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Report to the Subcommittee on Readiness and Management Support, Committee on Armed Services, U.S. Senate

November 2006

DEFENSE ACQUISITIONS

Tailored Approach Needed to Improve Service Acquisition Outcomes

GAO

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Tailored Approach Needed to Improve Service Acquisition Outcomes

Why GAO Did This Study

Department of Defense (DOD) obligations for service contracts rose from $82.3 billion in fiscal year 1996 to $141.2 billion in fiscal year 2005. DOD is becoming increasingly more reliant on the private sector to provide a wide range of services, including those for critical information technology and mission support. DOD must maximize its return on investment and provide the warfighter with needed capabilities and support at the best value for the taxpayer.

GAO examined DOD's approach to managing services in order to (1) identify the key factors DOD should emphasize to improve its management of services and (2) assess the extent to which DOD's current approach exhibited these factors.

What GAO Recommends

GAO recommends that DOD take a proactive approach to managing strategic and transactional level service acquisition elements. This includes establishing a normative position of service spending, determining risk areas for greater attention, and communicating these in a manner where individual transactions can then be made to support strategic goals and meet cost and performance objectives. DOD concurred with all of our recommendations and noted several actions the department is taking or plans to take to improve the acquisition of services.

What GAO Found

Several key factors are necessary to improve DOD's service acquisition outcomes—that is, obtaining the right service, at the right price, in the right manner. These factors can be found at both the strategic and the transactional levels and should be used together as a comprehensive, but tailored approach to managing service acquisition outcomes. At the strategic level, key success factors include (1) strong leadership that defines a corporate vision and normative goals; (2) sustained, results-oriented communication and metrics; (3) defined responsibilities and associated support structures; and (4) increased knowledge and focus on spending and data trends. The strategic level also sets the context for the transactional level, where the focus is on making sound decisions on individual transactions. Success factors at this level include having (1) valid and well-defined requirements; (2) properly structured business arrangements; and (3) proactively managed outcomes.

DOD's current approach to managing service acquisition has tended to be reactive and has not fully addressed the key factors for success at either the strategic or transactional level. At the strategic level, DOD has yet to set the direction or vision for what it needs, determine how to go about meeting those needs, capture the knowledge to enable more informed decisions, or assess the resources it has to ensure departmentwide goals and objectives are achieved. For example, despite implementing a review structure aimed at increasing insight into service transactions, DOD is not able to determine which or how many transactions have actually been reviewed. The military departments, while having some increased visibility, have only reviewed proposed acquisitions accounting for less than 3 percent of dollars obligated for services in fiscal year 2005 and are in a poor position to regularly identify opportunities to leverage buying power or otherwise change existing practices. Actions at the transactional level continue to focus primarily on awarding contracts and do not always ensure that user needs are translated into well-defined requirements or that post-contract award activities result in expected performance.

Key Strategic and Transactional Factors for Service Acquisition

Strategic level
Effective service acquisition requires the leadership, processes, and information necessary for mitigating risks, leveraging buying power, and managing outcomes

Transactional level
Individual service transactions must focus on buying the right thing, the right way, while getting the desired outcomes

Source: GAO (analysis).

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United States Government Accountability Office
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November 9, 2006

The Honorable John Ensign
Chairman
The Honorable Daniel K. Akaka
Ranking Minority Member
Subcommittee on Readiness and Management Support
Committee on Armed Services
United States Senate

In fiscal year 2005, the Department of Defense (DOD) obligated more than $141 billion on service contracts, a 72-percent increase since fiscal year 1996. DOD is increasingly relying 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. As the largest buyer of services in the federal government, and operating in an environment in which the nation's large and growing structural deficit will require difficult resource decisions, DOD must maximize its return on investment and provide the warfighter with needed capabilities at the best value for the taxpayer.

Our work and that of others has highlighted examples of long-standing concerns in planning, executing, and overseeing service acquisition. For example, GAO has identified DOD contract management to be at high risk of vulnerabilities to fraud, waste, abuse, and mismanagement for more than a decade. In our 2005 high-risk report update, we noted that with regard to service acquisition, DOD had not yet fully implemented a strategic approach to buying services; did not have a comprehensive plan to ensure it had the right skills and capabilities in its acquisition workforce; and did not always make sound use of the tools, such as performance-based service contracting, to acquire the services it needed.[1]

To ensure that DOD acquires services by means that are in the best interest of the government and managed in compliance with applicable statutory requirements, sections 801 and 802 of the National Defense Authorization Act for Fiscal Year 2002 required DOD to establish a service acquisition management approach, including developing a structure for

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[1]GAO, *High-Risk Series: An Update*, GAO-05-207 (Washington, D.C.: January 2005).

reviewing individual service transactions based on dollar thresholds and other criteria.[2] Further, in January 2006, additional requirements were established pertaining to DOD's service contracting management structure and oversight processes.[3] This report assesses DOD's overall approach to managing service acquisition. Specifically, we (1) identified the key factors necessary for DOD to emphasize to improve its management of services and (2) assessed the extent to which DOD's approach, including its current management structure, exhibited these factors.

To perform our review, we made extensive use of our prior work in this and other related areas, including our January 2002 report that identified how leading commercial companies took a strategic approach to acquiring services.[4] For the transactional level, we used our prior work and that of others on issues related to individual service contract transactions and held detailed discussions with relevant contracting experts to confirm and validate key factors. In total, the results of these efforts proffer a model to improve results in service acquisition management. To assess the extent to which DOD's current approach exhibited these characteristics, we collected and reviewed relevant DOD guidance and policies, including those that established its current management structure and review processes. We interviewed officials responsible for implementing the management structure in the Office of the Secretary of Defense, as well as each of the cognizant offices within the military departments. We also obtained information on the types of activities and reviews conducted by these offices. We visited 20 commands and buying activities to understand the processes by which these organizations acquire services. We reviewed various contract files and process documentation for selected service acquisitions and discussed challenges faced in acquiring services and efforts to improve service acquisition with policy and contracting personnel at each of these locations. See appendix I for additional details on scope and methodology. We conducted our review from August 2005 to September 2006 in accordance with generally accepted government auditing standards.

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[2]Pub. L. No. 107-107, § 801–802, (2001). Sec. 801 added new sections 2330 and 2330a to title 10, U.S. Code.

[3]Pub. L. No. 109-163, § 812, (2006). Sec. 812 amended 10 U.S.C. § 2330.

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

Results in Brief

Achieving good service acquisition outcomes—that is, obtaining the right service, at the right price, in the right manner—requires management attention at both a strategic and a transactional level. The strategic level requires the leadership, processes, and information necessary for mitigating risks, leveraging buying power, and managing outcomes across the enterprise. At this level, we identified four key factors for improving outcomes: strong corporate leadership and vision, results-oriented goals and metrics, defined responsibilities and support structures, and improved knowledge of spending. The strategic level also sets the context for the transactional level, where individual service acquisitions are executed. Key factors for good outcomes at the transactional level include clearly defined requirements, sound business arrangements, and appropriate contract management and oversight processes. At both levels, risks exist that can impair an organization's ability to get desired service acquisition outcomes. A comprehensive management approach tailors the strategic and transactional factors to address these risks. For example, by knowing where its service acquisitions are and setting a course for where they ought to be, an organization provides the context for making decisions on individual transactions.

DOD's current approach to managing service acquisition has tended to be reactive and has not fully addressed the key factors for success at either the strategic or the transactional level. At the strategic level, DOD has not developed a normative position for gauging whether ongoing and planned efforts can best achieve intended results. Further, good information on the volume and composition of service acquisitions is still wanting, perpetuating the circumstance in which the acquisition of services tends to happen to DOD, rather than being proactively managed. For example, despite implementing a review structure aimed at increasing insight into service transactions, DOD is not able to determine which or how many transactions have been reviewed. The military departments have only slightly better visibility, having reviewed proposed acquisitions accounting for less than 3 percent of dollars obligated for services in fiscal year 2005. At the transactional level, DOD tends to focus primarily on those elements associated with awarding contracts, with much less attention paid to formulation of service acquisition requirements and to assessment of the actual delivery of contracted services. Moreover, the results of individual acquisitions are generally not used to inform or adjust strategic direction. As a result, DOD is not in a position to determine whether investments in services are achieving their desired outcomes.

To put DOD in a position to proactively manage service acquisition outcomes, we are making six recommendations to assist DOD in

identifying specific solutions at the strategic and transactional levels. In written comments on a draft of this report, DOD concurred with our recommendations and agreed that a more coordinated, integrated, and strategic approach for acquiring services is needed. DOD noted that it is developing an integrated assessment of how best to acquire services and expects this assessment will result in a comprehensive, departmentwide architecture. DOD expects its assessment will be completed in early 2007. Our discussions with DOD officials indicate that this architecture may hold the potential for making fundamental changes at the strategic and transactional levels. The extent to which DOD successfully integrates the key factors we identified as it develops and implements its architecture will be essential to fostering the appropriate attention and action needed to make service acquisitions a managed outcome. The full text of DOD's comments may be found in appendix II.

Background

Over the past decade, DOD has increasingly relied on private sector contractors to provide a range of services, including management and information technology support. For example, DOD's obligations on service contracts rose from $82.3 billion in fiscal year 1996 to $141.2 billion in fiscal year 2005 (see table 1). DOD committed 20 percent of its total service obligations in fiscal year 2005 for professional, administrative, and management support contracts. Overall, according to DOD, the amount obligated on service contracts exceeded the amount the department spent on supplies and equipment, including major weapon systems.

Table 1: Changes in DOD's Use of Service Contract Obligations, Fiscal Years 1996 to 2005 (fiscal year 2005 dollars in billions)

Service category	Service obligations Fiscal year		Percentage of service obligations, fiscal year 2005	Percentage change, fiscal years 1996 to 2005
	1996	2005		
Professional, administrative, and management support	$10.8	$28.3	20.0	161
Construction of facilities	7.3	11.7	8.3	62
Maintenance and repair of equipment	6.6	11.4	8.1	74
Information technology	4.9	10.3	7.3	110
Medical services	1.6	8.0	5.6	412
Housekeeping services	2.4	4.8	3.4	98
Transportation, travel, and relocation	2.4	6.2	4.4	154
All other services, excluding research and development[a]	22.7	23.6	16.7	4
All services excluding research and development	$58.6	$104.2	73.8	78
Research and development	23.7	37.0	26.2	56
Total, all service contracts	**$82.3**	**$141.2**	**100.0**	**72**

Source: DOD's DD350 database for all actions exceeding $25,000 (data); GAO (analysis).

[a]Other services include photographic, mapping, and printing; education and training; and social services, among others.

The growth in service acquisition spending results, in part, from recent trends and changes within DOD's acquisition environment, including the increased use of contracted services. For example, while spending on services has increased, DOD's civilian workforce shrank by about 38 percent between fiscal years 1989 and 2002. DOD performed this downsizing without proactively shaping the civilian workforce to ensure that it had the specific skills and competencies needed to accomplish future DOD missions. In June 2006, DOD issued a human capital strategy that acknowledged that DOD's civilian workforce is not balanced by age or experience. DOD further noted that a proposed reduction of an additional 55,000 personnel through fiscal year 2007, continuing increases in the number of retirement age employees, and the loss of experienced personnel and institutional knowledge could make it difficult to mentor its developing workforce. DOD's strategy identified a number of steps planned over the next 2 years to more fully develop a long-term approach to managing its acquisition workforce.

The increased use of service contracts is also partly attributable to DOD acquiring capabilities through different acquisition approaches, as well as needing to meet new requirements and demands. For example, DOD

historically bought space launch vehicles, such as the Delta and Titan rockets as products. Now, under the Evolved Expendable Launch Vehicle program, the Air Force purchases launch services using contractor-owned launch vehicles. Similarly, after the terrorist attacks on September 11, 2001, increased security requirements and the deployment of active duty and reserve personnel resulted in DOD having fewer military personnel to protect domestic installations. Consequently, the U.S. Army awarded contracts worth nearly $733 million to acquire contract guards at 57 installations.

DOD has traditionally approached the acquisition of services differently than the acquisition of products. DOD and military department officials we interviewed noted that DOD generally views service acquisition as less risky than the acquisition of weapon systems, in part because many services are not tied directly to mission accomplishment and tend to be composed of far more numerous and lower dollar value contracts. DOD has long focused its attention, policies, and procedures on managing major weapon systems and typically does so using the cost of the weapon system as a proxy for risk. For example, DOD classifies its acquisition programs, including research and development efforts related to weapon systems and major automated information systems, in categories based upon estimated dollar value or designation as a special interest.[5] The largest programs generally fall under the responsibility of the Under Secretary of Defense (Acquisition, Technology, and Logistics), while less complex and risky programs are overseen by the service or component acquisition executive. Overall, more than 25 percent of DOD's annual budget is managed under this framework. For example, as of December 2005, DOD managed 85 major defense acquisition programs currently estimated to cost about $1.6 trillion combined over their program life.

Conversely, we previously reported that DOD's approach to buying services is largely fragmented and uncoordinated, as responsibility for acquiring services is spread among individual military commands, weapon system program offices, or functional units on military bases, with little visibility or control at the DOD or military department level.[6] For example, we noted that

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[5]The policies and practices for these types of acquisitions are reflected in DOD Directive 5000.1 and Instruction 5000.2.

[6]GAO-02-230.

- DOD's information systems could provide data on the amount spent on services, but the reliability of the information was questionable and the system itself was seldom used as a tool to manage or identify opportunities for managing DOD's supplier base.
- Procurement processes within DOD were not always carried out efficiently and effectively.
- There were few service contracting-related enterprisewide annual performance metrics, none of which measured the cost-effectiveness or quality of services obtained.

Services differ from products in several aspects and can also be challenging when attempting to define requirements, establish measurable and performance-based outcomes, and assess contractor performance. For example, it can easily take over 10 years to define requirements and develop a product like a weapon system before it can actually be delivered for field use. Individual service acquisitions generally proceed through requirements, solution, and delivery more rapidly. Further, delivery of services generally begins immediately or very shortly after the contract is finalized.

In response to the National Defense Authorization Act for Fiscal Year 2002, DOD and the military departments established a service acquisition management structure, including processes at the headquarters level for reviewing individual, high-dollar acquisitions. In September 2003, we reported that this approach did not provide a departmentwide assessment of how spending for services could be more effective and recommended that DOD give greater attention to promoting a strategic orientation by setting performance goals for improvements and ensuring accountability for achieving those results.[7] In its response, DOD concurred in principle and agreed that additional actions could strengthen the management structure as implemented, but also identified challenges for doing so based on organizational size, complexity, and acquisition environment.

In January 2006, Congress again enacted legislation with specific requirements for managing the acquisition of services.[8] Among other things, the legislation required DOD to

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

[8]Pub. L. No. 109-163, § 812.

- identify the critical skills and competencies needed to carry out the procurement of services;
- develop a comprehensive strategy for recruitment, training, and deploying employees to meet the requirements for skills and competencies;
- establish contract services acquisition categories, based on dollar thresholds, for the purpose of establishing the level of review, decision authority, and applicable procedures;
- dedicate full-time commodity managers to coordinate the procurement of key categories of services;
- ensure that contract services are procured by means of procurement actions that are in the best interests of DOD and entered into and managed in compliance with applicable laws, regulations, directives, and requirements;
- ensure that competitive procedures and performance-based contracting are used to the maximum extent practicable; and
- monitor data and periodically collect spend analyses to ensure that funds allotted for the procurement of services are expended in the most rational and economical manner practicable.

The requirements pertaining to establishing contract service acquisition categories were to be phased in over a period of 3 years, with the first categories, for acquisitions with an estimated value of $250 million or more, to be established by October 2006. At the conclusion of our review, DOD issued a policy memorandum aimed at strengthening service acquisition management in response to the legislation. DOD is to report on its implementation by January 2007.

Managing Service Acquisition Requires Both a Strategic and a Transactional Focus

Several key factors are necessary to improve DOD's service acquisition outcomes—that is, obtaining the right service, at the right price, in the right manner. Our work found that to do this, an organization must understand the volume, sources, portfolios, and trends related to what it is buying, then ensure that requirements are valid and understood, services are purchased properly, and performance delivered with minimum risk and maximum efficiency. Success factors to achieve these goals can be defined at both the strategic and the transactional level, as shown in figure 1.

Figure 1: Key Strategic and Transactional Factors for Service Acquisition

Strategic level
Effective service acquisition requires the leadership, processes, and information necessary for mitigating risks, leveraging buying power, and managing outcomes

Transactional level
Individual service transactions must focus on buying the right thing, the right way, while getting the desired outcomes

Source: GAO (analysis).

The strategic level is where the enterprise sets the direction or vision for what it needs, captures the knowledge to enable more informed management decisions, ensures deparmentwide goals and objectives are achieved, determines how to go about meeting those needs, and assesses the resources it has to achieve desired outcomes. The strategic level also sets the context for the transactional level, where the focus is on making sound decisions on individual transactions. Our work found that officials need to ensure that individual service transactions have valid and well-defined requirements, have appropriate business arrangements, and that performance is being managed—again, while minimizing related risks and maximizing efficiency. A comprehensive approach would use the strategic and transactional factors in a complementary manner to tailor management activity to ensure preferred outcomes. Without this management attention, risks exist within each level that can impair an organization's ability to get desired service acquisition outcomes.

Strategic Focus: Knowing Where Service Acquisition Is Today and Where It Should Be Tomorrow

Our prior work with leading commercial firms found that a successful organization proactively identifies and manages outcomes of the services it acquires at a strategic, or enterprisewide, level. Effective service acquisition requires the leadership, processes, and information necessary for mitigating risks, leveraging buying power, and managing outcomes. Several factors are needed to implement a strategic approach, including (1) strong leadership to define and articulate a corporate vision, including specific goals and outcomes; (2) results-oriented communication and metrics; (3) defined responsibilities and associated support structures; and (4) increased knowledge and focus on spending data and trends. See figure 2 for key factors to achieve a strategic approach to acquiring services.

Figure 2: Key Factors in Achieving a Strategic Approach to Service Acquisition

Strategic level
Effective service acquisition requires the leadership, processes, and information necessary for mitigating risks, leveraging buying power, and managing outcomes

Establish and commit to strategic approach	Enable success through sustained communication and metrics	Create supporting structures, processes and roles	Obtain good knowledge on service spending

Source: GAO (analysis).

Leadership Must Establish Vision and Goals

Our work found that organizations seeking to significantly improve service acquisition outcomes must begin with an established vision and commitment from senior management. This can come in various ways, ranging from restructuring the corporate procurement function, providing greater insight into and authority over the company's service spending, or signaling support for a new way of doing business. With an articulated vision, leaders then have a basis for making commitments to factors important for realizing the desired end state, such as practices, procedures, structures, information, and human capital planning. Our work has shown that when corporate goals and expected outcomes are not defined, employees becomes less likely to accept new roles or understand the importance of upcoming changes that are necessary to reduce risks in service acquisition. These include allowing the sum total of individual transactions to define the strategy and not providing a context within which managers of individual transactions can make sound judgments about the risk and sensitivity of a particular service acquisition.

Being able to define a strategic vision presupposes that leaders can determine and articulate a normative position for the future. A normative position would entail defining what end state or goals they want to achieve at a specified time. This position can then be translated into specifics, both in the aggregate and by type, such as

- the current volume, type, location, and trends of service acquisitions;

- the results the organization wants to achieve in a specified time frame;

- the definition of a good service acquisition outcome; and

- the characteristics of a service acquisition that make it desirable, undesirable, or sensitive.

Critical to establishing a normative position is knowledge of current service acquisition expenditures, management priorities, and expected outcomes. The vision could also dictate which services represent risks to the organization. For example, acquisitions could be deemed low risk based on minimal cost exposure, high availability of service providers, or limited criticality for meeting mission requirements. Conversely, high-risk acquisitions may be those of higher dollar value, mission-critical requirements, services that are new or being acquired using a different approach, or any other services determined to need additional corporate-level involvement or oversight based on management priorities.

Vision and Goals Must Be Communicated and Used to Measure Progress

Once a vision and desired end state for service acquisition have been defined, senior management must be both active and persistent in supporting ongoing efforts, adjusting the strategy to reflect new information, and moving toward the established normative position. Communication and metrics are important management ingredients in terms of overcoming resistance, cultural barriers, and other impediments to achieving identified goals. Senior leaders also have the responsibility to communicate and demonstrate a commitment to sound practices deemed acceptable for the acquisition function. We have previously reported that DOD faces vulnerabilities in aspects of its senior leadership because of certain disconnects, including senior positions that have remained unfilled for long periods of time, the acquisition culture fostered by management's tone at the top, and the management approach used in new industry partnering relationships.[9]

We have also noted the importance of leadership by senior agency officials to successfully transform other aspects of DOD's business operations and those of other federal agencies. For example, our prior work has shown that DOD's substantial financial and business management weaknesses adversely affect not only its ability to produce auditable financial information, but also its ability to provide accurate, complete, and timely information for DOD management and Congress to use in making informed decisions. We indicated that overcoming these weaknesses

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[9]GAO, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, GAO-06-838R (Washington, D.C.: July 7, 2006).

required sustained leadership at the highest level and a strategic and integrated plan.[10]

Metrics defining specified outcomes are vital to increasing the likelihood that changes to practices will successfully contribute to the organizational vision. While they can differ in nature and be used to varying degrees, metrics can be used to (1) evaluate and understand performance levels, (2) identify critical processes that require attention, (3) document results over time, and (4) report information to senior officials for decision-making purposes. To illustrate this, DOD spends 20 percent of its service dollars on professional and administrative management support contracts. If senior DOD officials believe that such volume poses risks, then it can use this information to establish targets to control and monitor the use of these services. For example, in March 2006 the Secretary of the Air Force issued a memorandum directing increased visibility and management of contract services in support of command functions, in an attempt to save over $6 billion that would then be used for other transformation initiatives. If the Air Force follows up by collecting timely data on the individual service transactions made in this area, it can see whether it is making progress toward its desired end state. For DOD, risks of not doing this at a strategic level entail losing momentum and failing to sustain positive change, and such failures can then be manifested in quick fixes, fire drills, or changes in policy statements that do not have a material effect on actual operations.

Structures and Processes Must Be Defined to Facilitate Service Management Direction

Successful service acquisition management also requires attention to the organization's ability to move from a fragmented manner of doing business to one that is more coordinated and strategically oriented. Primarily, this involves changing how services are acquired in terms of business processes, organizational structures, and roles and responsibilities. Our work with leading commercial firms found that typical changes in this area include

- restructuring acquisition organizations and elevating the procurement function to improve coordination with other internal organizations and optimize available resources;

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[10]GAO, *DOD Business Transformation: Sustained Leadership Needed to Address Long-standing Financial and Business Management Problems*, GAO-05-723T (Washington, D.C.: June 8, 2005).

- establishing new processes for routine tasks and using cross-functional teams made up of individuals with various skills to ensure the right mix of knowledge, technical expertise, and credibility; and

- establishing full-time, dedicated commodity managers to provide more effective management over key services.

We reported in March 2005 that the Department of Homeland Security was pursuing similar approaches as it attempted to integrate the various acquisition functions it inherited upon its establishment in 2003. For example, the department designated a Chief Procurement Officer with broad responsibility for its acquisition function and established commodity councils composed of representatives from across the department that were assigned responsibility for assessing future purchasing strategies. We noted, however, that senior agency leadership needed to address a number of challenges before fully integrating its procurement function, such as clearly defining the roles and responsibilities of key offices, and establishing a structure to ensure continued support for commodity councils—such as appointing full-time commodity managers.[11]

In essence, this move toward a more strategic orientation can be compared to a franchise model of business versus that of individually owned stores or units. While franchises, like individually owned businesses, operate at the local level and adapt to the specific needs and demands of a community, they still must adhere to the consistent set of standards and processes of the parent organization. For service acquisition, this translates into recognition that while unique local requirements need to be understood and met, individual acquisitions should also be viewed in the context of organizational goals, objectives, and strategies. In this regard, company officials indicated they can tailor delivery of services to meet local needs while helping to achieve organizational cost savings or quality improvement objectives. Risks here are twofold. First, if a single, monolithic process is used for every service acquisition regardless of size, sensitivity, or type, it could be overkill for some transactions and insufficient for others. Second, allowing local buying activities to operate independent of organizational standards and

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[11]GAO, *Homeland Security: Successes and Challenges in DHS's Efforts to Create an Effective Acquisition Organization*, GAO-05-179 (Washington, D.C.: Mar. 29, 2005).

processes would impair or defeat an organization's ability to achieve desired aggregate goals or outcomes.

Knowledge on Spending and Workforce Vital to Managing Services

Organizations also need basic, reliable data on how service dollars are being spent and the capabilities of the workforce in place to acquire and manage those services. Company officials who were successful with improving service acquisition management informed us it was critical to define the relevant types of information that were required and then develop the appropriate data systems to collect and provide reliable spending data. Such data enable senior managers to know not only the current state of service acquisition, but how far it is from the desired end state. While the type of information may vary depending on the organization and the types of services acquired, basic spend analysis data should include information and trends related to

- the type of services being acquired;

- the number of suppliers for a specific service the organization is using;

- the amount the organization is spending for that service, in total and with each supplier; and

- the units in the organization that are acquiring the services.

We have previously reported that several civilian agencies have used this approach to leverage their buying power, reduce costs, and better manage suppliers of goods and services. For example, we reported in September 2004 that the Departments of Agriculture and Veterans Affairs, among others, had launched or expanded spend analysis efforts and in turn realized savings ranging from $1.8 million to $394 million on related acquisitions.[12] Similarly, we noted in 2005 that the Department of Homeland Security identified 15 commodity areas as having the potential to leverage the department's buying power. In fiscal year 2004, four commodity councils reported approximately $14.1 million in cost savings and avoidances.[13] Some councils encountered difficulties due to a shortage of comprehensive data upon which to draw an accurate and detailed picture of what was being spent on certain commodities over time, thereby

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[12]GAO, *Best Practices: Using Spend Analysis to Help Agencies Take a More Strategic Approach to Procurement*, GAO-04-870 (Washington, D.C.: Sept. 16, 2004).

[13]GAO-05-179.

preventing them from taking full advantage of their strategic sourcing and spend analysis efforts.
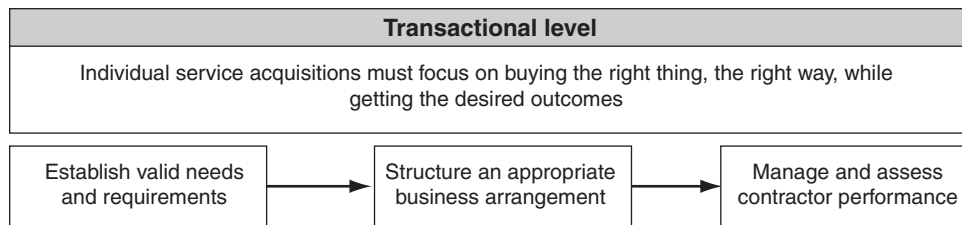
Equally important and necessary is for an organization to have a workforce that is manned at the appropriate levels and equipped with the right skills and abilities. To do this, a comprehensive, data-driven workforce analysis must be performed in conjunction with establishing the corporate vision and goals. An organization cannot fully understand what skills and staffing commitments are necessary at each organizational level to meet service acquisition requirements until it understands where it wants to go and how it plans to get there. Once information on spending and workforce capabilities is known and understood, organizations can be more strategic in planning and managing service acquisition. The absence of such data creates several risks, including not knowing how and where money is being spent on service acquisition or not having the appropriate workforce skills or staffing levels to ensure it is using sound buying practices.

Transactional Focus: Buying the Right Individual Service the Right Way

While the strategic level defines the direction and manner in which an organization pursues improvements in service acquisition, it is through individual service transactions that the strategy is implemented. Key factors at this transactional level include (1) clearly defined and valid requirements; (2) appropriate business arrangements; and (3) effective contractor management and oversight. In short, an organization needs to assure itself that on individual service transactions it is buying the right thing in the right way and that doing so results in the desired outcome. See figure 3 for key factors for effectively managing service acquisitions at the transaction level.

Figure 3: Key Factors for Managing Service Acquisitions at a Transactional Level

Transactional level
Individual service acquisitions must focus on buying the right thing, the right way, while getting the desired outcomes

Establish valid needs and requirements	→	Structure an appropriate business arrangement	→	Manage and assess contractor performance

Source: GAO (analysis).

Good Outcomes Begin with Sound Requirements

Establishing a valid need and translating that into a service acquisition requirement is essential for obtaining the right outcome. Without this, an organization increases the risk that it will pay too much for the services provided, acquire services that do not meet its needs, or enter too quickly into a sensitive arrangement that exposes the organization to financial, performance, or other risks. Moreover, to establish accurate requirements, the customer organization would benefit by involving stakeholders that have knowledge about past transactions, current market capabilities and the potential supplier base, and budgetary and financial management issues. The makeup of stakeholders may vary across different transactions depending on the nature, complexity, and risks. In the end, the purpose of stakeholders with varied knowledge and skills is to ensure at the earliest point possible that all aspects of the acquisition are necessary, executable, and tailored to the level of risk commensurate with the individual transaction. We have found that when DOD uses similar teaming concepts to develop and deliver products, the results have included superior outcomes within predicted time frames and budgets. For example, we reported in April 2001 that the Advanced Amphibious Assault Vehicle program used teams to reduce the time needed to make a design decision from 6 months to about a week.[14]

Because the nature of service contracts can vary, they naturally require different approaches in describing requirements. For example, the time, discipline, and sophistication of a team developing a requirement for repetitive building maintenance would be considerably less than that of a team developing a requirement for the first purchase of a space launch service. Observing these factors, tailored to the individual requirement at hand, can help to ensure that risks associated with a requirement for a service acquisition are fully considered before entering into a business arrangement. This is especially important for service acquisitions, because once requirements are developed, most transactions move very quickly into the business arrangement and contracting stages.

Appropriate Business Arrangements Provide Right Way to Buy Services

Once a requirement has been validated and defined, it becomes necessary to develop an appropriate business arrangement to meet that need while protecting the government's interests. Of course, without a sound requirement, the business arrangement could be relegated to buying the wrong service the right way. At a basic level, this includes defining a clear

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[14]GAO, *Best Practices: DOD Teaming Practices Not Achieving Potential Results*, GAO-01-510 (Washington, D.C.: Apr. 10, 2001).

scope of expected contractor performance, developing an objective means to assess the contractor's performance, ensuring effective contractor selection based on competition and sound pricing, and selecting an appropriate contracting vehicle. Here again, while these are performed with respect to the individual transaction, they must be done in the context of the organization's strategic vision.

As an organization undergoes the process for selecting those contractors that will provide services, there should be clearly established relationships among what tasks the contractor is expected to perform, the contract terms and conditions, and performance evaluation factors and incentives. This is especially true as federal agencies makes adjustments to their acquisition practices. For example, in recent years, federal agencies have made a major shift in the way they buy services, turning increasingly to interagency contracts as a way to streamline the procurement process. In these cases, an agency can use an existing contract that has already been awarded by another agency, or turn to another agency to issue and administer task orders on its behalf, often for a fee.[15] Requirements, roles, and responsibilities need to be clear to reduce risks. For example, we reported in July 2005 that DOD customers did not provide the awarding agency with detailed information about their needs.[16] Without this information, these agencies did not translate DOD's needs into well-defined contract requirements that contained criteria to determine whether the contractor had performed successfully. In the absence of well-defined outcomes, DOD and the agencies lacked criteria to provide effective contractor oversight.

Similarly, competition during the acquisition process is also important in getting reasonable prices, as offerors put forth their best bid and solution to meeting the proposed requirements and the government receives the benefit of market forces on pricing. We have noted, however, that DOD has, at times, sacrificed the benefits of competition for expediency. For example, we noted in April 2006 that DOD awarded contracts for security guard services supporting 57 domestic bases, 46 of which were done on an authorized, sole-source basis. The sole-source contracts supporting the

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[15]Task orders are placed against established contracts that provide for the issuance of orders for the performance of tasks during the period of the contract.

[16]GAO, *Interagency Contracting: Franchise Funds Provide Convenience, but Value to DOD is Not Demonstrated*, GAO-05-456 (Washington, D.C.: July 29, 2005). GAO designated the management of interagency contracting a high-risk area in January 2005.

last 37 installations were awarded by DOD despite recognizing it was paying about 25 percent more than previously paid for contracts awarded competitively.[17]

When proper management controls are not in place, particularly in an interagency fee-for-service contracting environment, too much emphasis can be placed on customer satisfaction and revenue generation rather than on compliance with sound contracting policy and required procedures, such as competition. Significant problems in the way contracting offices carry out responsibilities in issuing the orders for services may not be detected or addressed by management. For example, in April 2005 we reported that a lack of effective management controls—in particular insufficient management oversight and a lack of adequate training—led to the breakdowns in the issuance and administration of task orders for interrogation and other services in Iraq, including:

- issuing 10 out of 11 task orders that were beyond the scope of underlying contracts, in violation of competition rules;
- not complying with additional DOD competition requirements when issuing task orders for services on existing contracts;
- not properly justifying the decision to use interagency contracting;
- not complying with ordering procedures meant to ensure best value for the government; and
- inadequate monitoring of contractor performance.[18]

Without appropriate attention, there is an increased risk that the government will pay too much for the purchased service, will be limited in its access to new and innovative alternatives, or will not be in the proper position to effectively manage the contractor after an arrangement is established.

Actual Performance Must Be Managed and Assessed

At the transactional level it is also important to implement a post-contract award process to effectively manage and assess contractor performance to ensure that the business arrangement is properly executed. Managing and assessing post-award performance entails various activities performed by government officials to ensure that the delivery of services meets the

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[17]GAO, *Contract Security Guards: Army's Guard Program Requires Greater Oversight and Reassessment of Acquisition Approach,* GAO-06-284 (Washington, D.C.: Apr. 3, 2006).

[18]GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations,* GAO-05-201 (Washington, D.C.: Apr. 29, 2005).

terms of the contract, including adequate surveillance resources, proper incentives, and a capable workforce for overseeing contractor activities. Each of these requires metrics and tools to encourage contractors to provide superior performance and to manage and document that the contractor's performance was acceptable. For example, one important element of this phase is having a plan for assessing performance that outlines how services will be delivered. In addition, the plan should provide a mechanism for capturing and documenting performance information so it can serve as past performance information on future contracts. Effective use of such a plan can allow the government to evaluate the contractor's success in meeting the specified contract requirements. Further, organizations can use monetary incentives, such as those provided through award and incentive fee contracts, to promote desired acquisition outcomes. Finally, quality assurance surveillance—oversight of the services being performed by the contractor—is important to ensure that contractors are providing timely and high-quality services and to help mitigate any contractor performance problems.

In an environment that demands increased interaction between DOD and the contractor to ensure expected outcomes, acquisition personnel must be adequately trained to understand each of these elements and have the skills to manage service contractors accordingly. Without appropriate attention through contract completion, we have found that risks exist that could result in poor contractor performance, services not being delivered as expected, or payment to contractors for more than the value of the services they performed. For example, our March 2005 review of 90 contracts showed wide variance in the level of surveillance, including 15 contracts that had no personnel assigned at all for these responsibilities.[19] According to DOD officials, this condition existed because surveillance was not as important to contracting officials as awarding contracts and contracting oversight personnel were not properly assigned, evaluated on the performance of their duties, or provided enough time to complete surveillance tasks. In the same way that the development of requirements for services must be different from the development of requirements for products, so is the case for overseeing contractor performance. Given that performance thresholds may vary greatly, management and oversight of individual service acquisitions may need to be tailored to meet specific requirements. In some cases, dollar

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[19]GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, GAO-05-274 (Washington, D.C.: Mar. 17, 2005).

value may not be a good proxy for determining risk. For example, some high dollar contracts could pose relatively little risk to achieving the agency's mission. Conversely, certain lower dollar contracts, such as those used to obtain interrogation services in Iraq, may pose higher risk and, therefore, require greater management attention.

DOD Service Acquisition Approach Does Not Fully Address Key Elements at the Strategic or Transactional Levels

DOD and the military departments have not yet fully addressed the key elements for managing service acquisition at a strategic or a transactional level. At the strategic level, DOD has not formed a normative position of where service acquisition needs to be and does not have the data necessary to know the state of service acquisition today. As a result, DOD is not in a position to determine whether investments in services are achieving their desired outcomes. These are precursors to defining and promoting improved outcomes. At the transactional level, most of DOD's efforts have been aimed at improving business arrangements, without commensurate focus on how requirements are established and communicated or how service contracts are executed. Despite the implementation of a senior-level review process, buying commands and activities have not made significant changes to how they manage individual service acquisitions.

DOD's Strategic Level Approach Missing Key Elements

DOD's overall approach to managing service acquisition suffers from the absence of several key elements. DOD has not developed a strategic vision and lacks sustained commitment to manage service acquisition risks and foster more efficient outcomes. As a result, DOD is not in a position to communicate to its workforce how it intends to improve its acquisition of services; determine needed changes to structures and processes to better identify and prioritize risks; or understand the current state of service spending and the skills of its current workforce. While DOD's current approach to managing service acquisition at the strategic level provides some additional insight into high-dollar value service acquisitions, it lacks an overall road map for managing risk and integrating key service acquisition initiatives.

Normative Position of Service Acquisition Not Yet Established

DOD has not yet identified the types and quantities of services it purchases; the outcomes needed in service acquisition so that necessary changes can be understood and evaluated; or metrics that can be used to assess whether those changes have actually achieved the expected outcomes. DOD and military department officials have acknowledged that DOD has not developed a comprehensive plan that targets areas needing improvements, coordinates ongoing and planned initiatives, and provides an overall road map to improve DOD's management of services. In the

absence of such a vision, DOD's strategic level efforts do not position the department to proactively manage service acquisition outcomes, but rather relegate DOD to a reactive role in which the billions of dollars spent acquiring services simply reflects the sum total of individual actions.

Further, DOD's efforts to transform its enterprisewide business operations may not translate into improved knowledge on how services are acquired. For example, DOD established the Business Transformation Agency in October 2005 to lead and coordinate business transformation efforts across the department. The Business Transformation Agency is tasked primarily with modernizing key information technology systems and business processes intended to make reliable data more readily available while at the same time consolidating the overall number of information technology systems and ensure consistency across the department. However, the Business Transformation Agency has few ongoing activities directly related to the acquisition of services.

In addition, DOD has pursued few opportunities to leverage its buying power to acquire services through the use of strategic sourcing concepts. While DOD has undertaken a number of pilot efforts, only a limited number of these focused specifically on services. In 2006, DOD appointed the Assistant Deputy Under Secretary of Defense for Strategic Sourcing and Acquisition Processes to coordinate efforts and assist other DOD components, including the military departments and the Defense Acquisition University (DAU), as they develop strategic sourcing plans and training processes. The Assistant Deputy Under Secretary stated that initial efforts were focused on developing a concept of operations to facilitate this requirement, but so far had been limited by a lack of staff and resources. Further, he acknowledged that his office does not play a role in DOD's service acquisition review process. In September 2006, a senior DOD official indicated that DOD was considering transferring this responsibility to the Office of the Director, Defense Procurement and Acquisition Policy. It is uncertain how this change, if implemented, would affect the roles and responsibilities previously assigned to the office.

DOD Has Not Communicated Its Vision for Managing Service Acquisition

Because it lacks a strategic vision, DOD is not in a position to communicate how it intends to improve its approach to service acquisition. DOD's primary policy for managing service acquisition came in the form of a memorandum issued in response to sections 801 and 802 of the Fiscal Year 2002 National Defense Authorization Act. That

memorandum, issued in May 2002, noted DOD's intent to move to a more strategic and integrated approach to the acquisition of services and the need to treat this area as seriously as it does that of hardware.[20] Similarly, DOD and senior military department officials have testified on the need to improve service acquisition management within their departments. Nevertheless, our discussions with command and buying activity officials found that while recognizing this need, without specific guidance from DOD, their acquisition practices remain unchanged. As a result, senior DOD leadership's call for change has had limited impact on acquisition practices at lower levels within the department.

Further, one of the biggest obstacles to a more strategic approach to service acquisition is breaking down cultural barriers at different levels and across various functions of the acquisition process. In that regard, officials noted that the acquisition and contracting communities often do not have a shared vision for improving service acquisition or of their role in such a vision. For example, DOD has acknowledged that the use of performance-based service contracting techniques is generally perceived as a "contracting" initiative, with the rest of the acquisition community generally not fully participating or embracing the initiative. Consequently, DOD and military department officials indicate that without senior leadership and commitment, it is difficult to get support for changes in business practices within the acquisition community.

Changes to Supporting Structures, Processes, and Roles Have Had Limited Effect

As part of its May 2002 policy, DOD required the development of a review process for individual service acquisitions, established oversight thresholds, and specified which service acquisitions are to be reviewed. In addition, it required the military departments to establish a similar management review process. DOD officials noted in 2003 that this approach, combined with several other initiatives, was expected to have significant impact on the acquisition of services. The new management structure DOD implemented to address identified deficiencies associated with the management of services established three levels: (1) review by the Under Secretary of Defense (Acquisition, Technology, and Logistics) for services acquisitions valued over $2 billion; (2) review by the component or designated acquisition executive for service acquisitions valued between $500 million and $2 billion; and (3) review by a component-designated official for the acquisition of services valued at less than $500 million. In response to this guidance, the Air Force, Army, and

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[20]This policy memorandum was formalized on May 12, 2003.

Navy each developed individual service acquisition review processes and authorities to support the DOD review requirements and identified respective decision authorities responsible for conducting execution reviews to assess progress against metrics.

DOD and military department officials with whom we spoke indicated that the review structure has provided the reviewing office with additional insight on high-dollar value service acquisitions. However, the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) lacked complete information on the number and scope of acquisitions of which it was notified and therefore could not give us a definitive response as to how many transactions were formally reviewed. Officials from that office provided a list of 19 service acquisitions that had been notified for review—9 Army and 2 Air Force acquisitions, in addition to 8 acquisitions from the Office of the Assistant Secretary of Defense (Networks and Information Integration), which are subject to review under the guidance for major automated information systems—but provided no additional information on the results of those reviews.

Data provided by officials at the military department level indicated that through September 2005, 69 acquisitions—representing just under 3 percent of service obligations—had been reviewed by the Air Force, Army, and Navy under the new process (see table 2).

Table 2: Service Acquisitions Reviewed under DOD and Military Department Review Structure (dollars in millions)

Review level/office	Criteria[a]	Number of proposed contract actions reviewed	Fiscal year 2005 obligations from reviewed actions[b]	Total fiscal year 2005 obligations for services	Percentage of obligations from reviewed actions
Under Secretary of Defense (Acquisition, Technology, and Logistics)	Proposed service actions valued at $2 billion or more.	Unknown			
Army		16	$326	$40,267	<1.0
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)	Proposed service acquisitions exceeding $500 million				
Deputy Assistant Secretary of the Army (Policy and Procurement)					
Navy		9	$353	$23,123	1.5
Assistant Secretary of the Navy (Research, Development, and Acquisition)	Proposed actions exceeding $1 billion				
Deputy Assistant Secretary of the Navy (Acquisition Management)	Proposed service acquisitions with a value between $500 million and $1 billion				
Air Force		44[c]	$1,735	$21,896	7.9
Program Executive Officer for Combat and Mission Support	Proposed service acquisitions exceeding $100 million or 300 or more full-time equivalents for A-76 requirements.				
Total		**69**	**$2,414**	**$85,286**	**2.8**

Source: DOD (data); GAO (analysis).

[a]DOD and the military departments can also review any service acquisition below established thresholds, but otherwise determined to be of special interest.

[b]Figures in this column may include obligations for contracts or orders that included products and research and development–related services.

[c]Does not include one classified acquisition that underwent review.

While the DOD reviews to date under this process have provided some additional visibility over high-dollar value service acquisitions, the reviews tend to focus more on ensuring compliance with applicable statutes, regulations, and other requirements, rather than on imparting a vision or

tailored method for strategically managing service acquisition. Senior DOD and military department officials noted that the process is generally not intended to review program or customer decisions made at lower levels within the department as to the need for the particular services or to have a post-contract award follow-up assessment to ensure expected outcomes. Also, the reviews have not positioned DOD to regularly identify opportunities to leverage buying power. Further, they noted that the reviews are largely perceived as a function and responsibility of the DOD contracting organization, rather than a shared responsibility of the entire acquisition community, to include the program office and other customers for services.

Moreover, DOD's policy does not require the Under Secretary of Defense (Acquisition, Technology, and Logistics) to actually review those acquisitions that exceed the $2 billion threshold. Service acquisitions that meet this threshold are first reviewed and approved at the military department level. In turn, the military departments notify the Under Secretary that a service acquisition exceeding the threshold is available for review. If there is no response within 10 days, the acquisition is allowed to proceed without further review. Additionally, at the military department level, most of the service acquisitions reviewed to date have been indefinite delivery/indefinite quantity contracts.[21] There is no requirement to review individual task orders that are subsequently issued even if the value of the task order exceeds the review thresholds.

We spoke to many officials at buying activities that had proposed service acquisitions for review under this process. For the most part, they did not believe the review significantly improved those acquisitions and noted very few examples of occasions when, as a result of review feedback, acquisition strategies were changed in a meaningful way. For example, the reviews tended to focus on compliance with applicable laws, regulations, and socioeconomic goals, such as small business participation or, in other words, that the business arrangements are proper—all of which are covered in the development of the acquisition strategy prior to the review. These officials indicated that the timing of the review process—which generally occurs well into the planning cycle—is too late to provide

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[21]Indefinite-delivery/indefinite-quantity contracts establish basic terms in advance, enabling agency personnel to issue subsequent task or delivery orders for specific services or goods expeditiously. Orders must be within the contract's scope, issued within the period of performance, and be within the contract's maximum value. Federal Acquisition Regulation (FAR) Subpart 16.5 (2006).

opportunities to influence the acquisition strategy. These officials told us that the reviews would be more beneficial if they were conducted earlier in the process, in conjunction with the program office or customer, and in the context of a more strategic approach to how best to meet the requirement, rather than simply from a secondary or tertiary review of the contract and in an area where they have considerable experience and expertise. In addition, contracting officials at one buying command stated that reviewing officials often lack the resources or technical expertise to provide useful and valuable feedback.

Knowledge on Spending and Workforce Is Not Readily Available

DOD's ability to effectively manage service acquisition at either the strategic or the transactional level is hindered by the absence of reliable data on which to make informed decisions. DOD and military department officials acknowledge that the DOD contracting information systems available to the locations we visited do not provide information on forecasted demands for services; current and reliable information on what services are currently being procured; or data to assess whether these services are being acquired in line with cost, schedule and performance goals, or otherwise meeting customer needs.

For its part, DOD has not identified the specific data it needs to better manage service acquisition outcomes or developed appropriate data systems that are essential for providing the information necessary for improving results. According to DOD documentation, there are thousands of individual information systems that have been implemented over decades to meet various mission needs, and rather than providing usable information, these systems can hinder collecting information needed by decision makers. Because these systems were developed independently— often not designed to be interoperable with other such systems—it is a challenge to share data with other locations or higher organizational levels in support of broader planning and decision making. Even collecting basic information on high-dollar services often proves time-consuming. For example, in April 2005, DOD initiated a formal review of its service acquisition policy. According to DOD officials, after determining that its data systems were inadequate to identify and assess the status of service acquisition policy compliance, the department initiated a data call to each of the military components asking for a status review of the top 20 service acquisitions in each military department since inception of the policy. This data call took more than 6 months to collect, review, and report basic contracting data. Further, the results did not provide the types of knowledge DOD had expected.

Finally, DOD has acknowledged that it faces significant workforce challenges that if not effectively addressed could impair the responsiveness and quality of acquisition outcomes. In response, DOD is in the process of identifying the current skill sets and gaps of the acquisition workforce that routinely are engaged in acquiring services. For example, DOD's 2006 Human Capital Strategic Plan noted there are currently efforts to develop a comprehensive competency model for each functional career field including the technical tasks, knowledge, skills, abilities, and personal characteristics required of the acquisition workforce. Similarly, DAU officials noted that they are revising the training curriculum for acquisition personnel, in part to provide an increased emphasis on service acquisition. For example, DAU has an ongoing effort to identify the critical competencies for service acquisition, determine which of these competencies require further workforce training, and develop the appropriate training. DAU officials stated the new courses will be initially targeted for contracting personnel. In addition, DOD officials stated that these courses will be made available to noncontracting acquisition personnel only as time and resources permit.

DOD Transactional Approach Focuses Principally on Business Arrangement

Our work found that at the transactional level, buying commands and activities have not significantly adjusted their acquisition practices since DOD implemented its new review structure. The current transactional-level approach does not always take the necessary steps to ensure customer needs are translated into well-defined contract requirements or that post-contract award activities result in expected outcomes. Instead, DOD service acquisition management activities focus primarily on awarding the contract. Without clearly defined requirements and attention after the contract is awarded, DOD cannot be sure it is buying the right service or using an appropriate means to assess contractor performance. As a result, DOD is potentially exposed to a variety of risks, including buying things that do not fully meet customer needs or that should be provided in a different manner or with better results.

Communication Challenges Hinder Establishment of Good Requirements

DOD and military department officials consistently identified poor communication and the lack of timely interaction between the acquisition and contracting personnel as key challenges to developing good requirements. These officials noted that developing well-defined and clearly articulated requirements in outcome-based performance measures is difficult in and of itself, but the challenges can be reduced if both communities work together early in the process. Several officials identified actions they have initiated to improve working relationships, but acknowledged that results have not been uniformly achieved. In part,

these issues arise from cultural differences between the contracting and acquisition communities concerning their roles in managing various service acquisition elements.

Generally the intended customer of a service, such as a program office, has the responsibility to identify what type of service it requires, the level of performance or quality needed, the period of performance, and the available budget. To avoid problems with the later stages of the acquisition process, and depending on the complexity of the services needed, early involvement of the contracting and other functional communities is important. However, contracting officers we spoke with frequently commented that the initial statements of work prepared by the customer were often insufficient, unclear, or not expressed in performance-based terms, requiring considerable rework. In addition, officials told us it is important that contracting officers fully understand exactly what the customer needs in order to get the best business arrangement for the government. However, contracting officers did not always have the necessary knowledge or expertise to understand the requirement, such as translating specific requirements into the statement of work. According to contracting officials, the resulting frustrations are heightened when customers identify the need to award a contract for the services in a short time period.

Similarly, because services are generally funded on an annual basis, contracting officers are often faced with many pressures at the end of each fiscal year. For example, officials at the Navy Fleet Industrial Supply Center in Philadelphia noted the impact of DOD's recent policy requiring contracting officers to approve task orders with a value of $100,000 or more if they are issued against a non-DOD contract.[22] While this does provide greater visibility in an area of previous concerns, the officials we spoke to indicated that the policy was issued without first assessing the impact on the contracting workforce or whether the customer was fully aware of the new process requirements. Consequently, contracting personnel were faced with a significant increase in workload, much of it at the end of the fiscal year. As many of these contracting officials had not been involved with the original negotiation or award of the contract, and because of the short time frames needed to issue the orders, they felt

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[22]DOD established this requirement in response to concerns about the improper use of interagency contracts.

pressured to review and approve task orders without being able to fully assess whether the overall approach was the most effective or efficient.

The lack of technical knowledge and training was raised as an issue at several commands we visited. For example, at many locations, officials commented on the lack of contracting knowledge on the part of the customer. One contracting manager told us he would be willing to pay for contracting-related training for customers, so that they could better understand how to prepare various contract documents, such as a performance-based statement of work or an award fee evaluation plan. Contracting officials told us that such documents can be difficult to prepare without sufficient planning and input from customers who are familiar with what needs to be accomplished. Similarly, contracting officers at one location told us that they sometimes have to alter acquisition approaches because it is too difficult to develop evaluation plans that can be used by customers to effectively evaluate contractor performance. Program officials also commented on the lack of technical knowledge on the part of the contracting community. One Air Force program official told us that he is required to use the general base contracting office to procure advanced medical services, even though the contracting officers usually do not have related technical knowledge and sometimes have difficulty understanding the requirement. Shared knowledge and communication are therefore important for ensuring that customers and contracting personnel are placed in the best position to achieve expected outcomes.

Officials at some locations reported that better acquisition outcomes can result from establishing effective working partnerships. For example, Air Force Space Command officials noted that one of their major service acquisitions involves support for base operations in Thule, Greenland. The Air Force has relied on contractors to provide these services for more than four decades and believed their experience on the program illustrates key aspects needed to promote a successful acquisition. These officials noted that the service is a high priority and receives considerable attention from senior management. Additionally, the command employs a team-based approach to the acquisition, which means that personnel from both the customer and contracting communities are assigned and remain on the acquisition team throughout the development of the requirements, associated acquisition strategy, and contracting approach. Further, to help develop the requirements, the team receives considerable input from program personnel and the contracting officer's technical representative as to the contractor's performance, and makes use of monthly reports that measure key performance parameters. By including personnel from all

stages of the acquisition process—program managers, contracting officers, and quality assurance personnel—Space Command officials believed they were able to make adjustments to their requirements that allowed the contract to be priced in a manner that reduced cost risk to the government. Command officials and those involved in the Thule service acquisition acknowledge, however, that they have not been able to consistently replicate this success on all other acquisitions.

Because of the recognized need to improve communication and share knowledge between customers and the acquisition workforce, some of the buying commands we visited have taken actions to promote communication and timely interaction. For example, the Army's Communications and Electronics Command colocated senior contracting officers with customers to promote better communication and more cooperation between the two communities. These staff members, referred to as customer service representatives, establish early lines of communication by participating in management meetings with the customers to identify future acquisition needs. The representatives use this knowledge to help senior management in the contracting organization identify resources and approaches to meet customer needs.

Business Arrangements Receive Majority of Management Attention, but Pressures to Meet Customer Needs Cited as Concerns

Buying commands and activities we visited focused the majority of their attention on structuring business arrangements to ensure compliance with applicable laws and regulations. As a result, command officials generally indicated that their previous practices were already in line with requirements established under DOD's review process and therefore remain largely unchanged. In some cases, the commands have established additional procedures to review specific areas of interest, such as the proposed use of an interagency contract or to ensure that task orders under multiple award contracts comply with competition requirements.

Despite these reviews, however, we have identified examples of potentially poor contracting practices and the pressure to meet customer demands. For example,

- On one acquisition, an Army contracting officer issued a task order for a product that the contracting officer knew was outside the scope of the service contract. The contracting officer noted in an e-mail to the requestor that this deviation was allowed only because the customer needed the product quickly and cautioned that no such allowances would be granted in the future.

- The Navy has established Seaport-enhanced, a centralized electronic ordering system that competes and issues task orders for multiple customers for program management support contracts. The Navy instructed buying activities within its virtual system command structure to use Seaport-enhanced as the "mandatory method of choice" for these services. However, officials at one Navy buying command told us they plan to submit waivers to avoid using Seaport-enhanced to meet their customer's preference for using particular contractors and to use time- and-materials contracts, neither of which would be possible using Seaport-enhanced.

- An Air Force contracting official noted that his office intended to award a number of contracts to local firms so that the firms, in turn, could have increased opportunities to provide services to other civilian and military organizations in the region, through marketing themselves as having been awarded a federal contract.

While these cases are anecdotal, they indicate that some contracting officers feel pressured to meet their customers' needs and had, or were considering, options that may not be in the bests interests of the government.

Limited Capability to Assess Service Acquisitions

Command and buying activities we reviewed generally had limited capabilities to assess the degree to which their service acquisitions were successful. For example, few of the commands or activities could provide us reliable or current information on the number of service acquisitions they managed, and others had not developed a means to consistently monitor or assess, at a command level, whether such acquisitions were meeting the performance objectives established in the contracts. Many command officials noted the difficulties in doing so, since service acquisitions involve a wide range of activities that necessitate different measures of quality or performance from each other or from acquisitions involving products or major weapon systems. Often, these officials noted that their measure of success is reflected in terms of customer satisfaction or the number of complaints received from the customers.

Command officials noted that cost, delivery, or schedule performance measures may not be as effective on service contracts as for products or weapon systems. In this regard, the officials noted that services are often 1-year efforts in which schedule performance provides limited insights. Similarly, these officials noted that many of their service contracts, which are often cost reimbursable or time-and-materials in nature, are funded on a quarterly basis and are limited by the amount of funds made available. In

these cases, program officials noted that if more funds are made available than expected, the customer may increase the number of staff or labor hours to be provided; conversely, funding reductions will be reflected in commensurate reductions in the number of staff or labor hours. In either case, measuring changes in cost or hours is more reflective of the availability of funding, rather than an indication of contractor performance. Command officials noted that their information systems generally do not provide a capability to assess service acquisition outcomes.

Additionally, the ability to conduct oversight within DOD's management structure is often constrained by resources and workforce availability. For example, Air Force documentation suggests that 90 percent of planning activity is focused on getting the contract awarded, leaving very little for contract administration and oversight. Further, DOD officials noted that organizations like the Defense Contract Management Agency do not perform the same level of surveillance functions for services as they do for products. The Defense Contract Management Agency generally assembles integrated program support teams to deliver support at prime contractor facilities, which in turn supply business and technical support and furnish program managers with insight into program execution at the prime contract level, as well as the major and critical subcontract tiers. Senior DOD officials told us that because services tend not to rise to the level of a program, the Defense Contract Management Agency does not always provide the resources to support those acquisitions. Rather, the contract administration task is often assigned to a local contracting officer technical representative.

Attention to Strategic and Transactional Elements Has Improved Some Service Acquisition Outcomes

Just as commercial firms have reported positives changes after implementing management approaches that include strategic and transactional elements, there are also examples where DOD has had similar success. DOD officials who report success stated that this can be achieved by paying attention to and addressing the risks inherent in each of the key elements in the service acquisition process—at both the strategic and the transactional levels. For example, the Air Force, in conjunction with the Army, developed a strategic approach to acquiring wireless services and generated projected savings of 30 percent annually for just one of its service providers. According to Air Force officials, the combination of sustained leadership support, good data, a supporting structure, and communication with and among customers mitigated risks and set the context for the transactional level to achieve good acquisition outcomes. The Air Force's Chief Information Officer and the Deputy

Assistant Secretary for Contracting actively participated in establishing and supporting the development of the Information Technology Commodity Council, which is responsible for managing information technology-related strategic sourcing initiatives. Clear roles and responsibilities were established within the supporting structure of the council, including appointing a single individual to lead the initiative; identifying stakeholders who were responsible for developing the requirements; and establishing a team to perform market research and obtain other necessary data.

The team responsible for obtaining the data upon which to base its acquisition decisions consisted of Army and Navy officials. These officials worked together to perform a market analysis to understand the marketplace, develop a spend analysis to understand current expenditures, and forecast future demand to understand the needs of the military departments individually, and of DOD as a whole. As a result of the team's efforts, data are now available to help any agency within DOD save money when it acquires wireless services.

Conclusions

Over the past 10 years, DOD has seen large growth in the acquisition of services, to the point where the value of these acquisitions exceeds the value of major weapon systems. To a large extent, this growth has not been a managed outcome. Congress, concerned over these rapid increases, has directed DOD to take several actions to promote more oversight and discipline in service acquisition. DOD has taken action, but action has not necessarily equated to progress. At this point, DOD is not in a good position to say where service acquisition is today in terms of outcomes, where it wants service acquisition to be in the next few years, or how to get there. This makes it difficult to set the context within which individual organizations can make informed judgments on service acquisition transactions. Without this context, DOD will not be in a position to determine

- the current volume, type, location, and trends of service acquisition;

- the results DOD wants to achieve in the next 3 to 5 years in each of these areas;

- the definition of a good service acquisition outcome;

- the characteristics of a service acquisition that make it desirable, undesirable, or sensitive;

- the risks that need to be managed at each stage of a transaction; and

- the conditions under which a transaction should be referred for review.

Given the diverse nature of services that DOD acquires, multiple sources of risk, and wide variety of organizations that are involved in individual acquisitions, until this basic information is available and understood, it may not be to possible to develop an ideal departmentwide review process or organizational structure. For example, while setting dollar thresholds as a basis for reviewing an individual service acquisition is an improvement over no review, dollars are not always a good proxy for risk. Moreover, when a service acquisition reaches the review stage, the requirement and proposed business arrangement are set and expediency becomes an issue as the contract is ready to be awarded. Ultimately, the majority of individual service acquisition decisions will be made by organizations at the local level. The people making these decisions will have to make judgments regarding the risks and soundness of requirements, sources, competition, contract types, and execution follow-up. Their decisions will also trigger which acquisitions receive higher level review. Of primary importance now is to provide a context for these organizations in which they can make tailored decisions and recommendations that remain consistent with DOD's overarching views of risk, desirable outcomes, and direction for service acquisition. That context does not yet exist.

The strategic and transactional elements presented in this report can ultimately provide such a context. While not new, these elements, when considered together, offer the prospect of a cohesive approach—a necessary precursor to developing specific solutions to improve service acquisition outcomes. DOD will then be able to evaluate outcomes against expected results, provide the basis for making course corrections, and ultimately make service acquisitions a managed outcome.

Recommendations for Executive Action

We recommend the Secretary of Defense adopt a proactive approach to managing service acquisition that leverages strategic and transactional elements. Specifically, we recommend that the Secretary of Defense take the following six actions:

- establish a normative position of how and where service acquisition dollars are currently and will be spent (including volume, type, and trends);

- 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);

- on the basis of the above, clearly identify and communicate what service acquisition management improvements are necessary and the goals and timelines for completion;

- ensure that decisions on individual transactions are consistent with DOD's strategic goals and objectives;

- ensure that requirements for individual service transactions are based on input from key stakeholders; and

- provide a capability to determine whether service acquisitions are meeting their cost, schedule, and performance objectives.

Agency Comments and Our Evaluation

DOD provided written comments on a draft of this report. DOD concurred with each of our recommendations and identified actions it has taken or plans to take to address them. These comments are reprinted in appendix II. As part of its comments, DOD provided its October 2006 policy memorandum that implements Section 812 of the National Defense Authorization Act for Fiscal Year 2006. We did not reprint the policy as it is publicly available through DOD's acquisition website (www.acq.osd.mil/dpap/). DOD also provided technical comments, which we have incorporated as appropriate.

DOD agreed that a more coordinated, integrated and strategic approach for acquiring services is needed. In particular, DOD noted that it is reassessing 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. DOD expects this assessment will result in a comprehensive, departmentwide architecture for acquiring services that will, among other improvements, help refine the process to develop requirements, ensure that individual transactions are consistent with DOD's strategic goals and initiatives, and provide a capability to assess whether service acquisitions are meeting their cost, schedule and performance objectives. DOD expects its assessment will be completed in early 2007.

DOD also noted that it has taken a number of initiatives to improve specific issues associated with acquiring services. For example, DOD noted that its October 2006 policy will modify certain aspects of the current management structure, including providing lower dollar thresholds for reviewing proposed services acquisitions and requiring senior DOD officials to annually review whether service contracts were meeting established cost, schedule and performance objectives. Further, DOD noted that it had made organizational changes to improve its strategic sourcing efforts; it is assessing the skills and competencies needed by its workforce to acquire services; and the military departments and defense agencies are currently conducting self-assessments intended to address contract management issues we identified in our January 2005 high-risk report.

While these efforts are steps in the right direction, they appear to be primarily incremental improvements to DOD's current approach to acquiring services. Our discussions with DOD officials indicate that the architecture being developed may hold the potential for making the more fundamental changes at the strategic and transactional level that we have recommended. We have identified a number of elements that are needed at each of these levels, such as clearly articulating where DOD wants service acquisition to be in the next few years, setting the context for making informed and tailored decisions at the transactional level, and assuring that requirements are well-defined and consistent with DOD's strategic objectives. The extent to which DOD successfully integrates these elements as it develops and implements its new architecture will be the key to fostering the appropriate attention and action needed to make service acquisitions a managed outcome.

We are sending copies of this report to interested congressional committees; the Secretary of Defense; the Secretaries of the Air Force, Army, and Navy; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will provide copies to others on request. This report will also be available at no charge on GAO's Web site at http:/www.gao.gov.

If you or your staff have any questions about this report or need additional information, please contact me at (202) 512-4841 or francisp@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff acknowledgments are listed in appendix III.

Paul Francis
Director
Acquisition and Sourcing Management

Appendix I: Scope and Methodology

To identify the key factors needed to improve service acquisition, we drew heavily on our prior work in this and other areas. We primarily used our January 2002 report that identified how leading commercial companies took a strategic approach to acquiring services.[1] In addition, we reviewed previous GAO reports related to overall contract management and those related to individual service contract transactions, specifically in areas such as business transformation, interagency contracting, strategic sourcing, and contract surveillance. To confirm and validate key factors, we held detailed discussions with relevant defense contracting experts in the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics); the Office of the Assistant Secretary of Defense (Networks and Information Integration); the Office of the Deputy Undersecretary of Defense (Business Transformation); the Office of the Assistant Secretary of Defense (Health Affairs); and the Defense Acquisition University. In addition, we spoke with various offices within each of the military departments, including the Air Force Program Executive Office (Combat and Mission Support); the Deputy Assistant Secretary of the Army (Policy and Procurement); the Assistant Secretary of the Navy (Research, Development, and Acquisition); and the Air Force Information Technology Commodity Council.

To assess the extent to which the Department of Defense (DOD) approach, including its current management structure, exhibited these characteristics, we reviewed relevant DOD guidance and policy memoranda, including those that established its current management structure and review processes. We interviewed officials responsible for implementing the management structure within the Office of the Secretary of Defense, as well as each of the offices mentioned above. Discussions with these officials focused on DOD and military department service acquisition approaches, including those in put in place in response to sections 801 and 802 of the National Defense Authorization Act for Fiscal Year 2002 and other service contracting issues and initiatives. Data collected includes the number of service contract management reviews that have occurred under the newly implemented structure as well as the composition and purpose of those review boards. We obtained information on the types of activities and reviews conducted by these offices, including the number and value of service acquisitions they reviewed.

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

To document and analyze the processes by which individual military
commands and buying activities acquired services, we visited 20 locations.
We selected these locations based both on recommendations from DOD
officials and from our own internal knowledge. While our selection of
locations cannot be generalized to the population of all DOD contracting
locations, those selected represented each of the military services and
represented a range of DOD service types. Locations visited include:

- Air Force Space Command, Colorado Springs, Colorado;
- Air Force 21st Space Wing, Peterson Air Force Base, Colorado Springs,
  Colorado;
- Air Force 50th Space Wing, Schriever Air Force Base, Colorado
  Springs, Colorado;
- Air Force 460th Space Wing, Buckley Air Force Base, Aurora,
  Colorado;
- United States Air Force Academy, Colorado Springs, Colorado;
- Army Contracting Center of Excellence, Arlington, Virginia;
- Army Contracting Agency, Fort Carson, Colorado Springs, Colorado;
- Army Communications and Electronics Command, Fort Monmouth,
  New Jersey;
- Army Information Technology, E-Commerce and Commercial
  Contracting Center, Alexandria, Virginia;
- Surface Deployment and Distribution Command, Alexandria, Virginia;
- Naval Sea Systems Command, Washington Navy Yard, District of
  Columbia;
- Naval Supply Systems Command, Mechanicsburg, Pennsylvania;
- Navy Fleet and Industrial Supply Center, Philadelphia, Pennsylvania;
- Navy Fleet and Industrial Supply Center, Norfolk, Virginia;
- Navy Fleet and Industrial Supply Center, San Diego, California;
- Naval Personnel Development Command, Norfolk, Virginia;
- Navy Space and Warfare Command, San Diego, California;
- Naval Education and Training Command (NETC), Pensacola Naval Air
  Station, Florida;
- NETC Professional Development and Technology Center, Pensacola,
  Florida; and
- TRICARE Management Activity, Acquisition Management and Support,
  Aurora, Colorado.

We conducted field observations at these locations and distributed a
structured set of questions to solicit information from contracting officials
designated to respond to our inquiry. Discussions with these officials
focused on the level and type of contracting activity and service
acquisition management approaches. These discussions centered on topics
such as service acquisition culture and relationships between contracting

personnel and customers (including program office and user personnel), changes in policy and practice under the new review structure, challenges faced in acquiring services, efforts to improve individual service acquisitions; databases for capturing service contract data, performance based contracting, strategic sourcing, and other service acquisition initiatives. We discussed the review processes for selected service acquisitions (as determined by buying activity officials); including those that met criteria for review by either the Office of the Secretary of Defense or the military departments and, for comparison, those that were not subject to review at these levels. We reviewed contract file documentation to examine standard processes, review authority, requirements determination, and risk management activity. Information collected included contract solicitations, acquisition strategies, status reports, performance certifications; review and approval checklists, and other contract specific documents.

Appendix II: Comments from the Department of Defense

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

NOV 0 9 2006

Mr. Paul Francis
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Francis:

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-07-20, DEFENSE ACQUISITIONS: Tailored Approach Needed to Improve Service Acquisition Outcomes, dated October 2, 2006 (GAO Code 120415). The report includes six recommendations to the Secretary of Defense to improve the Department's strategic and tactical approach to acquiring services. The Department concurs with each of the recommendations in the report.

The Department is taking action to improve the way it manages and acquires services. This integrated action involves changes and improvements in: 1) our organization, 2) our strategic approach, and 3) the tactical methods we will use to manage and acquire services.

First, we have made organizational changes and are taking steps to improve workforce skills to more efficiently and effectively acquire services. Responsibility for Strategic Sourcing has been moved from Business Transformation to Acquisition and Technology. More specifically, the Director, Defense Procurement and Acquisition Policy (DPAP) is now charged with the responsibility for oversight of the strategic sourcing activities across the Department. In this new role, DPAP will be responsible for working with the Military Departments and the Defense Agencies to craft a coordinated and integrated strategic approach to the management and acquisition of services.

We believe the consolidation of the development of acquisition and procurement policy of and the oversight of strategic sourcing of services will result in a more cohesive and integrated approach. It will ensure that the tactical approaches utilized within the Department are consistent and aligned with the strategic objectives for the acquisition of services.

We are taking the necessary steps to meet the requirements of Section 812 of the
FY 2006 NDAA. Specifically for the past three months, DPAP, in concert with the
Military Departments and the Defense Agencies, has been developing a model that will
address the skills and competencies necessary for our contracting and procurement
workforce for the procurement of contract services. We expect that the competency model
will be completed in January 2007 and that during calendar year 2007 that competency
model will be deployed throughout the Department. The deployment will enable the
Department to assess the workforce and develop a comprehensive recruiting, training, and
deployment plan to meet the identified capability gaps.

Second, the Department has set a course to completely reassess its strategic
approach to services. This involves the examination of the types and kinds of services
that we acquire and an integrated assessment of how to meet the needs of our warfighters
while ensuring that the expenditure of taxpayer funds is wise and effective. We concur
with the GAO that a more coordinated and integrated strategic approach is necessary.
The ongoing reassessment includes examination of how services are acquired by the
Department or how they are acquired on its behalf by other Federal Agencies, such as
GSA and the Department of Interior. We expect to have the reassessment completed in
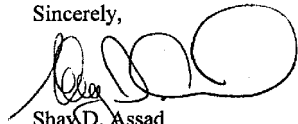the first quarter of CY 2007.

Upon completion of that reassessment, we will develop an effective strategic
sourcing deployment plan. We expect the plan to be completed in CY 2007. The
fundamental tenets of our strategy will be straightforward: Ensure that we effectively and
efficiently, in terms of both timeliness and cost effectiveness, acquire the services
necessary to meet the needs of our warfighters. Underpinning our strategy will be the
utilization of contracting tools that ensure competition whenever possible.

While we look for areas where combined buying power will result in savings, we
will balance our responsibilities to fulfill the socioeconomic goals of the Department. It
is our belief that the use of competition, at all levels, is the most effective tool we have in
the acquisition of services.

Third, implement our strategy with straightforward and simple tactical methods:
1) ensure that we clearly identify our requirement, 2) select the most efficient and
effective tool to acquire particular services, 3) drive consistency and discipline across the
Department, and 4) ensure that we have metrics and accountable individuals who will
oversee performance. A visual aid describing our tactical approach and additional
comments on the report recommendations as well as the actions we have taken to
strengthen the overall oversight of services within the Military Departments and Defense
Agencies is enclosed.

We thank GAO for its constructive comments and we look forward to keeping you
fully informed as we implement the actions described above. Minor technical comments
to the report were previously provided to your staff. My point of contact for this matter is
Ms. Linda Neilson, and she can be reached on 703-697-8334 or via e-mail at
linda.neilson@osd.mil.

Sincerely,

Shay D. Assad
Director, Defense Procurement
and Acquisition Policy

Enclosures:
As stated

GAO Draft Report Dated OCTOBER 2, 2006
GAO-07-20 (GAO 120415)

"DEFENSE ACQUISITIONS: TAILORED APPROACH
NEEDED TO IMPROVE SERVICE ACQUISITION
OUTCOMES"

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense
establish a normative position of how and where service acquisition dollars are currently
and will be spent (including volume, type, and trends). (p. 34/GAO Draft Report)

DOD RESPONSE: Concur. On October 2, 2006, the Under Secretary of Defense for
Acquisition, Technology, and Logistics (USD(AT&L)) issued a policy memo (enclosure
(2) entitled "Acquisition of Services Policy" designed to "strengthen the DoD
management of the acquisition of services at the strategic and tactical level." This policy
implements section 812 of the Fiscal Year 2006 National Defense Authorization Act (FY
2006 NDAA) (enclosure (3)) and provides for the management and oversight of
acquisitions of services based on dollar values and review thresholds.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense
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) (p. 34/GAO Draft Report)

DOD RESPONSE: Concur. The DoD Improvement Plan for the GAO High Risk Area:
Contract Management addresses areas of specific risk that are inherent in acquiring
services and that should be managed with greater attention. The Military Departments
and Defense Agencies are currently conducting self assessments in accordance with the
Plan. Any weaknesses identified as a result of these assessments will be used to identify
areas of policy, regulation and/or training that should be updated, clarified or revised to
facilitate improved execution and to evolve policy in this area.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense
clearly identify and communicate what service acquisition management improvements are
necessary and the goals and timelines of completion. (p. 35/GAO Draft Report)

Enclosure (1)

DOD RESPONSE: Concur. The USD(AT&L) policy memo of October 2, 2006, designed to implement the requirements of Section 812 of the FY 2006 National Defense Authorization Act (NDAA), required all DoD Components to establish and implement a management structure for the acquisition of services, based on dollar values and review thresholds, and submit an action plan within 60 days of issuance of the policy.

The requirements of the USD(AT&L) October 2, 2006, policy memo and other complementary guidance will be included in the next revision of DoD Instruction 5000.2 expected to be issued by the end of FY 2007.

In addition, the Director, Defense Procurement and Acquisition Policy is leading the Senior Procurement Executives of the Military Departments, Defense Logistics Agency, and Defense Contract Audit Agency, in the development of a comprehensive Defense-wide architecture for the acquisition of services that will support the following basic tenets:
- Maximum use of competition to ensure pricing based on competitive environments
- Application of best practices
- Refinement of requirements definition
- Appropriate application of performance-based approaches
- Enhanced contract performance management supported by - -
    - o Early-on identification of appropriate performance metrics,
    - o quality assurance or written surveillance plans,
    - o properly trained contracting officer representative
- Award fee evaluation plans with metrics tied to expected outcomes as appropriate
- Use of "Best Practice" tools for the acquisition of specific types of services
- Enhanced contract performance management
- Shorter periods of performance to ensure refreshment of pricing, market conditions
- Enhanced application of past performance information
- Strategic approach to Department socio-economic goals

RECOMMENDATION 4: The GAO recommended that the Secretary of Defense ensure that decisions on individual transactions are consistent with DoD's strategic goals and objectives. (p. 35/GAO Draft Report)

DOD RESPONSE: Concur. The USD(AT&L) October 2, 2006, policy memo requires the DoD Components, within 60 days of the issuance of the policy, to issue implementing guidance ensuring that "services are acquired using a strategic, enterprise-wide approach."

In addition, the new comprehensive, DoD-wide architecture for managing the acquisition of services currently under development will require DoD Components to perform early-on reviews of requirements for individual transactions for services to ensure disposition in accordance with DoD strategic goals and initiatives. This capability

should facilitate a strategic approach to DoD's strategic goals and objectives. For example, it should facilitate a strategic approach to the Department's socio-economic goals.

RECOMMENDATION 5: The GAO recommended that the Secretary of Defense ensure that requirements for individual service transactions are based on input from key stakeholders. (p. 35/GAO Draft Report)

DOD RESPONSE: Concur. The October 2, 2006, USD(AT&L) policy memo imposes acquisition management roles and responsibilities on "Senior Officials" including the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Senior Acquisition Executive of each Military Department and the Assistant Secretary of Defense for Networks and Information Integration/Chief Information Officer (CIO). This should enhance the participation of key DoD Component stakeholders in the planning and execution of acquisitions of services.

In addition, paragraph 4.2.7 of the October 2, 2006 USD(AT&L) memo indicates that DoD Senior Officials may identify any acquisition of services as a special interest acquisition subject to review.

RECOMMENDATION 6: The GAO recommended that the Secretary of Defense provide a capability to determine whether service acquisitions are meeting their cost, schedule, and performance objectives. (p. 35/GAO Draft Report)

DOD RESPONSE: Concur. The October 2, 2006, USD(AT&L) policy memo imposes a similar requirement and requires DoD Components to issue implementing policy within 60 days of the policy issuance. Paragraphs 4.2.11 and 4.2.12 of the October 2, 2006, memo provide for senior DoD management insight into progress against cost, schedule and performance metrics by requiring annual USD(AT&L) and Senior Official reviews.

In addition, the new, comprehensive DoD-wide architecture for managing the acquisition of services currently under development will provide for enhance contract performance management that is expected to facilitate attainment of cost, schedule, and performance objectives. This enhanced contract performance management will be supported by - -
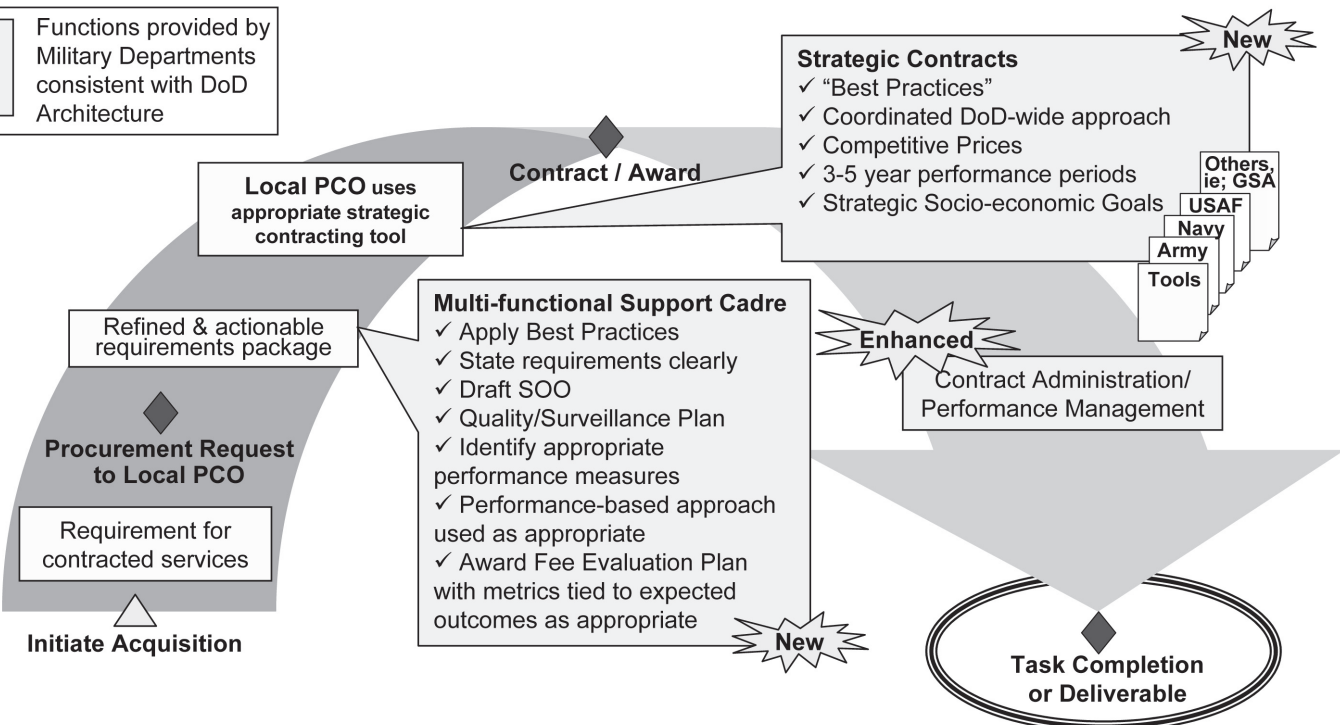- Early-on identification of appropriate performance metrics,
- Quality assurance or written surveillance plans,
- Properly trained contracting officer representatives involved early and engaged throughout contract performance,
- Award fee evaluation plans with metrics tied to expected outcomes as appropriate.

Acquisition of Services

Management Consistent with FY 06 NDAA Section 812

Functions provided by Military Departments consistent with DoD Architecture

New

Strategic Contracts
✓ "Best Practices"
✓ Coordinated DoD-wide approach
✓ Competitive Prices
✓ 3-5 year performance periods
✓ Strategic Socio-economic Goals

Others, ie; GSA
USAF
Navy
Army
Tools

Contract / Award

Local PCO uses appropriate strategic contracting tool

Refined & actionable requirements package

Multi-functional Support Cadre
✓ Apply Best Practices
✓ State requirements clearly
✓ Draft SOO
✓ Quality/Surveillance Plan
✓ Identify appropriate performance measures
✓ Performance-based approach used as appropriate
✓ Award Fee Evaluation Plan with metrics tied to expected outcomes as appropriate

Enhanced

Contract Administration/ Performance Management

Procurement Request to Local PCO

Requirement for contracted services

Initiate Acquisition

New

Task Completion or Deliverable

Potential for Significant Cost Savings

Appendix III: GAO Contact and Staff Acknowledgements

GAO Contact

Paul Francis (202) 512-4841 or francisp@gao.gov

Acknowledgements

In addition to the contact above, Tim DiNapoli, Assistant Director; Brian Mullins; Christina Cromley Bruner; Whitney Havens; Moshe Schwartz; Andrew Redd; Julia Kennon; and John Krump made key contributions to this report.

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