



Highlights of [GAO-07-631](#), a report to congressional committees

## Why GAO Did This Study

The Department of Defense (DOD) spent about 40 percent of the total defense budget to operate and maintain the nation's military forces in fiscal year 2005. Operation and maintenance (O&M) funding is considered one of the major components of funding for readiness. O&M appropriations fund the training, supply, and equipment maintenance of military units as well as the infrastructure of military bases. Over the past several years, DOD has increasingly used contractors, rather than uniformed or DOD civilian personnel, to provide O&M services in areas such as logistics, base operations support, information technology services, and administrative support.

The House Appropriations Committee directed GAO to examine growing O&M costs and support services contracting. This GAO report (1) identifies the trends in O&M costs and services contracts and the reasons for the trends, (2) discusses whether increased services contracting has exacerbated the growth of O&M costs, and (3) provides perspectives on the benefits and concerns associated with increased contracting for support services. GAO analyzed DOD's O&M appropriations, budgets, and services contract costs over a 10-year period and developed case studies of outsourced O&M-related work at three installations. GAO is not making any recommendations. DOD made only technical comments on a draft of this report.

[www.gao.gov/cgi-bin/getrpt?GAO-07-631](http://www.gao.gov/cgi-bin/getrpt?GAO-07-631).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Brian Lepore at (202) 512-4523 or [leporeb@gao.gov](mailto:leporeb@gao.gov).

## DEFENSE BUDGET

# Trends in Operation and Maintenance Costs and Support Services Contracting

## What GAO Found

DOD's O&M and services contract costs increased substantially between fiscal years 1995 and 2005, with most growth occurring since fiscal year 2001. DOD's O&M costs were almost constant between fiscal years 1995 and 2000. However, between fiscal years 2000 and 2005, DOD's O&M costs increased from \$133.4 billion to \$209.5 billion—an increase of \$76.1 billion, or 57 percent, in constant fiscal year 2007 dollars. This growth was primarily caused by increased military operations associated with the global war on terrorism and other contingencies. In addition to increased O&M costs, DOD has increasingly relied on contractors to perform O&M-related work. Between fiscal years 2000 and 2005, DOD's services contract costs in O&M-related areas increased by 73 percent. According to DOD and service officials, several factors have contributed to the increased use of contractors for support services: (1) increased O&M requirements from the global war on terrorism and other contingencies, which DOD has met without an increase in active duty and civilian personnel, (2) federal government policy, which is to rely on the private sector for needed commercial services that are not inherently governmental in nature, and (3) DOD initiatives, such as its competitive sourcing and utility privatization programs.

Sufficient data are not available to determine whether increased services contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel. Because existing policy generally does not require a public/private competition for contractor performance of a new or expanded commercial requirement, in-house cost estimates have not been prepared for most of the work awarded to contractors as a result of increased O&M requirements from expanded military operations. Without this information, an overall determination cannot be made of the effect of increased services contracting on O&M cost growth. DOD does maintain data from its competitive sourcing, or A-76, program. GAO's analysis of the military services' reported information on 538 A-76 decisions during fiscal years 1995 through 2005 to contract out work formerly performed by uniformed and DOD civilian personnel showed that the decisions generally resulted in reducing the government's costs for the work. However, the number of A-76 public/private competition contracts is relatively small and the results from this program may not be representative of the results from all services contracts for new or expanded O&M work.

Although DOD officials have cited certain benefits from increased use of contractors for support services, such as allowing more uniformed personnel to be available for combat missions, concerns have also been cited. For example, Congress recently required DOD to prescribe guidelines giving consideration to performing more work using government employees and GAO has noted concerns over DOD's approach to services acquisition.