instruction 5000.74 to determine alignment. For example, we compared the thresholds for service requirement reviews, and the various factors that are considered during those reviews, such as the nine factors outlined in DOD Instruction 5000.74.

We also assessed a nongeneralizable sample of service requirements from each major command. Specifically, we requested each major command's service requirements for fiscal years 2021 and 2022 with a value of \$10 million or more. From these service requirements, we randomly selected five from each major command. We then requested the documentation that was used to validate each of the selected service requirements. We analyzed the documentation to determine whether or not each of the nine factors in the DOD Instruction 5000.74 were reflected.

We interviewed officials in the Office of the Under Secretary of Defense for Acquisition and Sustainment (USD (A&S)), the military departments, and selected major commands on service requirement review processes. We also followed up with the major commands about the selected service

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<sup>6</sup>Air Force Materiel Command delegates the responsibility for service requirement reviews to its six centers. As such, we selected the center with the highest service contract obligations in fiscal year 2021—Air Force Life Cycle Management Center. We selected Naval Sea Systems Command which had the second highest service contract obligations in fiscal year 2021, because the highest—Commander Naval Installations Command—lacks contracting authority and shares budgeting authority with another major command.

<sup>7</sup>Department of Defense, *Defense Acquisition of Services*, DOD Instruction 5000.74 (Jan. 10, 2020, incorporating change 1 effective Jun. 24, 2021). Department of the Air Force, *Acquisition of Services*, Air Force Instruction 63-138 (Sept. 30, 2019). Department of the Army, *Management and Oversight of Service Acquisitions*, Army Regulation 70-13 (July 30, 2010); and *Interim Policy for Managing and Overseeing the Acquisition of Services*, Army Directive 2017-15 (Apr. 25, 2017). Secretary of the Navy, *Department of the Navy Implementation of the Defense Acquisition System and the Adaptive Acquisition Framework*, Navy Instruction 5000.2G (Apr. 8, 2022).

requirements for additional clarification and other documentation, and updated our analysis as applicable.

To assess DOD's progress forecasting budget needs for service contracts across the FYDP, we reviewed statutory requirements and the Under Secretary of Defense Comptroller (USD (C)) and Cost Assessment and Program Evaluation's (CAPE) budget guidance for the fiscal year 2023 and 2024 budget submissions. We analyzed this guidance to determine if and when the statutory requirement to forecast budget needs for service contracts was captured, and whether the fiscal year 2024 budget submission included budget needs for service contracts across the FYDP.<sup>8</sup>

We interviewed officials from USD (C), CAPE, and each of the military departments' financial management and budgeting offices about any communication specific to the forecasting requirement, methodologies and data sources used to address it, and any challenges. We determined that the federal internal control standard for information and communication was significant to this objective; specifically that management should communicate information requirements in a timely manner to achieve objectives.<sup>9</sup> We assessed DOD's efforts to communicate and implement the requirement to forecast budget needs for service contracts against this principle.

We conducted this performance audit from June 2022 to September 2023 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.

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<sup>8</sup>10 U.S.C. § 4506 (b).

<sup>9</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

## Appendix II: Major Categories of Services Governed by DOD Instruction 5000.74

Most of the Department of Defense’s (DOD) applicable obligations on contracts for services from fiscal years 2017 to 2022 were on four level 1 categories: (1) professional services, (2) equipment maintenance and installation, (3) information technology support, and (4) medical assistance.<sup>1</sup> Table 3 lists the 14 level 1 service categories and the corresponding 50 level 2 categories governed by DOD Instruction 5000.74, as outlined in the General Services Administration’s category management taxonomy and Federal Procurement Data System Product and Service Codes Manual.<sup>2</sup>

**Table 3: Level 1 and Level 2 Categories for Service Contracts Governed by DOD Instruction 5000.74**

Level 1	Level 2
Clothing, textiles, and subsistence supplies and equipment <sup>a</sup>	Textiles, clothing, and equipage subsistence
Electronic and communication services	Equipment leases Equipment maintenance
Equipment related services	Equipment modification Installation of equipment Maintenance, repair, and overhaul Purchases and leases Quality control Salvage services Technical representative services

<sup>1</sup>We analyzed data from the Federal Procurement Data System to identify trends in DOD’s obligations on contracts for services between fiscal years 2017 and 2022. As part of this analysis, we identified the obligations on contracts for services that are governed by and excluded from DOD Instruction 5000.74, *Defense Acquisition of Services*, (Jan. 5, 2016 and Jan. 10, 2020, incorporating change 1 effective June 24, 2021). The 14 level 1 categories include services that are governed by DOD Instruction 5000.74, with one exception—construction—as indicated in table 3.

<sup>2</sup>U.S. General Services Administration, *Federal Procurement Data System Product and Service Codes Manual, Fiscal Year 2022 Edition* (April 2022).

**Appendix II: Major Categories of Services  
Governed by DOD Instruction 5000.74**

<b>Level 1</b>	<b>Level 2</b>
Facilities and construction <sup>b</sup>	Facilities purchase and lease Facility related services Facility related materials
Human capital	Human resources services Specialized educational services Vocational training
Information technology	Capability as a service Information technology professional service (labor)
Industrial products and services	Basic materials Fire, rescue, safety, and environmental protection equipment Hardware and tools Industrial products install, maintenance, and repair Machinery and components Test and measurement supplies
Medical	Healthcare services Medical equipment, accessories, and supplies
Miscellaneous supplies and equipment	Supplies and equipment not classified elsewhere
Office management	Furniture Office management services
Professional services	Business administration services Financial services Legal services Management advisory services Marketing and distribution Public relations and professional communications services Real estate services Social services Technical and engineering services (non-information technology) Trade policy and services
Security and protection	Security animals and related services Security services
Transportation and logistics services	Logistics support services Motor vehicles Package delivery and packaging Transportation equipment Transportation of things
Travel and lodging	Lodging Passenger travel Travel agent and miscellaneous services

Source: GAO analysis of Department of Defense (DOD) and General Services Administration documentation. | GAO-23-106123

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**Appendix II: Major Categories of Services  
Governed by DOD Instruction 5000.74**

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<sup>a</sup>Services include quality control, equipment and material testing, modification of equipment, and equipment lease or rental.

<sup>b</sup>Construction services and any services relating to construction are excluded from DOD Instruction 5000.74, *Defense Acquisition of Services* (Jan. 10, 2020, incorporating change 1 effective June 24, 2021), in accordance with 10 U.S.C. § 4502 (d)(2).

## Appendix III: Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE  
3015 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3015

JUL 21 2023

Mr. Bill Russell  
Director, Contracting and  
National Security Acquisitions  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Russell:

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-23-106123, "DOD SERVICE CONTRACTS: Actions Needed to Identify Efficiencies and Forecast Budget Needs," dated June 9, 2023 (GAO Code 106123).

Attached is DoD's response to the subject report. My point of contact is Ms. Tonya DeSaussure, at [tonya.t.desaussure.civ@mail.mil](mailto:tonya.t.desaussure.civ@mail.mil) or 202-805-1388.

Sincerely,

A handwritten signature in black ink, appearing to read "Radha Iyengar Plumb", is positioned above the printed name.

Radha Iyengar Plumb

Enclosures:  
As stated

GAO DRAFT REPORT DATED JUNE 9, 2023  
GAO-23-106123 (GAO CODE 106123)

“DOD SERVICE CONTRACTS: ACTIONS NEEDED TO IDENTIFY EFFICIENCIES  
AND FORECAST BUDGET NEEDS”

DEPARTMENT OF DEFENSE COMMENTS  
TO THE GAO RECOMMENDATION

**RECOMMENDATION 1:** The GAO recommends that the Secretary of the Air Force should revise its service acquisition policy to ensure major commands collectively prioritize service requirements valued between \$10 million and \$100 million.

**DoD RESPONSE:**

**Concur.** The Department of the Air Force Senior Services Manager (SSM) will update its Services Management Agreements with each Major Command, Field Command, Direct Reporting Unit, and Headquarters Air Force Organization to ensure requirements valued between \$10 million and \$100 million are prioritized appropriately. Currently, senior leadership at each of these organizations reviews and prioritizes requirements annually during their respective Services Requirements Review Boards, with some organizations also adding mid-point reviews. The outcome of each these annual boards is made available to the Air Force SSM for review and discussion during Annual Execution Reviews (AERs), which are mandated by AFI-63-138, Acquisition of Services. Specifically, during the Effectiveness Review portion of the AERs, all DAF services programs (people, processes, and performance) are self-assessed and presented to the AF SSM.

**RECOMMENDATION 2:** The GAO recommends that the Secretary of the Air Force should revise its service acquisition policy to require an official who is responsible for the oversight of services, such as the Air Force’s Senior Services Manager, to aggregate and review data on service requirements valued between \$10 million and \$100 million to identify efficiencies.

**DoD RESPONSE:**

**Concur.** The Department of the Air Force Senior Services Manager will update its Services Management Agreements with each Major Command, Field Command, Direct Reporting Unit, and Headquarters Air Force Organization to ensure the designated Services Advocates of each of those organizations aggregate and review data on services requirements valued between \$10 million and \$100 million and identify efficiencies. Services Advocates will report their results to the Senior Services Manager on an annual basis as described above. The Senior Services Manager will review the entirety of the results across the full DAF services portfolio and identify opportunities for Department of the Air Force-wide efficiencies. The revised Department of the Air Force Instruction (DAFI) 63-138 further reinforces the responsibility of the Service Advocates to manage all of their services acquisitions with an increased emphasis on post-award performance management. The updated DAFI serves to increase efficiencies across Air Force services requirements to include greater use of enterprise-wide contracts when appropriate. The updated DAFI is expected to be published in the summer of 2023.

**RECOMMENDATION 3:** The GAO recommends that the Secretary of the Army should revise its service acquisition policy to require an official who is responsible for the oversight of

services, such as the Army's Senior Services Manager, to aggregate and review data on service requirements valued at \$10 million or more to identify efficiencies.

**DoD RESPONSE:**

**Partially Concur:** Change verbiage in the recommendation to state, "The Secretary of the Army should revise its service acquisition policy to require an official to aggregate and review data on services requirements valued at \$10 million or more to identify efficiencies." The Army does not agree with GAO's assignment of responsibility to the Senior Services Manager. The official responsible for the action should be left to the Department of the Army.

**RECOMMENDATION 4:** The GAO recommends that the Secretary of Defense should require that the Under Secretary of Defense, Comptroller, in coordination with other relevant offices involved in the recently established services working group, to develop a charter that includes steps that ensure information requirements for the fiscal year 2026 and future budget submissions are communicated to the military departments in a timely manner.

**DoD RESPONSE:**

**Concur and recommend removal:** OUSD(A&S), Director, for Acquisition, Data and Analysis, in coordination with OUSD(C), Director, Operations for Program and Budget, CAPE, Director, Programming Resources and Information Systems and OUSD(P&R), Officer and Enlisted Personnel Management, signed a memo and charter which established the Services Acquisition Executive Steering Committee (SAESC) on June 23, 2023 (attached). The Charter identifies the SAESC will be supported by a Services Acquisition Working Group (SAWG) consisting of O-6/GS-15 equivalent representatives to facilitate communication and vet issues that come before the SAESC. The Charter includes a list of responsibilities for the SAWG to include information sharing and lessons learned to facilitate continuous process improvements in the oversight, management, and execution of contracted services. In addition, OUSD(C) and CAPE published on June 12, 2023, the FY2025-2029 Integrated Program and Budget Review Guidance to ensure forecasting and reporting information requirements for the fiscal year 2025 and future budget submissions are communicated to the military departments.

**RECOMMENDATION 5:** The GAO recommends that the Secretary of Defense should ensure that the Under Secretary of Defense, Comptroller, in coordination with other relevant offices involved in the recently established services working group, specifies the data sources and methodology for forecasting budget needs for service contracts across the future years defense program to inform its fiscal year 2026 and future budget submission.

**DoD RESPONSE:**

**OUSD(C) and CAPE partially concur** in GAO's recommendation to identify the data sources and methodology for forecasting budget needs. Request the word "specifies" be changed to "identifies" per our initial response/request. In transitive terms, the difference between identify and specify is that identify is to equate or make the same; to unite or combine into one while specify is to bring about a specific result. "Specifying the data sources..." is incorrect in the use in recommendation 5, as it is not meant to bring about a specific result and should be changed to "identifies" based on the difference in meaning between the two terms.



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## Appendix III: Comments from the Department of Defense

DEPUTY UNDER SECRETARY OF DEFENSE  
ACQUISITION AND SUSTAINMENT  
3015 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3015

JUL 21 2023

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Enclosures:

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## Appendix IV: GAO Contact and Staff Acknowledgments

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### GAO Contact

W. William Russell (202) 512-4841 or [russellw@gao.gov](mailto:russellw@gao.gov)

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### Staff Acknowledgments

In addition to the contact name above, Meghan Perez (Assistant Director), Helena Johnson (Analyst-in-Charge), William Anderson, Margaret Best, Lori Fields, Suellen Foth, Stephanie Gustafson, Julie Kirby, Adie Lewis, Michele Mackin, Jean McSween, Leah Nash, Sylvia Schatz, Ian Toller-Clark, and Alyssa Weir made significant contributions to this review.

## Related GAO Products

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

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

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*Defense Acquisitions: Goals and Associated Metrics Needed to Assess Progress in Improving Service Acquisition.* [GAO-13-634](#). Washington, D.C.: June 27, 2013.

*Best Practices: An Integrated Portfolio Management Approach to Weapon System Investments Could Improve DOD's Acquisition Outcomes.* [GAO-07-388](#). Washington, D.C.: March 30, 2007.

*Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes.* [GAO-07-20](#). Washington, D.C.: November 9, 2006.

*Defense Management: Additional Actions Needed to Enhance DOD's Risk-Based Approach for Making Resource Decisions.* [GAO-06-13](#). Washington, D.C.: November 15, 2005.

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*Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition.* [GAO-03-935](#). Washington, D.C.: September 10, 2003.

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*Best Practices: Taking A Strategic Approach Could Improve DOD's Acquisition of Services.* [GAO-02-230](#). Washington, D.C.: January 18, 2002.

*Contract Management: Service Contracting Trends and Challenges.* [GAO-01-1074R](#). Washington, D.C.: August 22, 2001.

*Contract Management: Trends and Challenges in Acquiring Services.* [GAO-01-753T](#). Washington, D.C.: May 22, 2001.

*High-Risk Series: An Update.* [GAO-01-263](#). Washington, D.C.: January 1, 2001.

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