



February 2016

DOD SERVICE ACQUISITION

Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements

Accessible Version

GAO Highlights

Highlights of [GAO-16-119](#), a report to congressional committees

Why GAO Did This Study

In 2014, DOD obligated over \$156 billion to contractors that provide services, such as for engineering support, to meet needs. These contracted services constituted more than half of DOD's total contract spending. House Report 113-446 contained a provision for GAO to evaluate DOD's management of contracted services.

This report assesses (1) trends in DOD spending on contracted services, (2) DOD's insight into its requirements for contracted services, and (3) how DOD reports on contracted services in its budget requests to Congress. GAO analyzed the most recent data available on DOD service contract spending from fiscal years 2010 through 2014, reviewed programming guidance and budget documents as well as a non-generalizable selection of six program office inputs to the budget and planning process for three military commands that spent the most on services in 2013, and interviewed DOD officials.

What GAO Recommends

Congress should consider amending reporting requirements to include estimated spending on services beyond the budget year. GAO recommends that the Secretary of Defense and military departments revise POM guidance, coordinate efforts to forecast services, and fully comply with budget reporting. DOD concurred with the budget reporting recommendation and partially concurred with the two others, citing challenges with estimating future spending, but did not address revised guidance or coordination. GAO believes such actions are needed.

View [GAO-16-119](#). For more information, contact Timothy J. DiNapoli at (202) 512-4841 or DiNapoliT@gao.gov

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What GAO Found

Over the last 5 years, the Department of Defense (DOD) consistently obligated more on services than products. These obligations are significant. For example, in 2014 alone, DOD obligated \$85 billion on its three largest types of services—knowledge-based, research and development, and facility-related services. This amount was more than double the amount DOD obligated for aircraft, land vehicles and ships, the three largest product categories DOD acquired.

Comparison of DOD Obligations for Top Products and Services in Fiscal Year 2014



Source: GAO analysis of Federal Procurement Data System - Next Generation data. | GAO-16-119

Program offices within each of the military departments that GAO met with maintained data on current and estimated future spending needs for contracted service requirements, but they did not identify service contract spending needs beyond the next year, as there was no requirement to do so. As a result, DOD leadership's insight into future spending on contracted services is limited. DOD programming policy requires the military departments and defense agencies to develop a program objective memorandum (POM) that identifies and prioritizes requirements and total funding needs for the current budget year and then four additional years into the future. This policy and the military departments' supplemental POM guidance, however, do not address contracted services. The military departments have started efforts to collect data on contract services requirements beyond the budget year but these efforts could result in the collection of disparate data. For example, the Army plans to request data from program offices on all service contracts to be awarded over the next 5 years. In contrast, the Air Force plans to continue to collect data only for service contracts using operations and maintenance funds beyond the budget year. Unless DOD establishes a mechanism to coordinate efforts—a key internal control standard—it risks collecting different data leading to inconsistency across the department.

DOD's budget exhibits on contract services provide limited visibility to Congress on planned spending, and the primary exhibit for contracted services does not meet statutory reporting requirements. In 2009, Congress required DOD to develop an exhibit to summarize its service contract spending, in part, to improve oversight by DOD and Congress of DOD's contracted services. In its fiscal year 2014 exhibit, however, DOD excluded up to \$100 billion—almost two-thirds—of its estimated spending on contracted services, including those for contingency operations and for medical care, on which it was statutorily required to report. Unlike DOD budget exhibits for weapon systems, DOD's other budget exhibits that contain limited information on contracted services do not include data on projected spending beyond the current budget year. Without a roadmap of future service contract spending needs, Congress has limited visibility into an area that constitutes more than half of DOD's annual contract spending.

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Abbreviations

BES	Budget Estimate Submission
DOD	Department of Defense
FPDS-NG	Federal Procurement Data System-Next Generation
FYDP	Future Years Defense Program
OSD	Office of the Secretary of Defense
POM	Program Objective Memorandum
PPBE	Planning, Programming, Budgeting, and Execution
USD(AT&L)	Under Secretary of Defense for Acquisition, Technology, and Logistics

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February 18, 2016

Congressional Committees

In 2014, the Department of Defense (DOD) obligated over \$156 billion on contracted services, constituting more than half of DOD's total contract spending. Contractors perform a wide array of critical functions such as supporting DOD weapons programs, maintaining defense facilities, or maintaining equipment. Given the magnitude of spending, effective management of DOD contracted services is imperative and DOD has set a goal of improving its management of service contracts through efforts like the Better Buying Power initiatives.¹ In response to these initiatives, as well as congressional mandates, DOD has taken several actions since 2010 intended to improve its management of the broad range of services it acquires. These actions include categorizing service acquisitions by portfolio groups, such as research and development and knowledge-based services; appointing senior leaders within the military departments to coordinate the acquisition of these services; and better integrating contracting and financial management information. Despite these efforts, our prior work has shown that DOD continues to face several challenges related to services acquisition, such as having adequate data on the current state of service acquisitions, which contributed to the inclusion of DOD contract management to our high-risk list.²

The House Armed Services Committee report 113-446 contained a provision for us to assess the processes and procedures DOD employs to acquire services.³ This report assesses DOD's processes for developing requirements and budgeting for contracted services. Specifically, this report (1) examines trends in DOD spending on contracted services, (2)

¹DOD's Better Buying Power initiatives are intended to provide the department with guidance for obtaining greater efficiency and productivity in defense spending

²GAO, *High-Risk Series: An Update*, [GAO-15-290](#) (Washington D.C.: Feb 11, 2015). GAO maintains a high-risk program to focus attention on government operations that it identifies as high risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.

³H.R. Rep. No. 113-446, at 177, 178 (2014).

assesses the extent to which DOD has insight into the use of contracted services to fulfill current and future requirements, and (3) assesses how DOD reports on contracted services in its annual budget request to Congress.

To examine trends in DOD spending on contracted services, we analyzed the five most recent years of Federal Procurement Data System-Next Generation (FPDS-NG) data, fiscal years 2010 through 2014, and grouped this data using DOD-defined categories of services, referred to as portfolio groups.⁴ We also compared DOD spending trends on products to services over the same 5-year period. To corroborate the FPDS-NG data, we compared it to DOD financial data on obligations to contracted services as reported by the DOD Comptroller. We determined the FPDS-NG data to be sufficiently reliable for examining trends in DOD spending on contracted services.

To assess the extent to which DOD has insight into the use of contracted services to fulfill current and future requirements, we reviewed DOD Directive 7045.14, “The Planning, Programming, Budgeting, and Execution (PPBE) Process” and supplemental guidance issued by the military departments. To determine how these processes were implemented by each military department, we selected three military commands that had among the most obligations on contracted services during fiscal year 2013 based on data from FPDS-NG. These commands included the Army Materiel Command, Air Force Materiel Command, and Naval Sea Systems Command. For each military department and selected commands, we collected and reviewed the applicable military department and command-specific guidance governing programming, including the formulation of the Program Objective Memorandum (POM)—DOD’s 5-year funding plan for current and future requirements—to determine the extent to which contracted services were required to be documented. We also reviewed programming documentation, including inputs to the POM, and underlying supporting documents provided by program offices at the three military commands. To select program offices, we cross-referenced FPDS-NG data with DOD’s fiscal year 2013 inventory of contracted services, the most complete year at the time of our review, to identify those offices that obligated the most to knowledge-based services—the largest group of services DOD acquires annually—

⁴FPDS-NG is the government’s central repository for contracting data.

within each of those commands. We selected a total of six program offices, including at least two from each command, based on such factors as the amount of obligations on contracted services, the types of services acquired, and the program office's location. For each program office, we reviewed its input to the POM and underlying support. We also identified how contracted services were documented and reported to determine what information program offices maintained on estimated future service contract spending. We selected a small sample of program offices at each military department because this approach allowed us to obtain more in-depth information for each office. Given the size of our sample, our findings cannot be generalizable to all DOD program offices, but the information gathered provides illustrative examples of the level of contracted services data available.

Because each military department uses a different approach to developing and approving the POM, we interviewed officials within each military department to collect information on how contracted services are included in the POM. These officials included the program officials responsible for planning for the requirement as well as the programming officials within the command or military department offices responsible for issuing POM guidance and approving requirements and funding. We also interviewed military department budgeting officials on how programming and budget data is collected, stored, and used within each military department, the extent to which their budget databases include information on service contracts, and the steps, if any, that DOD plans to take to improve programming, budgeting, and forecasting of contracted services. In addition, we reviewed DOD services acquisition policies and interviewed senior officials from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)), including those within Defense Procurement and Acquisition Policy, and the senior service managers from each military department concerning their use of contracted services data to carry out their management and oversight responsibilities. We also interviewed officials within the Office of the Under Secretary of Defense (Comptroller) office on the type of data the department collects and maintains on future service contract spending.

To assess how DOD reports on the procurement of contracted services in its annual budget request to Congress, we reviewed the statutory

requirements found in section 235, title 10 United States Code,⁵ DOD's financial management regulation,⁶ and selected budget exhibits. Specifically, we analyzed DOD's contract services budget exhibit required by section 235 of title 10, United States Code in its fiscal year 2014 Operation and Maintenance Overview,⁷ the most complete year at the time of our review, to determine compliance with section 235. We also reviewed selected budget exhibits accompanying the fiscal year 2014 and 2015 President's budget that could contain contracted service information based on our review of DOD's financial management regulation, including the PB-15, Advisory and Assistance Services, and OP-32, Summary of Price and Program Changes exhibits. We also compared the reporting requirements for contracted services to those for DOD weapon system programs to determine differences in the number of out-year spending projections included in the exhibits.

We conducted this performance audit from November 2014 to February 2016 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.

Background

Each year, DOD relies on the private sector to provide a wide range of services, including consulting and administrative support, information technology services, and weapon system and base operations support to fulfill the requirements needed to deliver important defense capabilities. In fiscal year 2014, DOD obligated over \$156 billion on contracted services, which constituted more than half of DOD's total contract spending. Service contracts directly engage the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply.⁸ For example, a service contract can be

⁵National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 803, (codified at 10 U.S.C. § 235).

⁶Department of Defense Financial Management Regulation (DOD FMR), DOD 7000.14-R.

⁷Operation and Maintenance Overview, Fiscal Year 2014 Budget Estimates, Office of the Under Secretary of Defense (Comptroller)/Chief Financial Officer. April 2013.

⁸Federal Acquisition Regulation, Part 37.101.

used to obtain systems engineering support for a major weapons program. Fulfillment of these contract requirements, in turn, enables DOD to provide specific capabilities to meet mission needs.

DOD Efforts to Improve Management and Oversight of Service Acquisition

Since 2001, Congress has required and our past work has recommended that DOD take several steps to improve, among other things, service acquisition planning, tracking, and oversight.⁹ Specifically, section 2330 of title 10, United States Code, enacted in 2001 and amended in 2006, requires USD(AT&L) and the military departments to establish a management structure for the acquisition of services. USD(AT&L) and the military departments established an initial management structure for the review and approval of service acquisitions in 2002. Similarly, in 2003 and 2006, we made a number of recommendations to DOD, including that it take a more strategic approach to its acquisition and management of services.¹⁰ In 2006, for example, we recommended, among other things, that DOD

- establish a normative position of how and where service acquisition dollars are currently and will be spent (including volume, type, and trends); and
- determine areas of specific risk that are inherent in acquiring services and that should be managed with greater attention (including those areas considered sensitive or undesirable in terms of quantity or performance).

DOD agreed that a more coordinated, integrated and strategic approach for acquiring services was needed. In particular, DOD noted that it would reassess its strategic approach to acquiring services, including examining the types and kinds of services it acquires and developing an integrated assessment of how best to acquire such services. Since then,

⁹National Defense Authorization Act for Fiscal Year 2001, Pub. L. No. 107-107, § 801(b); and National Defense Authorization Act for Fiscal Year 2006 Pub. L. No. 109-163, § 812. For additional information on DOD's efforts to improve its insight into contracted services, see GAO, *Defense Acquisitions: Goals and Associated Metrics Needed to Assess Progress in Improving Service Acquisition*, [GAO-13-634](#) (Washington, D.C.: Jun. 27, 2013).

¹⁰GAO, *Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition*, [GAO-03-935](#) (Washington, D.C.: Sept. 10, 2003); and *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington D.C.: Nov. 9, 2006).

USD(AT&L) has taken several actions intended to improve its management of services. For example, in September 2010, USD(AT&L) issued the first of three Better Buying Power memoranda that included steps to improve service acquisitions. In the November 2010 memorandum that followed it, USD(AT&L) directed that each military department establish the position of a Senior Services Manager, responsible for planning, executing, strategically sourcing, and managing service contracts for their military departments, and to serve as the approval authority for service acquisitions valued at less than \$250 million.

Additionally, in November 2010, the Director of Defense Procurement and Acquisition Policy directed the military departments to organize services spending data into six portfolio groups, later increased to nine, to enhance its ability to analyze service contract spending. In its April 2013 Better Buying Power initiative memorandum, USD(AT&L) also identified that by managing service acquisition by portfolio group, the senior services managers should be able to work with requiring activities to forecast future services requirements. (see table 1 for examples of services within each portfolio group).

Table 1: Service Portfolio Groups Established by Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics

Portfolio groups	Sub-categories within portfolio group
Research and development services	Systems development Operational systems development Technology base Commercialization
Knowledge based services	Engineering and technical services Program management services Management support services Administrative and other services Professional services Education and training
Logistics management services	Logistics civil augmentation program Logistics support services
Electronic and communication services	Information technology services Telecom services Equipment maintenance Equipment leases

Portfolio groups	Sub-categories within portfolio group
Equipment related services	Maintenance, repair and overhaul Equipment modification Installation of equipment Quality control Technical representative services Purchases and leases Salvage services
Medical services	General medical services Dentistry services Specialty medical services
Facility related services	Architect/engineering services Operation of government-owned facilities Machinery and equipment maintenance Building and plant maintenance Natural resource management Utilities Housekeeping and social services Purchases and leases
Construction services	Structures and facilities Conservation and development facilities Restoration activities
Transportation services	Transportation of things Transportation of people Other travel and relocation services

Source: GAO presentation of DOD information.. | GAO-16-119

In June 2013, we found that USD(AT&L) and military department leadership had demonstrated a commitment to improving management of service acquisition, but that it faced challenges in developing goals and metrics to assess outcomes due to limitations with corroborating data between its contracting and financial data systems.¹¹ DOD concurred with our recommendation in the June 2013 report to identify baseline data on service acquisitions, in part, by using budget and spending data to gauge the effects of improvements. In that report, we also found that DOD was already taking some steps to improve insight into DOD's contracted services. For example, USD (AT&L) initiated efforts to link contracting system data to financial system data through a January 2013

¹¹[GAO-13-634](#).

memorandum that directed all DOD components to assign product and service codes at a contract line item level of detail.¹² According to the memorandum, capturing product service codes at a contract line item level of detail in DOD's contracting systems will minimize data errors in FPDS-NG and enable linkage of contracting and financial data systems. USD(AT&L) officials stated that improving and linking data within its contract and financial systems could help enable DOD to determine

- what it planned to spend on a particular service,
- what it actually spent for that service, and
- which organizations bought the service.

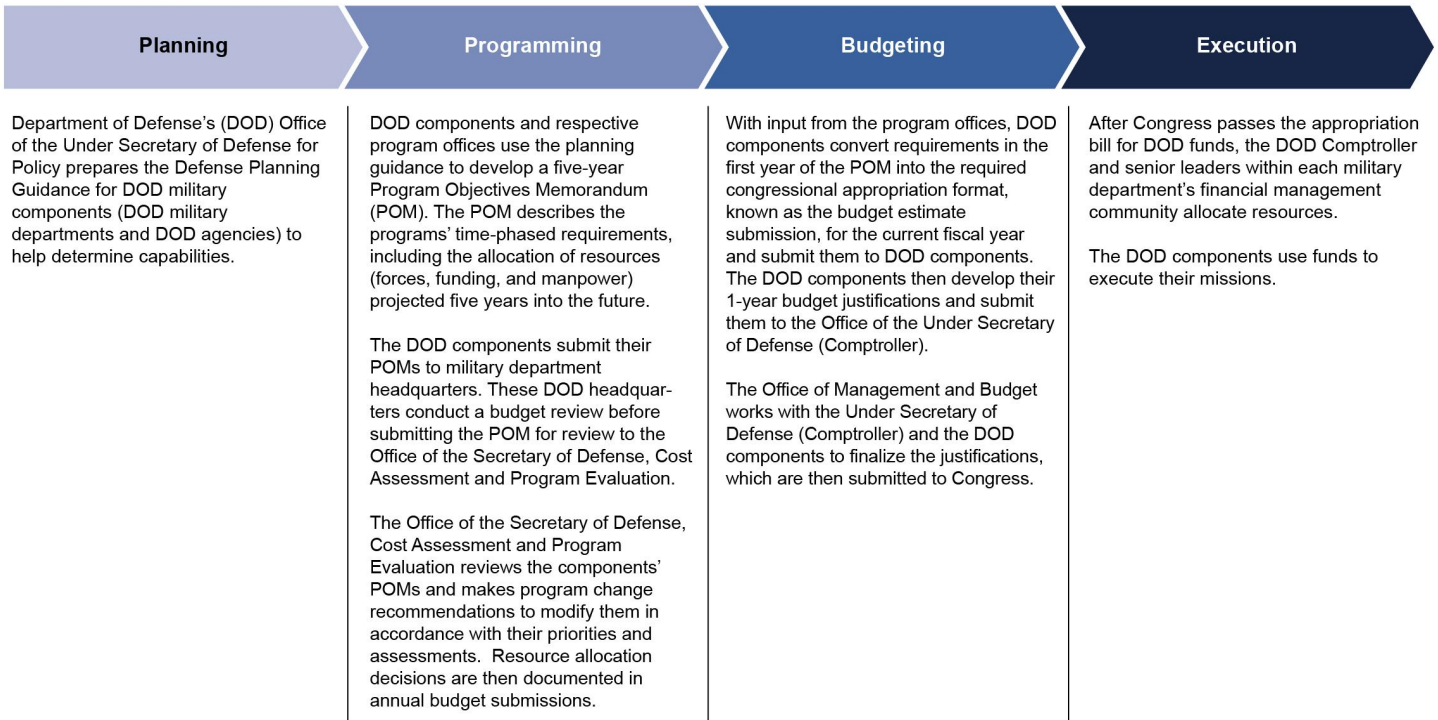
DOD's Process for Planning, Programing, Budgeting, and Execution

Each year DOD uses the PPBE process to determine and prioritize requirements and allocate resources and funding to the military departments and defense agencies. This process, which is governed by DOD Directive 7045.14 and supplemented by military department guidance, is conducted under four phases (see figure 1).¹³

¹²Product and service codes are used within FPDS-NG to identify and classify the services, supplies, and equipment purchased under a contract. A contract may have multiple contract line items, each with its own product and service code, but FPDS-NG will only capture the predominant product or service to be acquired.

¹³Department of Defense Directive 7045.14, "The Planning, Programming, Budgeting, and Execution (PPBE) Process" (January 25, 2013).

Figure 1: DOD’s Planning, Programming, Budgeting, and Execution (PPBE) Process for Determining Requirements and Allocating Resources



Source: GAO analysis of DOD guidance. | GAO-16-119

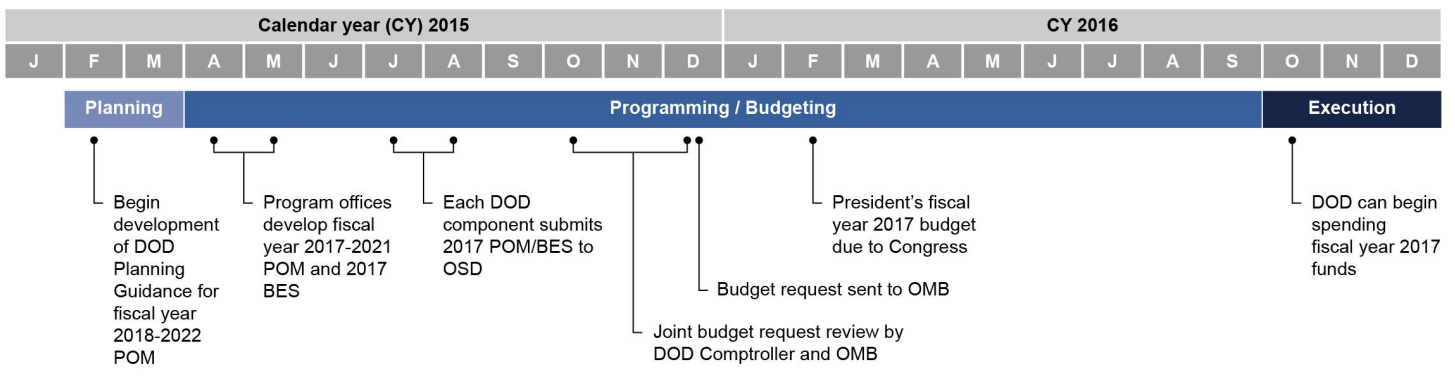
The process includes constructing a 5-year funding plan called the Future Years Defense Program (FYDP). The FYDP provides DOD and Congress a tool for looking at future funding needs beyond immediate budget priorities. The FYDP, which is submitted to Congress, is a DOD database and internal accounting system that contains and summarizes information on DOD’s forces, resources, and equipment that are part of all DOD programs approved by the Secretary of Defense. In 1987, Congress directed the Secretary of Defense to submit the 5-year defense program, in part, to establish a mechanism to help inform DOD and the Congress on current and planned resources as decisions are made.¹⁴ The FYDP

¹⁴National Defense Authorization Act for Fiscal Years 1988 and 1989 (Pub. L. No. 100-180, Sec. 1203 (1987)). The FYDP reporting requirement is currently codified at 10 U.S.C. § 221(a).

reflects decisions made in the DOD PPBE process and represents estimated appropriation needs for the budget year for which funds are being requested from Congress and at least the 4 years following it.

Each phase of the PPBE process is dependent on the preceding phase and DOD is always working through multiple phases of the PPBE process for multiple fiscal years at any given time during a calendar year. For example, at the beginning of calendar year 2015, the planning phase began with the development of the Defense Planning guidance for the fiscal year 2018-2022 POM, while DOD was also in the programming and budgeting phases to develop the fiscal year 2017-2021 POM and 2017 budget submission, which all occurred as DOD was in the execution phase of the fiscal year 2015 budget (see figure 2).

Figure 2: Notional Time Frames for DOD’s Planning, Programming, Budgeting, and Execution Process



- BES** Budget Estimate Submission
- DOD** Department of Defense
- OMB** Office of Management and Budget
- OSD** Office of the Secretary of Defense
- POM** Program Objectives Memorandum

Source: GAO analysis of DOD documents. | GAO-16-119

The planning phase is the first step of the PPBE process and occurs near the beginning of each calendar year. In this phase, DOD is to determine what capabilities are needed in the future. At the end of the planning phase, the Office of the Under Secretary of Defense for Policy is to issue the Defense Planning Guidance to DOD components. This guidance includes major DOD planning objectives and scenarios, strategic factors, and fiscal limitations. The Defense Planning Guidance is then to be factored into the development of component POMs. POMs are to be

established by each DOD component for their programs and are 5-year funding plans for the specific capabilities needed to meet planning guidance objectives, and are to be submitted to DOD senior leaders for review.

The programming phase follows the planning phase and begins in the April to May time frame. Its purpose includes prioritizing the programs which best meet the military strategy needs, as documented in the Defense Planning Guidance. More specifically, it is when the DOD components, with input from their DOD commands and program offices, are to determine the requirements needed to provide capabilities for national security. This information is then to be presented in the POM. The POM is completed at least two years before the estimated funds will be spent and documents funding needs for 5 years into the future. For example, the fiscal year 2017-2021 POM is to be completed in fiscal year 2015 and document the requirements and resources needed for fiscal years 2017 through 2021.

In preparation for this phase, each military department is to issue annual POM guidance to inform commands and program offices of the types of information that should be included in POM submissions, the format, and time frames for completion. Organizations responsible for issuing this guidance are within the programming community and include

- Army's G-8, Program Analysis and Evaluation
- Office of the Chief of Naval Operations
- Secretary of Air Force Financial Management

Other organizations, such as major commands or program executive offices, may issue supplemental guidance based on that organization's needs.

Generally, commands and program offices determine and document requirements, priorities, and funding needs that are used to support their respective command's POM in the fall. Consolidated POM estimates are to be submitted to the DOD Components in early spring and then to Office of the Secretary of Defense (OSD) in July or August.

Before submitting the POM to OSD in July, the Office of the Secretary of Defense, Cost Assessment and Program Evaluation, and other DOD senior leaders, including those in the financial management and programming community, are to review POM documents to validate and

prioritize requirements and make department wide resource allocation decisions.

The budgeting phase of the PPBE process happens at the same time as the programming phase and its purpose is to decide how much prospective funding to allocate to each of the DOD programs for the next fiscal year. DOD program offices are to convert their requirements in the first year of the POM into the congressional appropriation format, known as the budget estimate submission (BES). The BES and the POM submissions are to be used by each DOD component financial management office and DOD Comptroller to formulate the President's budget request. The DOD Comptroller and the OMB review the submissions to ensure that program funding aligns with current policy and is justified to Congress. The President's budget is required to be submitted to Congress no later than the first Monday of February. In the President's budget, contracted services are identified by eight spending categories, known as object class codes, as shown in table 2.¹⁵

Table 2: Office of Management and Budget Object Class Code Definitions

Object Class Code	Description
25.1	Advisory and assistance services
25.2	Other services from non-federal sources
25.3	Other federal purchases
25.4	Operations and maintenance of facilities
25.5	Research and development contracts
25.6	Medical care
25.7	Operations and maintenance of equipment
25.8	Subsistence and support of persons

Source: GAO presentation of Office of Management budget guidance. | GAO-16-119

Services within these codes may be associated with more than one of DOD's portfolio groups. For example, object class code 25.1, advisory and assistance services, may be associated with both the knowledge-based and the research and development portfolios. Object class code data is presented for each military department appropriation. In the fiscal year 2015 President's budget, contracted services for the military

¹⁵Office of Management and Budget, *Circular No. A-11: Preparation, Submission, and Execution of the Budget*.

departments were included in 38 different appropriations and 192 separate lines in the budget.

Each military department has a different approach to developing its budget request. Both the Air Force and the Navy have data systems to collect program office object class code data on budget year spending estimates for contracted services, which inform the first year of the POM. The Army, however, does not utilize program office data to develop its budget request and does not have a data system or process to collect such information from program offices. Instead, the Army Budget Office uses historical budget execution data to develop its budget request.

The execution phase occurs at the same time as the programming and budgeting phases. As part of the execution phase, the Comptroller and DOD senior leaders within each military department's financial management community are to determine how to allocate funds. Also during this phase, DOD components execute programs and budgets of funded POM requirements.

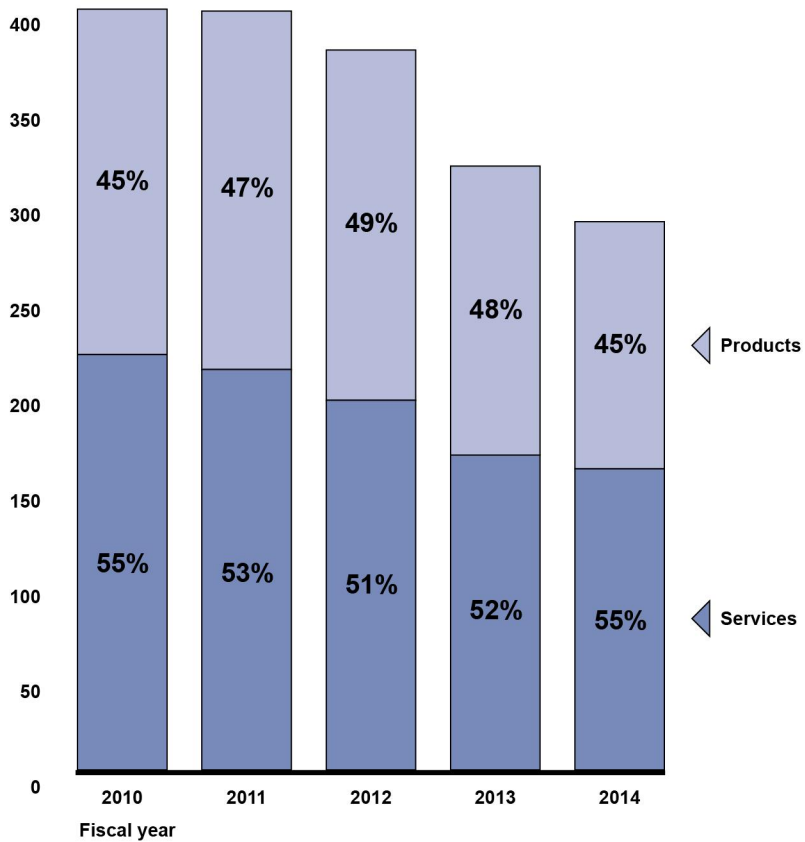
**Over the Last 5
Years, DOD
Consistently
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for Services,
Predominantly in
Three Categories**

Despite an overall reduction in product and service contract obligations since 2010, the percentage that service contracting accounted for relative to DOD's total contract obligations remained relatively stable. For example, DOD's obligations on service contracts decreased from \$218 billion in fiscal year 2010 to \$156 billion in fiscal year 2014, but accounted for 51 to 55 percent of DOD total contract obligations (see figure 3).¹⁶

¹⁶ Adjusted for inflation to fiscal year 2015 dollars.

Figure 3: Comparison of DOD Obligations on Contracts for Products and Services for Fiscal Years 2010 through 2014

U.S. dollars (in billions)^a
450

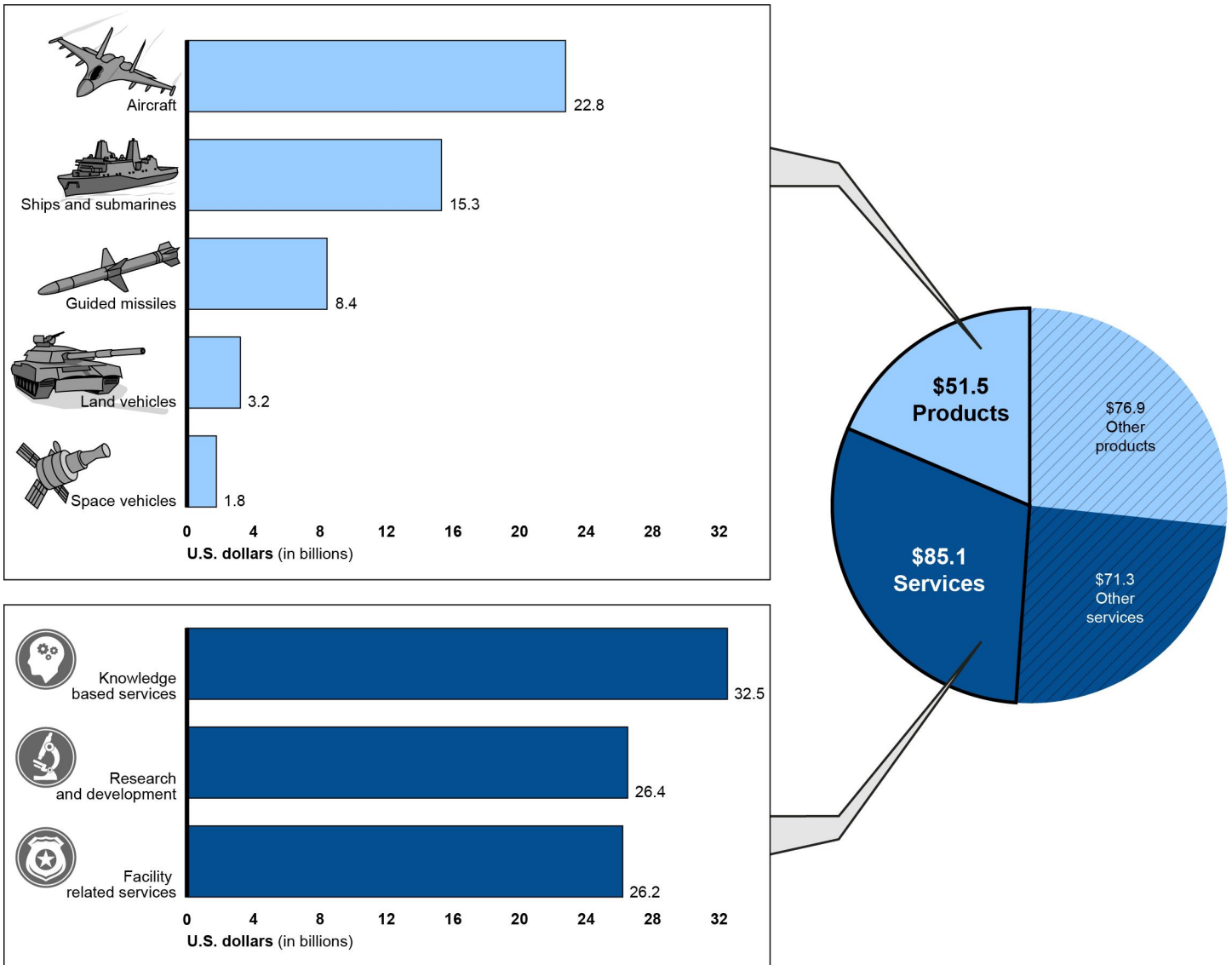


Source: GAO analysis of Federal Procurement Data System - Next Generation data. | GAO-16-119

^aData has been adjusted for inflation to fiscal year 2015 dollars.

Further, DOD obligated more than half of contracted service dollars to three service portfolio groups—knowledge-based, research and development, and facility-related services. In fiscal year 2014, DOD obligated more to these three portfolio groups than it did for the procurement of guided missiles, aircraft, vehicles, ships, submarines, and space vehicles (see figure 4).

Figure 4: Comparison of DOD Obligations on Contracts for Selected Products and Top Three Portfolio Groups of Services in Fiscal Year 2014

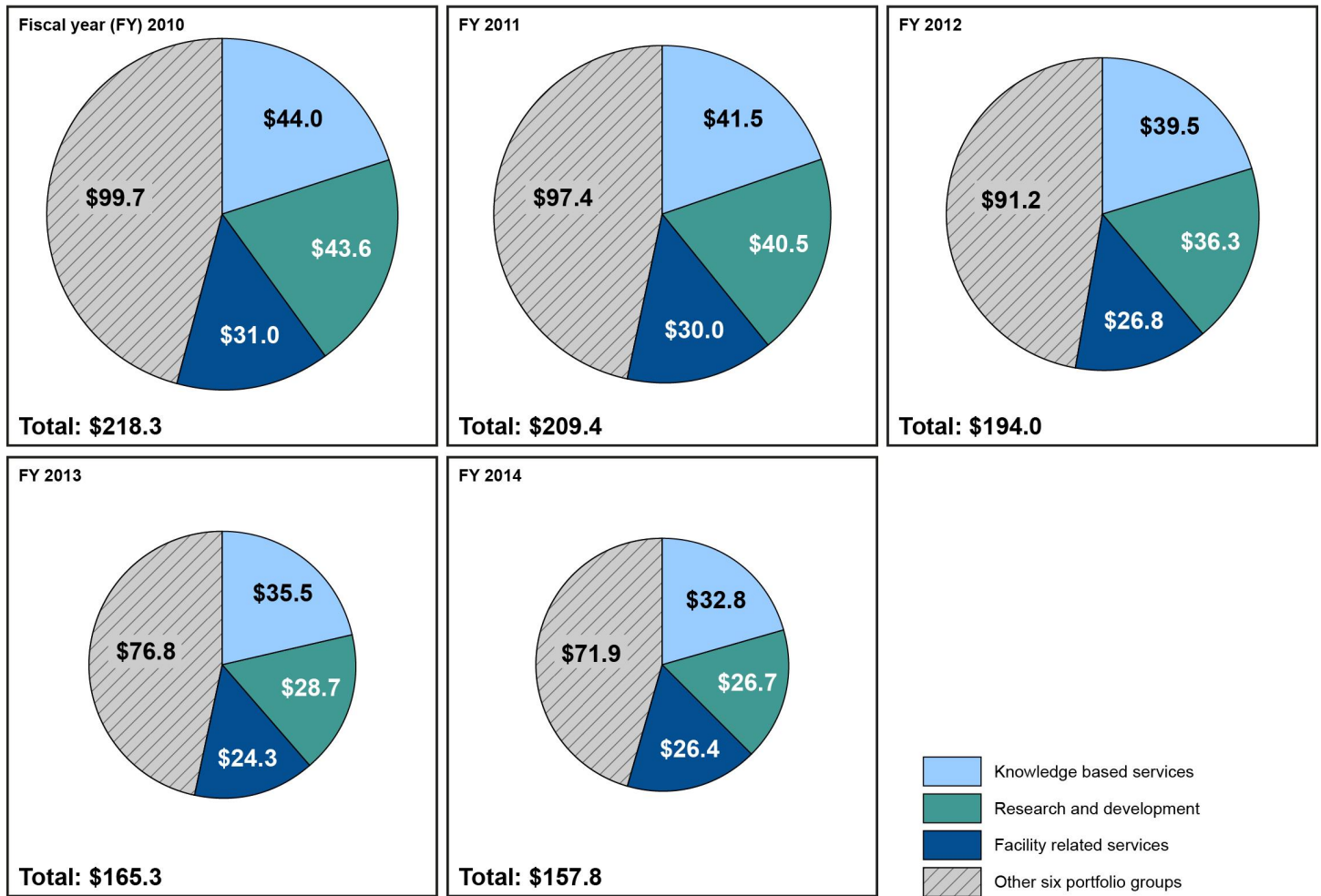


Source: GAO analysis of Federal Procurement Data System - Next Generation data. | GAO-16-119

These three service portfolios collectively have represented the majority of DOD's obligations on services since fiscal year 2010 (see figure 5).

Figure 5: DOD Service Contract Obligations on Its Nine Portfolio Groups between Fiscal Years 2010 through 2014

U.S. dollars (in billions)^{a,b}



Source: GAO analysis of Federal Procurement Data System - Next Generation data. | GAO-16-119

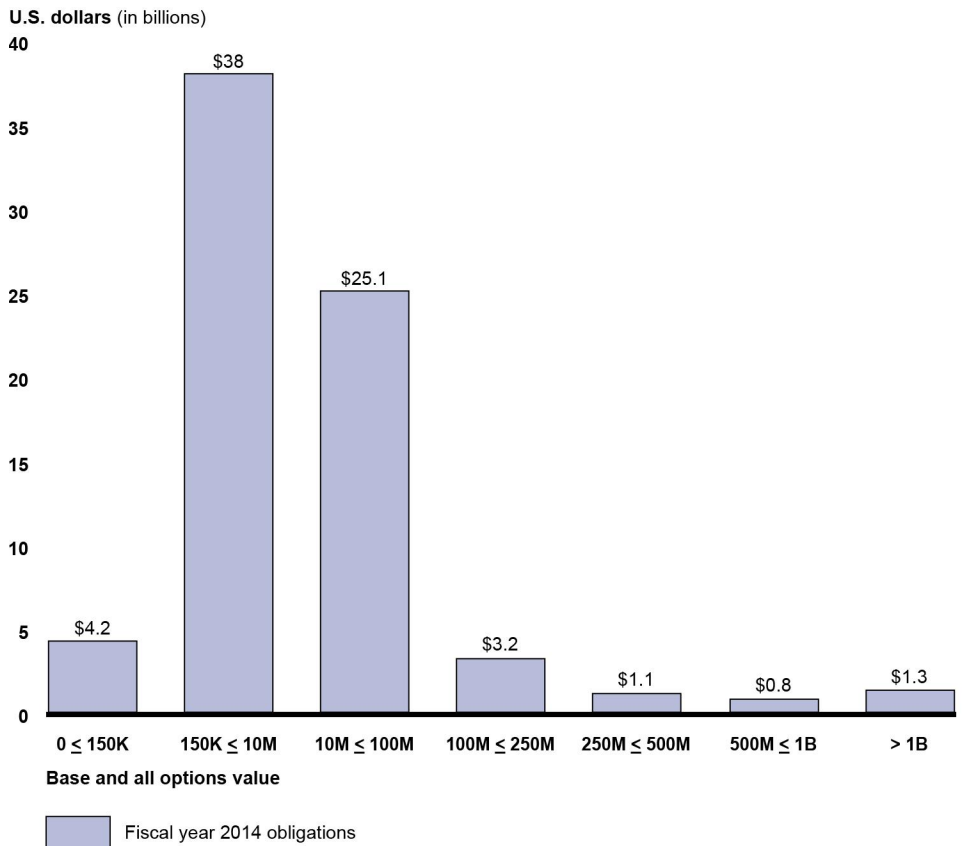
^aData has been adjusted for inflation to fiscal year 2015 dollars.

^bDollar amounts may not sum due to rounding.

Lastly, unlike a major weapon system, such as the Joint Strike Fighter, which may award a contract valued at hundreds of millions, or even billions of dollars, our analysis found that in fiscal year 2014 over 150,000 service contracts and orders were awarded or issued. Nearly 97 percent of these were valued at \$10 million or below and represented about 57 percent of all obligations to service contracts awarded in 2014. Figure 6

shows the distribution of contract actions for contracted services by dollar value.

Figure 6: Distribution of the Value DOD Service Contracts Awarded in Fiscal Year 2014



Source: GAO analysis of Federal Procurement Data System - Next Generation data. | GAO-16-119

Existing Data on DOD's Future Spending for Contracted Service Requirements Not Fully Captured by DOD's Programming and Budgeting Processes

The program offices we met with generally had data on their estimated service contract spending associated with requirements for both the upcoming budget year and the succeeding four years. To the extent this is true for most DOD program offices, the raw data military departments would need to forecast spending on contract services is available. DOD's programming policy and supplemental military guidance, however, does not require components to identify future spending on contracted services beyond the budget year. As a result, DOD senior leadership has limited insight into the extent to which contracted services will be used to help meet requirements through the four remaining years of FYDP. Each military department has undertaken some initial, yet different, steps to collect data on program office service contract requirements and integrate them into the POM. For example, the Army plans to request data from program offices, such as product service code data, on all service contracts to be awarded over the next 5 years. In contrast, the Air Force plans to continue to collect object class data only for those service contracts using operations and maintenance funds beyond the budget year. DOD, however, lacks a mechanism to coordinate these efforts which increases the risk of the collection of inconsistent data.

DOD Program Offices Generally Maintain Data on Future Service Contract Requirements

Program officials we met with generally kept track of their future service contract needs and estimated contract costs not only for the budget year, but also for the four additional years that are included through the FYDP. Program officials stated that they generally know the costs associated with recurring requirements already being fulfilled by contractors and can generally estimate which requirements will be met by contractors for the foreseeable future and factor such costs into their POM estimates. For example:

- Air Force Minuteman Minimum Essential Emergency Communications Network Program Upgrade office developed cost estimates that included details on anticipated costs through the FYDP for software, hardware material, and the advisory and assistance services associated with the requirement. For fiscal years 2014 through 2017, program officials estimated \$6.3 million was needed for engineering, technical, and professional support services, approximately 15 percent of the anticipated program costs over that time.
- Army's Software Engineering Center developed detailed costs estimates on each of the suites of software they were responsible for sustaining. For each suite, the Center developed cost estimates for government employees, software licensing fees, and contractor labor

through the FYDP. For one such suite of software, the Center identified it needed \$3.7 million from fiscal years 2016 through 2021 for information technology services, approximately 6 percent of the anticipated sustainment costs. Program officials explained that this data was used to develop the total cost estimates presented in its POM.

- The Navy's Strategic and Attack Submarine Program Office utilized the Naval Surface Warfare Center to help it develop and acquire a new ship handling processing unit for the Seawolf class submarine. The Naval Surface Warfare Center had detailed information on the service contract costs associated with the work to be performed, which included about \$1.4 million of engineering and technical support, approximately 72 percent of what the Center estimated it needed to support the program office's requirement in fiscal year 2016.

Program officials stated that, in some cases, requirements emerge in the year of execution and therefore are neither planned for nor are their related costs incorporated into the POM inputs they previously prepared. They added that emergent requirements are unavoidable and that all service contract needs cannot be planned for in advance. For example:

- NAVSEA awarded a nearly \$1.4 million contract in 2013 to obtain expertise needed to help the Navy's Virginia Class Submarine program office prepare a cost assessment related to sub-system material supplier quotes it was evaluating as part of a multi-billion dollar submarine procurement. To enable timely completion of the proposal evaluation, program officials stated that they determined additional support was required to prepare the evaluation. As there was not adequate in-house staff to do all the evaluations, contractor services were obtained. Although the contract was not planned and budgeted for through the POM process, officials stated that the contract was funded using already available funding resources that would minimally impact the program as a whole.
- The Army Materiel Command awarded a \$3.1 million contract in 2011 to develop a capability maturity model to aid in project management executed by its Space and Terrestrial Communication Directorate. Program officials stated that they needed additional support after a base closure. They stated that the requirement, however, was developed outside of their normal programming process and associated costs were not included in their POM.

Planned Service Contract Spending Is Not Required to Be Identified in the POM Submissions Beyond the Budget Year

While program offices we reviewed generally maintained data on their service contract requirements beyond the budget year, neither DOD Directive 7045.14 or supplemental military department guidance require program offices to identify which requirements through the FYDP will be met through the use of service contracts in POM inputs. For example, DOD Directive 7045.14 requires that military departments develop POMs in accordance with planning, programming, and fiscal guidance, but does not require that contracted services be separately identified. Similarly, our review of supplemental Navy and Air Force guidance found that contracted services were not addressed in this guidance. Additionally, an official from Army Program, Analysis, and Evaluation (PAE)—responsible for developing the Army’s POM guidance—stated that Army supplemental guidance does not address contracted services.

The Army Materiel Command, Air Force Materiel Command, and the Offices of the Chief of Naval Operations for Undersea and Surface Warfare, respectively, issued supplementary guidance to program offices to assist with fiscal year 2015 or 2016 POM preparations. This supplemental guidance generally directed program offices to identify and prioritize their requirements, and to include the total associated funding needed through the FYDP. Program offices were also directed to identify any capability gaps or unfunded requirements so decision makers can redirect future funding if needed. This supplemental guidance, however, did not require program offices to specifically identify what requirements and capabilities would be achieved with the support of service contracts. Program office representatives we met with explained that the officials responsible for approving POM submissions could request information on service contract requirements. For example, the 2016-2020 POM guidance issued by the Office of the Chief of Naval Operations for Undersea Warfare required program offices to provide an estimate for the cumulative service contract costs and full time-equivalents that would be used to support the program office through fiscal year 2017. An official responsible for developing this guidance stated that this was requested, in part, to help identify potential service contract reductions as a means of achieving congressionally mandated spending reductions on services.¹⁷

¹⁷For more information on limitations to DOD spending on contracted services, see GAO, *DOD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed*, [GAO-15-115](#) (Washington, D.C.: Dec. 11, 2014); and *DOD Contract Services: Improvements Made to Planning and Implementation of Fiscal Controls*, [GAO-15-780](#) (Washington, D.C.: Sept. 30, 2015).

The guidance did not, however, require that the service contract portion of each requirement be identified. An Undersea Warfare official stated that those spending reductions were achieved and was unsure if they would continue collecting such data.

As there was no requirement to do so, program offices did not identify in POM inputs those requirements that would be satisfied through service contracts beyond the budget year. The presentation and detail of information in POM inputs we reviewed varied, but these inputs generally included the program office's objectives, schedule, a description of its requirements or capabilities, and the associated funding by appropriation that would be needed through the FYDP. For example:

- The Air Force Minuteman Minimum Essential Emergency Communications Network Program Upgrade office, which developed its fiscal year 2015-2019 POM input in accordance with Secretary of Air Force Financial Management guidance, identified equipment that needed to be procured and fielded and an overall cost estimate for related activities through fiscal year 2019. Service contracts were not identified in the POM documentation provided. Program officials confirmed, however, that service contracts were used in support of meeting these requirements. In reviewing underlying information used by the program office to formulate the POM, we found that at least \$2.6 million of the \$12.3 million it requested in fiscal year 2015 was for advisory and assistance services.
- The Navy's Strategic and Attack Submarine Program Office, which developed its fiscal year 2016-2020 POM in accordance with Office of the Chief of Naval Operations for Undersea Warfare guidance, included only its total direct program support contractor costs through fiscal year 2017, not all the estimated service contract spending through the FYDP. It also identified steps it was taking to reduce reliance on service contractors. It did not, however, identify what portion of specific requirements would be satisfied through service contracts. For example, the program manager explained that a \$32 million fiscal year 2015 requirement—in part, for lifecycle support to Virginia Class submarine—included in its POM submission was expected to be met through service contract support. This \$32 million, however, was not in the program's contracted services section of its POM input since that section only identified program office support.

Senior leaders across DOD acknowledge they have limited insight into what requirements in the POM may be addressed through service contracts. For example, Army PAE officials noted that the lack of a

mechanism to associate service contracts with requirements in the POM limits their insight into how requirements will be addressed through the FYDP. Additionally, the Navy Senior Services Manager identified several challenges that do not allow service contracts to be managed like other programs, including that detailed information on planned service contract spending beyond the budget year is not captured outside of the program office. According to the Navy Senior Services Manager, this limits the department's insight into future spending on capabilities that program offices have determined will be met through long-term service contracts, such as food services or base operating support. Similarly, the Air Force's Senior Services Manager and representatives from its Financial Management office stated that the current POM and budgeting process does not provide them adequate insight into the requirements for service contracts over the remaining years of the FYDP.

The absence of policy or guidance requiring the military departments to report on the extent to which contracted services will be used to address requirements—data that is generally maintained and readily available by the program offices we reviewed—identified in the POM increases the risk that key information may not be considered when senior DOD leadership approves future requirements. Federal internal control standards require management to use quality information to both mitigate risks and achieve agency objectives, such as better managing spending on contracted services.¹⁸ Until DOD takes action to better identify and forecast contract service requirements, the department is at continued risk of planning and approving requirements without information on how services, which constitute the majority of DOD contract spending, will be used.

Additionally, by including projected service contract spending in the POM, DOD would be better positioned to address Congressional requirements to report on future spending that, to date, it has not been able to do. Specifically, section 955(b) of the National Defense Authorization Act for Fiscal Year 2013 required DOD to, among other things, report on projected savings associated with civilian and contracted services workforce from fiscal years 2012 through 2017, relative to the savings in funding for basic military personnel pay achieved from reductions in

¹⁸GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999)

military end strengths over the same period of time. In its 2014 report to Congress, DOD noted that it could not provide insight into projected savings for fiscal years 2016 and 2017 because it does not forecast service contractor requirements beyond the budget year.

Military Departments Have Taken Ad Hoc Steps to Forecast Contracted Services Requirements, but These Efforts Lack Coordination

Each military department has undertaken some initial steps to better project contract services requirements beyond the budget year but these efforts could result in the collection of different data. For example:

- In 2014, the Secretary of the Navy directed that the Assistant Secretaries of the Navy for Research, Development and Acquisition and for Financial Management and Comptroller develop a means to integrate contract services into the planning, programming, and budgeting processes to better manage service contract planning and execution in response to budgetary pressures. The Secretary of the Navy expected that by increasing visibility and granularity of contracted services requirements in the POM, the Navy would be better positioned to responsibly meet budget constraints. By the 2019 POM, the Navy plans to establish an integrated Navy-wide business intelligence tool that would enable the department to track the identification, validation, funding, and spending related to contracted services requirements through the FYDP in existing information systems. The Navy's Senior Service Manager believes that by doing so, the department will better be able to plan requirements for service contracts and make informed decisions about opportunities to acquire services in a more effective manner. The Office of the Chief of Naval Operations for Undersea Warfare has also taken steps to address the Secretary of the Navy's requirement by directing program offices to include overall estimated spending by service object class code and list all contracts that fall under those codes for the 2017-2021 POM.
- Army PAE officials stated that they plan to direct Army commands to identify all requirements and their associated service contracts in the fiscal year 2018-2022 POM. These officials stated that they plan to request data from program offices, such as product service code data, on all service contracts to be awarded over the next 5 years. Army PAE officials stated this effort is intended to resolve gaps in their insight into future service contract requirements and to better control spending on service contracts. Officials stated that this approach was piloted on a limited basis at one organization within the Army Training and Doctrine Command. Army PAE officials report that the effort was successful, capturing estimates for 176 current or future service contracts, but the accuracy of these estimates cannot be verified until

2019, when spending on these contracts can be tracked. Army Training and Doctrine Command officials that developed the data stated that the Army should consider incrementally implementing this effort Army-wide to develop lessons learned and ensure good data is collected, in part, because the pilot was narrowly scoped.

- An Air Force financial management official stated that the Air Force plans to continue its current process. For example, as part of the POM, program offices provide data that is used by the Air Force financial management office to develop service contract spending estimates by object class code. An Air Force financial management official stated that through its budgeting process, it can estimate spending for the next fiscal year. Beyond that, however, their budget systems do not fully identify estimated spending for contract services. For example, object class code data is collected through the FYDP for operations and maintenance related funding, but not for services associated with weapon system development and procurement.

Additionally, DOD's January 2016 service acquisition instruction requires that each military department's Senior Services Manager develop service contract forecasting tools that will be used, in part, to aid in budgeting.¹⁹ The instruction, however, does not specify how far into the future and the level of detail the tools should provide. Defense Procurement and Acquisition Policy officials, who developed the instruction, stated that additional guidance will need to be developed to assist the Senior Services Managers.

The Senior Services Managers, which traditionally have been responsible for overseeing the execution of higher dollar service contracts, stated they face several challenges in meeting this new forecasting requirement. First, they noted they do not have a role in defining, validating, or funding requirements, nor do they play a role in determining which requirements should be contracted for or what portion of the budget will be spent on contracted services, which is the responsibility of commands and program offices. Further, the Navy and the Air Force senior services managers noted they do not collect information to forecast future service contract requirements, while the Army senior services manager collects information on service contracts that are to be awarded in the next year

¹⁹Department of Defense Instruction 5000.74, *Defense Acquisition of Services* (Jan. 5, 2016).

with an estimated value of over \$10 million. These contracts represented about 40 percent of the Army's total spend on new service contracts in fiscal year 2014. The Senior Services Managers believed that efforts to include services in DOD's established POM process could help address this new forecasting requirement if they were provided with such data.

While the military departments and USD(AT&L) are attempting to improve insight into future spending on contracted services, each is taking a different approach and DOD has not articulated a unified or comprehensive approach to doing so. Further, in addition to the military departments' programming and budgeting offices, a number of other organizations within DOD are also involved in the process for identifying, approving, or funding future service contract requirements, including DOD's Cost Assessment Program Evaluation Office and Comptroller, which could benefit from information derived from these efforts. Given that many of these efforts are in their initial stages, senior DOD officials explained the department does not have a mechanism, such as a working group, to coordinate and communicate results from these efforts. Federal internal control standards require that management communicate the types and quality of information needed to achieve objectives.²⁰ Without clear direction and coordination, however, through a working group or some other mechanism, DOD increases its risk that the data being collected will not be consistent, reliable or useful in achieving its objectives.

DOD Budget Exhibits Submitted to Congress Provide Limited Visibility into Contracted Services Spending

DOD budget exhibits provide limited visibility to Congress on planned spending for contracted services. In addition, the primary budget exhibit for services does not meet statutory reporting requirements. In 2009, Congress required DOD to develop an exhibit to identify amounts requested for its service contract spending, in part, to improve oversight by DOD and Congress of DOD's contracted services. In implementing this provision, however, DOD excluded up to \$100 billion—almost two-thirds—on its estimated spending on contracted services for fiscal year 2014 on which it was required to report, in part to maintain consistency with other reporting requirements. Officials acknowledged, however, that this approach to the budget exhibit does not meet statutory requirements. Moreover, unlike DOD budget exhibits for weapon systems and other

²⁰[GAO/AIMD-00-21.3.1](#).

major acquisitions, DOD's other budget exhibits that contain some information on contracted services are not required to include data on projected spending on contracted services beyond the current budget fiscal year. Without a roadmap of future service contract spending needs, Congress has limited visibility into an area that constitutes more than half of DOD's annual contract spending.

DOD Budget Exhibit Improperly Excluded the Majority of DOD's Budget Request for Contracted Services

Section 235, title 10, United States Code requires DOD, in part, to clearly and separately identify, for each budget account, the amount requested for the procurement of contract services (excluding research and development and services related to military construction) for each DOD component, installation or activity in its budget justification materials submitted to Congress. Congressional conferees noted the intent, in part, of the single exhibit was to provide clarity on the total amounts to be spent annually on contracted services and provide DOD and Congress with greater oversight of the procurement of contractor services.

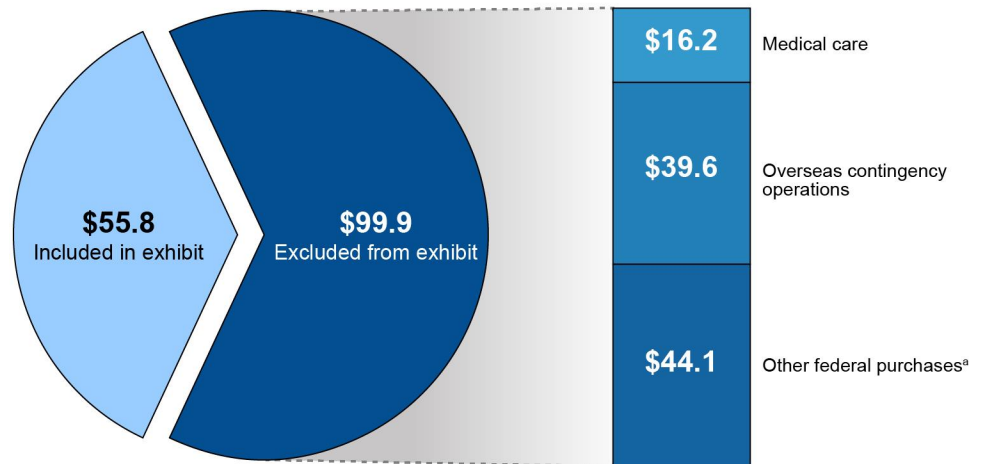
DOD's contracted services budget exhibit intended to meet that statutory reporting requirement, found in the Operation and Maintenance Overview report, however, significantly underreports DOD's estimated budget request for contracted services.²¹ DOD submitted its first exhibit in February 2011, accompanying its budget request for fiscal year 2012, and has done so annually since then. These exhibits, however, do not fully include DOD's budget request for contracted services, as required by section 235, title 10, United States Code, because it improperly excluded projected spending for "medical contracts," "overseas contingency operations," and "other government purchases." For example, in fiscal year 2014, the DOD Comptroller requested approximately \$217 billion for contracted services. Of this, we determined that after appropriately excluding spending on services such as the nearly \$61 billion requested for research and development, DOD should have reported approximately \$155.7 billion in its contracted services exhibit. The fiscal year 2014 exhibit, however, only reported a total of \$55.8 billion for contracted services and improperly excluded nearly \$100 billion in requested

²¹In the fiscal year 2014 exhibit, DOD provided a Contract Services exhibit under Other Data in the annual Operations and Maintenance Overview in its annual budget submissions. These submissions identified amounts requested for procurement of services encompassed within OMB Circular A-11 budgetary object class 25, Other Contractual Services.

spending for medical care, other government purchases, and overseas contingency operations appropriations (see figure 7).²²

Figure 7: Total Value of Contracted Services Improperly Excluded from DOD’s Fiscal Year 2014 Budget Exhibit

U.S. dollars (in billions)



Source: GAO analysis of Department of Defense (DOD) Comptroller data. | GAO-16-119

^aAccording to DOD Comptroller officials, other federal purchases include services acquired by DOD for other federal agencies, but it also includes services acquired by DOD components on behalf of other DOD components. The DOD Comptroller, however, could not identify what portion of these funds is associated with DOD’s requirements, which should be included in the exhibit, as opposed to other federal agencies.

Representatives from DOD’s General Counsel acknowledged that they could not identify any legal basis for DOD to categorically exclude spending for these three types of services from the budget exhibit. They stated that DOD had intended to attain consistency across multiple contract services reporting requirements. For example, a DOD Comptroller official stated that they used the same approach to address the section 235 reporting requirement as was used to respond to service contracts spending limitation requirements in section 808 of the National Defense Authorization Act for Fiscal Year 2012, which authorized DOD to

²²Section 235(c) of title 10, United States Code does not state whether excluded research and development services are defined by appropriation or object class code, so, we excluded both the budgeted amounts for the research and development object class code 25.5, and from DOD’s five different research, development, test, and evaluation appropriations.

exclude some services, such as overseas contingency operation funding. In addition, DOD officials explained that they also sought to avoid inclusion of spending within the medical care services and other federal purchases categories that they may not consider to be contracted services. For example, officials stated that they excluded the medical care object class code in part because it includes payments to insurance carriers which do not involve contracted services to DOD in the conventional sense. Nevertheless, this approach has resulted in DOD not meeting its reporting requirements on services. The DOD Comptroller is considering including additional contracted services, such as those funded through overseas contingency operation appropriations, in future budget exhibits. Until DOD takes action to modify its approach for complying with Section 235 of title 10, United States Code, it will continue to underreport estimated spending on services and inhibit congressional oversight. DOD subsequently reported that it plans to fully report on its estimated service contract spending in its 2017 budget exhibit.

Other DOD Budget Exhibits Provide Only Limited Information on One Year of Future Spending Data for Service Contracts

Although DOD spends the majority of its contract spending on services, requirements to forecast future year spending is limited to the next budget year. DOD's Financial Management Regulation, which governs the information that accompanies the President's budget request, does not require DOD to develop exhibits that specifically identify contracted services beyond the current budget year. As part of the President's budget request—which outlines budget year request data by object class code for each military department appropriation—DOD's requested funding for a portion of contracted services are found within two budget exhibits: PB-15, Advisory and Assistance Services, and OP-32, Summary of Price and Program Changes. The PB-15 summarizes each military department's budget request for advisory and assistance services associated with the operations and maintenance appropriation for the current budget year. This exhibit also provides data on what Congress appropriated and DOD spent for the prior fiscal year for these services. The PB-15 exhibit does not, however, include data on expected spending for advisory and assistance service contracts beyond the current budget year (see figure 8 for an example of the Army's fiscal year 2015 PB-15 exhibit).

Figure 8: Example of Department of Army Fiscal Year 2015 PB-15, Budget Exhibit on Advisory and Assistance Services

DEPARTMENT OF THE ARMY FISCAL YEAR (FY) 2015 BUDGET ESTIMATES Operation and Maintenance, Army Advisory and Assistance Services			
Appropriation: Operation & Maintenance, Army (2020)	FY 2013	FY 2014	FY 2015
I. Management & Professional	2,657,324	278,235	268,274
Support Services			
FFRDC Work	14,350	4,285	4,131
Non-FFRDC Work	2,642,974	273,950	264,143
II. Studies, Analyses &	117,331	23,025	23,210
Evaluations			
FFRDC Work	17,682	956	1,005
Non-FFRDC Work	99,649	22,069	22,205
III. Engineering & Technical	1,428,830	34,941	31,944
Services			
FFRDC Work	12,002	4,927	4,207
Non-FFRDC Work	1,416,828	30,014	27,737
Total Direct ¹	4,203,485	336,201	323,428
FFRDC Work	44,034	10,167	9,343
Non-FFRDC Work	4,159,451	326,034	314,085
Total Reimbursable	1,052,916	-	-
Total OMA	5,256,401	336,201	323,428
FFRDC (Federally Funded Research and Development Centers)			
1 FY 2013 Total Direct includes \$2,889,133 of Overseas Contingency Operations Funding.			

Exhibit PB-15, Advisory and Assistance Services
March 2014

Source: Department of Army. | GAO-16-119

Each military department also submits operations and maintenance budget exhibit OP-32 to report on price and program changes for multiple budget categories besides contracted services. The exhibit includes 78 separate line items, 21 of which can be cross walked to a service contract object class code. Similar to the PB-15, this exhibit provides data on the current budget year and the two preceding fiscal years (see figure 9 for an excerpt from the Army’s fiscal year 2015 OP-32 exhibit).

Figure 9: Example of How Contracted Services Are Identified in Department of Army Fiscal Year 2015 OP-32, Budget Exhibit

DEPARTMENT OF THE ARMY
Fiscal Year (FY) 2015 Budget Estimates
Operation and Maintenance, Army
OP-32
(\$ in Thousands)

	FY 2013 Program	FC Rate Diff	Price Growth Percent	Price Growth	Program Growth	FY 2014 Program	FC Rate Diff	Price Growth Percent	Price Growth	Program Growth	FY 2015 Program
0929 AIRCRAFT REWORKS BY CONTRACT	7,597	0	1.90%	145	12,199	19,941	0	1.80%	359	-2,810	17,490
0930 OTHER DEPOT MAINTENANCE (NON-FUND)	274,696	0	1.90%	5,220	-33,790	246,116	0	1.80%	4,430	-250,546	0
0932 MANAGEMENT AND PROFESSIONAL SUPPORT SERVICES	2,657,324	0	1.90%	50,485	-1,641,360	1,066,449	30	1.80%	19,195	-917,400	268,274
0933 STUDIES, ANALYSIS, AND EVALUATIONS	117,331	0	1.90%	2,228	-89,218	30,341	0	1.80%	546	-7,677	23,210
0934 ENGINEERING AND TECHNICAL SERVICES	1,429,830	0	1.90%	27,146	-1,094,798	361,198	0	1.80%	6,502	-335,746	31,944
0937 LOCALLY PURCHASED FUEL (NON-FUND)	687,310	0	-2.95%	-20,274	91,254	758,290	0	2.21%	16,757	-742,711	32,336
0953 MILITARY - OTHER PERSONNEL BENEFITS	7	0	0.00%	0	73	80	0	0.00%	0	-80	0
0955 MEDICAL CARE	4,703	0	3.90%	184	-4,393	494	0	3.70%	18	0	512
0957 LAND AND STRUCTURES	993,565	0	1.90%	18,878	-293,004	719,439	0	1.80%	12,949	-390,881	351,507
0958 INVESTMENTS AND LOANS	62	0	0.00%	0	-62	0	0	0.00%	0	0	0
0959 INSURANCE CLAIMS AND INDEMNITIES	10,916	0	1.90%	205	-5,759	5,262	0	1.80%	94	-57	5,299
0960 INTEREST AND DIVIDENDS	4,798	0	1.90%	90	-4,670	218	0	1.80%	4	-93	129
0964 SUBSISTENCE AND SUPPORT OF PERSONS	169,148	0	1.90%	3,214	-66,842	106,520	0	1.80%	1,917	-10,971	97,466
0984 EQUIPMENT CONTRACTS	0	0	1.90%	0	55	55	0	1.80%	1	-56	0
0985 RESEARCH AND DEVELOPMENT CONTRACTS	9,660	0	0.00%	0	-7,501	2,159	0	0.00%	0	-307	1,852
0987 OTHER INTRA-GOVERNMENT PURCHASES	3,355,933	0	1.90%	63,761	-512,120	2,907,574	-9,827	1.80%	52,155	-656,570	2,293,332
0988 GRANTS, SUBSIDIES AND CONTRIBUTIONS	725,192	-2,360	1.90%	13,733	86,426	822,991	-11,138	1.80%	14,613	-408,223	418,243
0989 OTHER SERVICES	5,879,700	-201	1.90%	111,712	-1,054,306	4,936,905	-1,010	1.80%	88,850	-2,604,235	2,420,510
0990 IT CONTRACT SUPPORT SERVICES	2,073,177	0	1.90%	39,388	279,255	2,391,820	-722	1.80%	43,039	-1,126,806	1,307,331
0991 FOREIGN CURRENCY VARIANCE	-53,807	0	0.00%	0	53,807	0	0	0.00%	0	0	0
0993 OTHER SERVICES - SCHOLARSHIPS	321,543	0	1.90%	6,109	-63,115	264,537	0	1.80%	4,762	7,402	276,701
0999 TOTAL OTHER PURCHASES	34,391,730	-9,112		613,880	-1,764,784	33,231,714	-69,154		595,658	-17,951,229	15,806,989
9999 GRAND TOTAL	64,804,594	-12,692		1,166,642	-2,945,411	63,013,143	-73,358		560,722	-30,260,359	33,240,148

Exhibit OP-32 Summary of Price and Program Change

Source: Department of Army. | GAO-16-119

In contrast, the Financial Management Regulation requires up to 28 budget exhibits for the procurement of weapon system programs valued at \$5 million or more, which include estimated costs through the 5-year period of the FYDP. DOD budget exhibits for weapon systems are not required, however, to specifically identify contracted services that may be acquired in support of these weapon systems. For example, the Air

Force's Exhibit P-3A for modifications to the Minuteman III system, a land-based intercontinental ballistic missile requested \$11.8 million in procurement funding in fiscal year 2015. In this exhibit, for fiscal year 2015, the program requested \$4.1 million under a line item identified as Program Management Administration. Program officials explained that Program Management Administration category includes costs for program office travel and supplies, as well as for advisory and assistance services. We found that approximately \$2 million—or about half of the amount requested under Program Management Administration—was for advisory and assistance services.

Consequently, there is no current budget exhibit, either specific to services or for weapon systems, that would provide the Congress insights into service contract spending through the FYDP. Congress, however, has expressed interest in greater oversight of DOD future year spending on contracted services. Although DOD program offices have information available through the FYDP for service contracts spending, there is no requirement to provide such information to Congress. As a result, the Congress has limited insights into DOD's planned expenditures for services beyond the current budget year.

Conclusions

DOD has taken several important steps to improve its management of services as well as to increase its knowledge of and visibility into service contract spending. Improving its ability to strategically manage service acquisitions, a stated DOD objective, remains imperative as DOD consistently spends the majority of its contract dollars on services. As we noted almost a decade ago, critical to being more strategic is knowing what you are spending today and what you intend to spend in the future. In that regard, DOD programs have data on not only what they intend to spend next year on services, but, within reason, how much they anticipate spending beyond the budget year. Despite the availability of this data, senior DOD leadership has limited insight on future spending because DOD and the military departments' guidance governing the programming process do not require that it be provided. In other words, data on planned spending on contracted services do not get shared beyond the program office. As a result, DOD may be missing an opportunity to make more strategic decisions and improve the management and oversight of more than half its contract dollars. As the military departments' processes vary, determining how best to collect the data, and what data to collect, is important. For example, each of the military department's senior services managers will be responsible for developing forecasts of future spending on contracted services and each military department has efforts

underway to collect data on service contract spending, though each effort appears to be following different paths. Without some mechanism, such as a working group, to coordinate these efforts, DOD may be at risk of having inconsistent data that will hinder it from moving forward on an enterprise-wide basis.

Information on estimated service contract spending degrades further as DOD provides it to Congress in its annual budget exhibits. DOD provides Congress data on service contract spending in several budget exhibits, but only for the upcoming budget year and no further. Moreover, DOD's principal budget exhibit developed to respond to legislative requirements inappropriately excludes almost two thirds of its spending that is required to be reported. Until DOD takes action to modify its approach for reporting contracted services in its budget exhibits to fully comply with reporting requirements, Congress will not have the statutorily required information needed to help conduct oversight. Even when corrected, however, DOD's exhibits will provide visibility only as far as the current budget year, which diminishes the Congress's ability to consider DOD's future service contract spending needs. By contrast, DOD weapon system budget exhibits include not only current spending needs but information on estimated needs over the next 5 years. Since DOD program offices are generally able to forecast service contract spending through the future year defense program, Congress could augment current DOD reporting requirements to request such information for contracted services over a 5-year period. In doing so, Congress would have data similar to what DOD could collect and would better be better positioned to provide more informed oversight of DOD spending.

Matter for Congressional Consideration

Given that the intent of section 235 of Title 10 United States Code was to provide both DOD and Congress with increased oversight of the procurement of services, Congress should consider revising the section to require that DOD report on its projected spending beyond the budget year and consistent with the time period covered by the future year defense program.

Recommendations for Executive Action

To ensure that senior leadership within the Office of the Secretary of Defense and the military departments are better positioned to make informed decisions regarding the volume and type of services that should be acquired over the future year defense program, we recommend that the Secretaries of the Army, Navy, and Air Force revise their

programming guidance to collect information on how contracted services will be used to meet requirements beyond the budget year.

To ensure the military departments' efforts to integrate services into the programming process and senior service managers efforts to develop forecasts on service contract spending provide the department with consistent data, we recommend that the Secretary of Defense establish a mechanism, such as a working group of key stakeholders—which could include officials from the programming, budgeting and requirements communities as well as the senior services managers—to coordinate these efforts.

To ensure DOD fully complies with section 235 of Title 10, United States Code, we recommend that the Under Secretary of Defense (Comptroller) modify its approach for reporting contracted services in its budget exhibit to ensure that projected requirements for medical care, other federal purchases, and other contingency operations are included.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for comment. In written comments, DOD concurred with one of our three recommendations and partially concurred with two. DOD's written comments, which are summarized below, are reprinted in appendix I of this report. DOD also provided technical comments, which we incorporated as appropriate.

DOD partially concurred with our first recommendation that the Secretaries of the Army, Navy, and Air Force revise their programming guidance to collect information on how contracted services will be used to meet requirements beyond the budget year. In its comments, DOD noted that while its guidance will continue to direct the efficient use of contracted services, the volatility of requirements and each budget cycle constrain the department's ability to accurately quantify service contract requirements beyond the budget year. While we agree that requirements and budgets change over time, our work shows that the needed data already exists. Specifically, the program offices we met with maintained data on their future service contract requirements, beyond the budget year, to support their inputs to the POM. This data, however, was not captured by DOD in such a way to inform senior leadership on future service contract spending. In addition, while DOD partially concurred with this recommendation, it is unclear what action, if any, it plans to take to implement it. We continue to believe that implementing this recommendation will assist the department in gaining better insights into contracted service requirements beyond the budget year and enable it to

make more strategic decisions about the volume and type of services it plans to acquire.

DOD partially concurred with our second recommendation that the Secretary of Defense establish a mechanism to coordinate ongoing efforts to integrate contracted services into the programming process. In its response, DOD did not indicate any actions it plans to take to implement this recommendation, instead noting a number of efforts, such as the establishment of Service Requirement Review Boards, which will aid in the management and oversight of services acquisitions. These efforts, however, do not address the need for a coordinated approach, such as a working group, to ensure that ongoing military department efforts collect consistent data in a manner that would better inform DOD leadership on future service contract spending. In the absence of DOD action to implement this recommendation, the department is at risk of the military departments developing uncoordinated processes and inconsistent data as they mature efforts to make more strategic decisions about contracted service requirements.

DOD concurred with our third recommendation to modify its approach to reporting contracted services in its budget exhibit to fully comply with section 235 of Title 10, United States Code. DOD stated that it will include projected data on service contract spending for medical care, other federal purchases, and overseas contingency operations in its contracted services budget exhibit beginning with the 2017 President's budget.

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

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or DiNapoliT@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on

the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink, appearing to read "Timothy J. DiNapoli". The signature is written in a cursive, flowing style.

Timothy J. DiNapoli
Director, Acquisition and Sourcing Management

List of Committees

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

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

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable Rodney Frelinghuysen
Chairman
The Honorable Pete Visclosky
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Comments from the Department of Defense



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE
1100 DEFENSE PENTAGON
WASHINGTON, DC 20301-1100

FEB 04 2016

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

Dear Mr. DiNapoli:

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-16-119, "DOD SERVICE ACQUISITION: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements," dated December 2, 2015 (GAO Code 121258). The Department appreciates the GAO's work on this engagement, as well as the opportunity to review and comment on this draft report.

The Department partially concurs with the recommendation concerning inclusion in reporting requirements of contract services spending estimates beyond the budget year. The Department's program and budget guidance emphasizes and will continue to direct the efficient use of contract services. However, the volatility of each successive program and budget cycle constrains the Department's ability to accurately quantify contract service requirements beyond the budget.

The Department partially concurs with the recommendation for establishment of mechanisms to coordinate efforts to develop accurate forecasts about contract services spending. Beginning in Fiscal Year 2016, the Department will use Service Requirement Review Boards to evaluate proposed contract services within the Defense Agencies and the senior staffs. Similar efforts are already underway within the Military Services and have proven beneficial in consolidating vendor and license agreements and reducing redundancies while offering better contract prices. The Department is also implementing a policy under which the Deputy Chief Management Officer will approve any business system investments, which includes the associated information technology service contracts, of \$1 million or more. This added process will entail Defense Business Systems (DBS) Investment Management Processes with utilization of Problem Statements and Return on Investment analyses. The DBS Investment Management Process will ensure the Department is making appropriate investments and acquiring capabilities that align to mission priorities while placing decision making at the appropriate level.



**Appendix I: Comments from the Department of
Defense**

The Department concurs with the recommendation concerning inclusion of additional information in budget exhibits and will provide contract services data for medical care, other federal purchases, and overseas contingency operations in the contract services budget exhibit, beginning in the FY 2017 President's Budget submission.

Sincerely,



Monique Dilworth
Director for Operations

GAO DRAFT REPORT DATED DECEMBER 2, 2015
GAO-16-119 (GAO CODE 121258)

**“DOD SERVICE ACQUISITION: IMPROVED USE OF AVAILABLE DATA NEEDED
TO BETTER MANAGE AND FORECAST SERVICE CONTRACT REQUIREMENTS”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

RECOMMENDATION 1: To ensure that senior leadership within the Office of the Secretary of Defense and the military departments are better positioned to make informed decisions regarding the volume and type of services that should be acquired over the future year defense program, GAO recommends that the Secretaries of the Army, Navy, and Air Force revise their programming guidance to collect information on how contracted services will be used to meet requirements beyond the budget year.

DoD RESPONSE: The Department partially concurs with recommendation concerning inclusion in reporting requirements of contract services spending estimates beyond the budget year. The Department’s program and budget guidance emphasizes and will continue to direct the efficient use of contract services. However, the volatility of each successive program and budget cycle constrains the Department’s ability to accurately quantify contract service requirements beyond the budget year.

RECOMMENDATION 2: To ensure the military departments efforts to integrate services into the programming process and senior service managers efforts to develop forecasts on service contract spending provide the department with consistent data, GAO recommends that the Secretary of Defense establish a mechanism, such as a working group of key stakeholders—which could include officials from the programming, budgeting and requirements communities as well as the senior services managers—to coordinate these efforts.

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RECOMMENDATION 3: To ensure DOD fully complies with section 235 of Title 10, United States Code, GAO recommends that the Under Secretary of Defense (Comptroller) modify its approach for reporting contracted services in its budget exhibit to ensure that projected requirements for medical care, other federal purchases, and other contingency operations are included.

DoD RESPONSE: The Department concurs with recommendation concerning inclusion of additional information in budget exhibits and will provide contract services data for medical care, other federal purchases, and overseas contingency operations in the contract services budget exhibit, beginning in the FY 2017 President's Budget submission.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

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

Staff Acknowledgments

In addition to the contact named above, W. William Russell (Assistant Director); Pete Anderson; Josie Benavidez; Justin Jaynes; Jessica Karnis; Julia Kennon; Sylvia Schatz; Suzanne Sterling; and Ozzy Trevino made significant contributions to this review.

Appendix III: Accessible Data

Agency Comment Letter

Text of Appendix I: Comments from the Department of Defense

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OFFICE OF THE UNDER SECRETARY OF DEFENSE

1100 DEFENSE PENTAGON

WASHINGTON, DC 20301- 1. 100

FEB 04 2016

COMPTROLLER

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Director, Acquisition and Sourcing Management

U.S. Government Accountability Office

441 G Street, NW

Washington DC 20548

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Page 2

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Sincerely,

Monique Dilworth

Director for Operations

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GAO DRAFT REPORT DATED DECEMBER 2, 2015 GA0-16-119 (GAO CODE 121258)

"DOD SERVICE ACQUISITION: IMPROVED USE OF AVAILABLE DATA NEEDED TO BETTER MANAGE AND FORECAST SERVICE CONTRACT REQUIREMENTS"

DEPARTMENT OF DEFENSE COMMENTS TO THE GAO
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Page 4

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DoD RESPONSE: The Department concurs with recommendation concerning inclusion of additional information in budget exhibits and will provide contract services data for medical care, other federal purchases, and overseas contingency operations in the contract services budget exhibit, beginning in the FY 2017 President's Budget submission.

Data Tables

Data Table for Highlights Figure: Comparison of DOD Obligations for Top Products and Services in Fiscal Year 2014

Category	U.S. dollars(in billions)
Air, land, and sea vehicles	\$41.2
Largest services categories	\$85.1

Accessible Text for Figure 1: DOD's Planning, Programming, Budgeting, and Execution (PPBE) Process for Determining Requirements and Allocating Resources

Planning:

Department of Defense's (DOD) Office of the Under Secretary of Defense for Policy prepares the Defense Planning Guidance for DOD military components (DOD military departments and DOD agencies) to help determine capabilities.

Programming:

DOD components and respective program offices use the planning guidance to develop a five-year Program Objectives Memorandum (POM). The POM describes the programs' time-phased requirements, including the allocation of resources (forces, funding, and manpower) projected five years into the future.

The DOD components submit their POMs to military department headquarters. These DOD headquarters conduct a budget review before submitting the POM for review to the Office of the Secretary of Defense, Cost Assessment and Program Evaluation.

The Office of the Secretary of Defense, Cost Assessment and Program Evaluation reviews the components' POMs and makes program change recommendations to modify them in accordance with their priorities and assessments. Resource allocation decisions are then documented in annual budget submissions.

Budgeting:

With input from the program offices, DOD components convert requirements in the first year of the POM into the required congressional appropriation format, known as the budget estimate submission, for the current fiscal year and submit them to DOD components. The DOD components then develop their 1-year budget justifications and submit them to the Office of the Under Secretary of Defense (Comptroller).

The Office of Management and Budget works with the Under Secretary of Defense (Comptroller) and the DOD components to finalize the justifications, which are then submitted to Congress.

Execution:

After Congress passes the appropriation bill for DOD funds, the DOD Comptroller and senior leaders within each military department's financial management community allocate resources.

The DOD components use funds to execute their missions.

Source: GAO analysis of DOD guidance. | GAO-16-119

Data Table for Figure 3: Comparison of DOD Obligations on Contracts for Products and Services for Fiscal Years 2010 through 2014

Fiscal year	2010	2011	2012	2013	2014
Products	181.24	188.02	183.79	151.65	129.69
	45%	47%	49%	48%	45%
Services	217.98	210.16	193.98	165.19	158
	55%	53%	51%	52%	55%

Data Table for Figure 4: Comparison of DOD Obligations on Contracts for Selected Products and Top Three Portfolio Groups of Services in Fiscal Year 2014

Products	U.S. dollars(in billions)
Aircraft	22.8
Ships and submarines	15.3
Guided missiles	8.4
Land vehicles	3.2
Space vehicles	1.8

Services	U.S. dollars (in billions)
Knowledge based services	32.5
Research and development	26.4
Facility related services	26.2

Category	U.S. dollars (in billions)
Products	\$51.5
Other products	\$76.9
Services	\$85.1
Other services	\$71.3

Data Table for Figure 5: DOD Service Contract Obligations on Its Nine Portfolio Groups between Fiscal Years 2010 through 2014

	2010	2011	2012	2013	2014
Knowledge based services	44.0	41.5	39.5	35.5	32.8
Research and development	43.6	40.5	36.3	28.7	26.7
Facility related services	31.0	30.0	26.8	24.3	26.4
Other six portfolio groups	99.7	97.4	91.2	76.8	71.9
Total	218.3	209.4	194.0	165.3	157.8

Data Table for Figure 6: Distribution of the Value DOD Service Contracts Awarded in Fiscal Year 2014

Base and all options value	U.S. dollars (in billions)
0 < 150K	4.2
150K < 10M	38.0

Base and all options value	U.S. dollars (in billions)
10M < 100M	25.1
100M < 250M	3.2
250M < 500M	1.1
500M < 1B	0.8
> 1B	1.3

Data Table for Figure 7: Total Value of Contracted Services Improperly Excluded from DOD's Fiscal Year 2014 Budget Exhibit

	U.S. dollars (in billions)
Included in exhibit	55.8
Excluded from exhibit	99.9

Excluded from exhibit	U.S. dollars (in billions)
Medical care	16.2
Overseas contingency operations	39.6
Other federal purchases	44.1

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