

## Why GAO Did This Study

Competition is a critical tool for achieving the best return on the government's investment. Federal agencies are generally required to award contracts competitively, but they are permitted to use other than full and open competition in certain situations, such as when open competition would reveal information that would harm national security. GAO examined DOD's use of this provision, known as the national security exception. It requires the use of competition to the greatest extent practicable. GAO assessed (1) the pattern of DOD's use of the national security exception; (2) DOD's processes for using the exception; and (3) the extent to which DOD achieved competition under the exception. GAO analyzed federal procurement data; reviewed a selection of 27 contract files and justifications citing the exception from the Army, Navy, and Air Force, based on largest obligations, frequent users, and a range of procurement types, as well as five contracts from DOD intelligence agencies; and interviewed DOD contracting and program officials.

## What GAO Recommends

GAO recommends that DOD issue guidance clarifying when security sensitive contracting data must be reported, monitor the impact of new Air Force class justification processes, and consider using tools that facilitate market research in a secure environment. DOD concurred with two recommendations and partially concurred with the recommendation on clarifying guidance, citing pending revisions to regulations. GAO continues to believe that clarifying guidance is needed.

View GAO-12-263. For more information, contact Belva Martin at (202) 512-4841 or martinb@gao.gov.

## DEFENSE CONTRACTING

### Improved Policies and Tools Could Help Increase Competition on DOD's National Security Exception Procurements

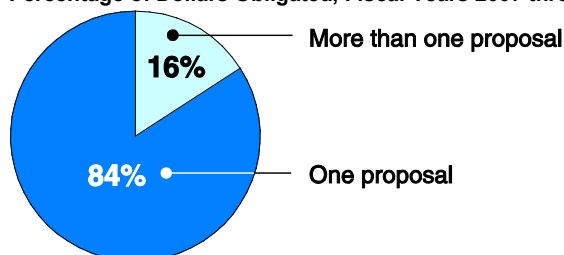
## What GAO Found

DOD's use of the national security exception is small—about 2 percent of the dollar value of its total use of exceptions to full and open competition, but gaps in federal procurement data limit GAO's ability to determine the full extent of DOD's use. DOD procures a range of goods and services under this exception, and according to federal procurement data, the Air Force accounted for about 74 percent of DOD's use during fiscal years 2007 through 2010. However, DOD intelligence agencies and special access programs frequently use the exception, but are generally excluded from reporting procurement data. While an Office of the Secretary of Defense memorandum exempts three of the intelligence agencies from reporting such data, DOD policy on reporting sensitive procurements for other military department programs is not clear.

For most national security exception contract actions GAO reviewed, DOD used a single justification and approval document that applies to multiple contracts—known as a class justification. Among those reviewed, \$3.3 billion of \$3.4 billion was obligated under contracts that used class justifications, which reduce the steps required to proceed with individual contract actions that do not use full and open competition. According to contracting officials, the increased flexibility of national security exception class justifications helps meet mission needs. However, in the Air Force, concerns about the reduced management review of these contracts have led to changes in the process for approving individual contract actions using class justifications. Nevertheless, all of the justifications GAO reviewed met Federal Acquisition Regulation requirements.

GAO's analysis of federal procurement data on about 11,300 contract actions found that, from fiscal years 2007 through 2010, only 16 percent of all obligations under those actions by the military departments under the national security exception received more than one proposal, as shown in the figure below. Contract files and contracting officials cited a limited pool of companies with the right capabilities, the difficulty of changing from an established vendor, and limited tools for soliciting competitive bids as reasons for their inability to obtain more competition. Twelve of the 27 military department contract files GAO reviewed did not include a record of market research, and others included few details on the results. Two intelligence agencies that reported using the national security exception for all contracting reported achieving comparatively high levels of competition. Both have systems that catalogue firms, capabilities, and solicitations that are used to facilitate security sensitive market research.

Number of Offers Received on Armed Service National Security Exception Contracts by Percentage of Dollars Obligated, Fiscal Years 2007 through 2010



Source: GAO analysis of FPDS-NG data.