



Testimony

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Committee on Appropriations, House of
Representatives

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DEFENSE ACQUISITIONS

DOD's Increased Reliance
on Service Contractors
Exacerbates Long-standing
Challenges

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Highlights of [GAO-08-621T](#), a testimony before the Subcommittee on Defense, Committee on Appropriations, House of Representatives

Why GAO Did This Study

The Department of Defense's (DOD) spending on goods and services has grown significantly since fiscal year 2000, to well over \$314 billion annually. GAO has identified DOD contract management as a high-risk area for more than a decade. With awards to contractors large and growing, DOD will continue to be vulnerable to contracting fraud, waste, or misuse of taxpayer dollars, and abuse. Prudence with taxpayer funds, widening deficits, and growing long-range fiscal challenges demand that DOD maximize its return on investment, while providing warfighters with the needed capabilities at the best value for the taxpayer. This statement discusses (1) the implications of DOD's increasing reliance on contractors to fill roles previously held by government employees, (2) the importance of the acquisition workforce in DOD's mission and the need to strengthen its capabilities and accountability, and (3) assumptions about cost savings related to the use of contractors versus federal employees. This statement is based on work GAO has ongoing or has completed over the past several years covering a range of DOD contracting issues.

What GAO Recommends

This testimony contains no recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-08-621T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact John Needham at (202) 512-4841 or needhamj@gao.gov.

DEFENSE ACQUISITIONS

DOD's Increased Reliance on Service Contractors Exacerbates Long-standing Challenges

What GAO Found

DOD has increasingly turned to contractors to fill roles previously held by government employees and to perform many functions that closely support inherently governmental functions, such as contracting support, intelligence analysis, program management, and engineering and technical support for program offices. This trend has raised concerns about what the proper balance is between public and private employees in performing agency missions and the potential risk of contractors influencing the government's control over and accountability for decisions that may be based, in part, on contractor work. Further, when the decision is made to use contractors in roles closely supporting inherently governmental functions, additional risks are present. Contractors are not subject to the same ethics rules as government even when doing the same job, and the government risks entering into an improper personal services contract if an employer/employee relationship exists between the government and the contractor employee.

DOD's increasing reliance on contractors exacerbates long-standing problems with its acquisition workforce. GAO has long reported that DOD's acquisition workforce needs to have the right skills to effectively implement best practices and properly manage the acquisition of goods and services. Weaknesses in this area have been revealed in recent contingency situations, but they are present in nonemergency circumstances as well, with the potential to expose DOD to fraud, waste, and abuse. It is important to note that the role of the acquisition function does not end with the award of a contract. Continued involvement of the workforce throughout contract implementation and closeout is needed to ensure that contracted services are delivered according to the schedule, cost, quality, and quantity specified in the contract. GAO has in the past several years reported wide discrepancies in the rigor with which contracting officer's representatives perform these duties, particularly in unstable environments such as the conflict in Iraq and the aftermath of Hurricane Katrina.

A key assumption of many of the federal management reforms of the 1990s was that the cost-efficiency of government operations could be improved through the use of contractors. GAO recently reported that sufficient data are not available to determine whether increased service contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel. GAO recently probed, in-depth, the cost of contractor versus government contract specialists at the Army's Contracting Center for Excellence and found that the Army is paying up to 26 percent more for the contractors as compared to their government counterparts.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss challenging issues relating to the Department of Defense's (DOD) increasing reliance on contractors for services to support its mission. Over the past decade, DOD has experienced dramatic changes in its mission, accompanied by a significant infusion of funds, with fiscal year 2008 base appropriations of \$449 billion. The President has also requested \$189 billion for fiscal year 2008 war costs. Much of this money is spent buying goods and, increasingly, services from the private sector. Enhancing governmentwide acquisition and contracting capability is one of the major areas that we have identified as necessary for improving the government's capacity to address 21st century challenges and deliver real and sustainable results.¹ In examining our defense work, we have observed 15 systemic acquisition challenges facing DOD, which I have included in appendix I. These challenges have been long-standing and are becoming more apparent in recent years as the department's reliance on contractors has grown in both size and scope. Overall trends indicate that DOD's spending continues to increase. We reported to you in 2006 that, in fiscal year 2005, DOD's reported contracting obligations totaled \$270 billion. This amount increased to \$314 billion in 2007, representing a 136 percent increase over fiscal year 2000 spending.

The acquisition of services differs from that of products in several key respects and can be particularly challenging in terms of defining requirements and assessing contractor performance. DOD's service acquisitions range from basic services such as landscaping and janitorial services to those that are more complex, like intelligence analysis, acquisition support, security services, and program office support. We have reported that the department needs to do a much better job managing its service acquisitions, and last year made a number of recommendations to put the department in a position to proactively do so.² Congress, too, has imposed requirements over the past several years intended to improve DOD's service acquisition practices. For example, in January 2006, Congress required DOD to take a number of actions,

¹ GAO, *A Call for Stewardship: Enhancing the Federal Government's Ability to address Key Fiscal and Other 21st Century Challenges*, [GAO-08-93SP](#) (Washington, D.C.: December 2007).

² GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington, D.C.: Nov. 9, 2006).

including identifying the critical skills and competencies needed to procure services.³

I will address three important points today:

- DOD's increasing reliance on contractors to fill roles previously held by government employees: This trend has raised issues as to what the proper balance is between public and private employees in performing agency missions, as well the need for greater attention given to decisions to contract for services and the risks associated with these decisions on work that closely supports inherently government functions. DOD has three different options in terms of who will perform its functions, namely military, civilian, or contractor. Today I will focus on the role of contractors at the department.
- The importance of the acquisition workforce to DOD's mission and the need to strengthen its capabilities and accountability: Weaknesses in this area have been revealed in recent contingency situations, but they are present in non-emergency circumstances as well, with the potential to expose DOD to significant fraud, waste, and abuse. There may also be opportunities to provide additional authorities to strengthen the acquisition workforce, such as the use of term appointments.
- Assumptions about cost savings related to the use of contractors versus federal employees: The savings may not be realized in actual practice, as some of our current work begins to indicate.

My comments today are based on work that GAO has completed over the past several years and, in some cases, on ongoing work. All of our related performance audits were conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

³ National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163 § 812, 119 Stat. 3136, 3376- 3379 (2006).

DOD's Growing Reliance On Contractors

Contractors have an important role to play in the discharge of the government's responsibilities, and in some cases the use of contractors can result in improved economy, efficiency, and effectiveness. However, in many cases contractors are used because the government lacks its own personnel to do the job. Long-standing problems with the lack of oversight and management of contractors are compounded by the growing reliance on them to perform functions previously carried out by government personnel.

The government is relying on contractors to perform many tasks that closely support inherently governmental functions, such as contracting support, intelligence analysis, security services, program management, and engineering and technical support for program offices. We recently surveyed officials from 52 of DOD's major weapons programs, who reported that over 45 percent of the program office staff was composed of individuals outside of DOD. Some program officials expressed concerns about having inadequate personnel to conduct their program office roles. In a prior review of space acquisition programs, we found that 8 of 13 cost estimating organizations and program officials believed the number of government cost estimators was inadequate and that 10 of those offices had more contractor personnel preparing cost estimates than government personnel.⁴

In general, I believe there is a need to focus greater attention on what type of functions and activities should be contracted out and which ones should not. Inherently governmental functions include activities that require either the exercise of discretion in applying government authority, or the making of value judgments in making decisions for the government; as such, they are required to be performed by government employees, not private contractors. The closer contractor services come to supporting inherently governmental functions, the greater the risk of contractors influencing the government's control over and accountability for decisions that may be based, in part, on the contractor's work. This situation may result in decisions that are not in the best interest of the government and American taxpayer, while also increasing overall vulnerability to waste, fraud, or abuse. The Federal Acquisition Regulation provides 19 examples of services and actions that may approach the category of inherently governmental because of the nature of the function, the manner in which

⁴ GAO, *Space Acquisitions: DOD Needs to Take More Action To Address Unrealistic Initial Cost Estimates of Space Systems*, [GAO-07-96](#) (Washington, D.C.: Nov. 17, 2006).

the contractor performs the contracted services, or the manner in which the government administers contractor performance. These include acquisition support, budget preparation, engineering and technical services, and policy development.

One way in which DOD has expanded the role of contractors is its use of a lead systems integrator for major-weapons development. This approach allows one or more contractors to define a weapon system's architecture and then manage both the acquisition and the integration of subsystems into the architecture. In such cases, the government relies on contractors to fill roles and handle responsibilities that differ from the more traditional prime contractor relationship, a scenario that can blur the oversight responsibilities between the contractor and federal program management officials. For example, the Army's Future Combat Systems program is managed by a lead systems integrator that assumes to some extent the responsibilities of developing requirements, selecting major system and subsystem contractors, and making trade-off decisions among costs, schedules, and capabilities. While this management approach has some advantages for DOD, we found that the extent of contractor responsibility in many aspects of the Future Combat Systems program management process is a potential risk.⁵ Moreover, if DOD uses a lead systems integrator but does not provide effective oversight, DOD is vulnerable to the risk that the integrator may not make its decisions in a manner consistent with the government's and taxpayers' best interests, especially when faced with potential organizational conflicts of interest.

Potential Risks Associated with Use of Contractors

When the decision is made to use contractors in roles closely supporting inherently governmental functions, additional risks are present. Defense contractor employees are not subject to the same laws and regulations that are designed to prevent personal conflicts of interests among federal employees. Moreover, there is not a departmentwide requirement for DOD offices to employ personal conflict of interest safeguards for contractor employees, although new governmentwide policy implemented in November 2007 requires that certain contractors receiving awards worth more than \$5,000,000 and 4 months of work have an ethics program.⁶ A separate proposed rule was recently published at the request of the Justice

⁵ GAO, *Defense Acquisitions: Role of Lead Systems Integrator on Future Combat Systems Program Poses Oversight Challenges*, GAO-07-380 (Washington, D.C.: June 6, 2007).

⁶ 72 Fed. Reg. 65873 - 82 (Nov. 23, 2007), effective date Dec. 24, 2007.

Department to amend the regulation to require that companies holding certain types of contracts disclose suspected violations of federal criminal law in connection with the award or performance of contracts, or face suspension or debarment. Public comments are due in January 2008.⁷ We will be issuing a report on personal conflicts of interest, as they pertain to defense contractor employees, shortly.⁸

In addition, personal services contracts are prohibited, unless authorized by statute.⁹ The government is normally required to obtain its employees by direct hire under competitive appointment or other procedures required by the civil service laws. GAO bid protest decisions also have determined that a personal services contract is one that, by its express terms or as administered, makes the contractor personnel appear to be, in effect, government employees.¹⁰ Whether a solicitation would result in a personal services contract must be judged in the light of its particular circumstances, with the key question being whether the government will exercise relatively continuous supervision and control over the contractor personnel performing the requirement.

The Federal Acquisition Regulation lists six elements to be used as a guide in determining the existence of a personal services contract, which are shown in table 1.

⁷ 72 Fed. Reg. 64019 - 23 (Nov. 14, 2007).

⁸ GAO, *Defense Contracting: Additional Personal Conflict of Interest Safeguards Needed for Certain DOD Contractor Employees*, [GAO-08-169](#) (Washington, D.C.: Mar. 7, 2008). In addition, the National Defense Authorization Act for Fiscal Year 2008 requires us to report on the ethics programs of major defense contractors. National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 848.

⁹ Federal Acquisition Regulation 37.104.

¹⁰ *Encore Management, Inc.*, B-278903.2, Feb. 12, 1999, 99-1 CPD ¶ 33 at 3.

Table 1: Elements to Be Used as a Guide in Determining the Existence of Personal Services

1. Performance on site.
2. Principal tools and equipment furnished by the government.
3. Services are applied directly to the integral effort of the agency or an organizational subpart in the furtherance of its assigned function or mission.
4. Comparable services, meeting comparable needs, are performed in the same or similar agencies using civil service personnel.
5. The need for the type of service provided can reasonably be expected to last beyond one year.
6. The inherent nature of the service, or the manner in which it is provided, reasonably requires, directly or indirectly, government direction or supervision of contractor employees in order to – (i) adequately protect the government's interest (ii) retain control of the function involved; or (iii) retain full personal responsibility for the function supported in a duly authorized Federal officer or employee.

Source: FAR Subpart 37.104(d).

When contractors work side by side with government employees and perform the same mission-related duties, the risk associated with such contracts can be increased.

Contingency Situations Reveal Acquisition Workforce Shortfalls

In July 2006, we reported¹¹ that DOD's acquisition workforce is subject to certain conditions that increase DOD's vulnerabilities to contracting fraud, waste, and abuse, including

- growth in overall contracting workload,
- pending retirement of experienced government contracting personnel, and
- a greater demand for contract surveillance because of DOD's increasing reliance on contractors for services.

Fraud is any intentional deception taken for the purpose of inducing DOD action or reliance on that deception. Fraud can be perpetrated by DOD personnel—whether civilian or military—or by contractors and their employees. Trust and access to funds and assets that come with senior leadership and tenure can become a vulnerability if the control environment in an organization is weak. We also need to target waste in government spending. Government waste is growing and far exceeds the

¹¹ GAO, *Contract Management: DOD Vulnerabilities to Contracting Fraud, Waste, and Abuse*, [GAO-06-838R](#) (Washington, D.C.: July 7, 2006).

cost of fraud and abuse. Several of my colleagues in the accountability community and I have developed a definition of waste, which is contained in appendix II. Although waste does not normally involve a violation of law, its effects can be just as profound. In response to our July 2006 report, DOD's Panel on Contracting Integrity reported this month that it has identified 21 initial actions for implementation in 2008 that it expects will address areas of vulnerability in the defense contracting system that allow fraud, waste, and abuse to occur.

Some amount of vulnerability to mismanagement, fraud, waste, or abuse will always be present in contracting relationships, even with rules and regulations in place to help prevent it. These vulnerabilities are more dramatically revealed in contingency situations, such as the conflicts in Iraq and the aftermath of Hurricane Katrina, when large amounts of money are quickly made available and actions are hurried. One very significant weakness is the condition of the government's acquisition workforce. We and others have reported for a number of years on the risks posed by a workforce that has not kept pace with the government's spending trends. The Acquisition Advisory Panel, for example, recently noted the significant mismatch between the demands placed on the acquisition workforce and the personnel and skills available within that workforce to meet those demands.¹² To put it another way, at the same time that procurement spending has skyrocketed, fewer acquisition professionals are available to award and—just as importantly—administer contracts. Two important aspects of this issue are the numbers and skills of contracting personnel and DOD's ability to effectively oversee contractor performance.

Acquisition Workforce Shortfalls

In its January 2007 report, the Acquisition Advisory Panel stated that the government's contracting workforce was reduced in size in the 1990s, with DOD's declining by nearly 50 percent due to personnel reductions during that time. Despite recent efforts to hire acquisition personnel, there remains an acute shortage of federal procurement professionals with between 5 and 15 years of experience. This shortage will become more pronounced in the near term because roughly half of the current workforce is eligible to retire in the next 4 years. We have long noted that

¹² The Acquisition Advisory Panel was authorized by Section 1423 of the Services Acquisition Reform Act of 2003, which was enacted as part of the National Defense Authorization Act for Fiscal Year 2004. The panel was tasked with reviewing laws, regulations, and governmentwide acquisition policies. Pub. L. No. 108-136, 117 Stat. 1663 (2003).

DOD's acquisition workforce needs to be made a priority. We have reported that DOD needs to have the right skills in its acquisition workforce to effectively implement best practices and properly manage the acquisition of goods and services. We have also observed that the acquisition workforce continues to face the challenge of maintaining and improving skill levels to use alternative contracting approaches introduced by acquisition reform initiatives of the past few decades.

Recent developments indicate that the tide may be turning, with actions underway to address what is generally agreed to be a problematic state of the acquisition workforce. For example, DOD's Panel on Contracting Integrity, in its 2007 report to Congress, identified the following focus areas for planned actions, all of which focus on acquisition workforce issues:

- reinforce the functional independence of contracting personnel,
- fill contracting leadership positions with qualified leaders,
- determine the appropriate size of the contracting workforce and ensure that it has the appropriate skills, and
- improve planning and training for contracting in combat and contingency environments.

Also, the Commission on Army Acquisition and Program Management in Expeditionary Operations issued a report in November 2007, entitled "Urgent Reform Required: Army Expeditionary Contracting."¹³ The commission found that the acquisition failures in expeditionary operations require a systemic fix of the Army acquisition system and cited the lack of Army leadership and personnel (military and civilian) to provide sufficient contracting support to either expeditionary or peacetime operations. It noted that only 3 percent of Army contracting personnel are active duty military and there are no longer any Army contracting career general officer positions. It found that what should be a core competence—contracting—is treated as an operational and institutional side issue. One general officer told the commission that "this problem is pervasive DOD-wide, because workload continues to go up while contracting and acquisition assets go down—there is a cost to these trends that is paid in risk, and we don't realize how big the bill is until there's a scandal." The commission recommended increasing the stature, quantity, and career

¹³ The report uses the term expeditionary to include operations outside of the U.S. as well as domestic emergency operations.

development of military and civilian contracting personnel. In response to the commission's report, the Army approved the creation of an Army Contracting Command, which will fall under the Army Materiel Command and be led by a two-star general. The Army also plans to increase its contracting workforce by approximately 400 military personnel and 1,000 civilian personnel.

We believe that, while there is no way to completely prevent fraud, waste, abuse, or poor decision making, increasing the numbers and skills of the acquisition workforce is critical to lessening the likelihood of future problems and affecting positive change. We must address this soon in order to prevent additional waste and increased risk.

Monitoring Contractor Performance

The role of the acquisition function does not end with the award of a contract. It requires continued involvement throughout contract implementation and closeout to ensure that contracted services are delivered according to the schedule, cost, quality, and quantity specified in the contract. In DOD, oversight—including ensuring that the contract performance is consistent with the description and scope of the contract—is provided by both contracting officers and the contracting officers representative (COR), typically a government employee with technical knowledge of the particular program.

We have reported wide discrepancies in the rigor with which CORs perform their duties, particularly in unstable environments. For example, in the aftermath of Hurricanes Katrina and Rita, the number of government personnel monitoring contracts was not always sufficient or effectively deployed to provide adequate oversight.¹⁴ Instability—such as when wants, needs, and contract requirements are in a state of flux—requires greater attention to oversight, which in turn relies on a capable government workforce. Unfortunately, attention to oversight and a capable government workforce have not always been evident in a number of instances, including during the Iraq reconstruction effort. We have reported that, particularly in the early phases of the conflict, the Army lacked an adequate acquisition workforce in Iraq to oversee the billions of dollars for which it was responsible.¹⁵ Further, Army personnel who were

¹⁴ GAO, *Hurricane Katrina: Improving Federal Contracting Practices in Disaster Recovery Operations*, [GAO-06-714T](#) (Washington, D.C.: May 4, 2006).

¹⁵ GAO, *Rebuilding Iraq: Fiscal Year 2003 Contract Award Procedures and Management Challenges*, [GAO-04-605](#) (Washington, D.C.: June 1, 2004).

responsible for overseeing the performance of contractors providing interrogation and other services were not adequately trained to properly exercise their responsibilities.¹⁶ Contractor employees were stationed in various locations around Iraq, with no COR or assigned representative on site to monitor their work. An Army investigative report concluded that the lack of training for the CORs assigned to monitor contractor performance at Abu Ghraib prison, as well as an inadequate number of assigned CORs, put the Army at risk of being unable to control poor performance or become aware of possible misconduct by contractor personnel.

DOD's Panel on Contracting Integrity raised similar concerns, noting that contracting personnel in a combat/contingent environment do not always have functional independence. Contracting personnel, including CORs, are sometimes placed in positions where their direct supervisor is not in the contracting chain of command, thus possibly injecting risk into the integrity of the contracting process. The report found that CORs are not sufficiently trained and prepared, and sometimes lack support from their operational chain of command, to perform effectively. The Commission on Army Acquisition and Program Management in Expeditionary Operations also expressed concern about this issue, stating that after contract award there are "no resources trained" to monitor and ensure that the contractor is performing and providing the services needed by the warfighter. It stated that the inability to monitor contractor performance and enforce contracts are critical problems in an expeditionary environment and cited an example: "When the critical need is to get a power station running, and there are no resources to monitor contractor performance, only the contractor knows whether the completed work is being sabotaged nightly."

In December 2006, we reported that while DOD has taken some steps to improve its guidance on the use of contractors to support deployed forces, addressing some of the problems we have raised since the mid-1990s, it continues to face long-standing problems that hinder its management and oversight of contractors at deployed locations. DOD has not allocated the organizational resources to review and oversee issues regarding contractor support to deployed forces. While DOD's new guidance is a

¹⁶ GAO, *Interagency Contracting: Problems with DOD's and Interior's Orders to Support Military Operations*, [GAO-05-201](#) (Washington, D.C.: April 29, 2005).

noteworthy step, a number of problems we have previously reported on continue to pose difficulties for military personnel in deployed locations.¹⁷

- Lack of visibility by senior leaders into the number and location of contractors and services provided at deployed locations.
- Inadequate number of oversight personnel at deployed locations.
- No systematic collection and sharing of DOD's institutional knowledge on using contractors to support deployed forces.
- Limited or no training for military personnel on the use of contractors as part of their pre-deployment training or professional military education.

Cost of Contractors

A key assumption of many of the federal management reforms of the 1990s was that the cost-efficiency of government operations would be improved. In addition to a desire for cost savings, the need to meet mission requirements while contending with limitations on government full-time equivalent positions and a desire to use contractors' capabilities and skills in particular situations were factors in increasing the use of contractors. We recently reported that sufficient data are not available to determine whether increased service contracting has caused DOD's costs to be higher than they would have been had the contracted activities been performed by uniformed or DOD civilian personnel.¹⁸

To learn more about the role and cost of contractors providing contracting support services, we have recently undertaken new work to look at contractors providing contract specialist services to the Army Contracting Agency's Contracting Center for Excellence (CCE).¹⁹ This agency currently provides contracting support to 125 DOD customers in the National Capitol Region, including the Joint Chiefs of Staff, Tricare Management Activity, Defense Information Systems Agency, DOD Inspector General,

¹⁷ GAO, *Military Operations: High-Level DOD Action Needed to Address Long-standing Problems with Management and Oversight of Contractors Supporting Deployed Forces*, [GAO-07-145](#) (Washington, D.C.: Dec. 18, 2006).

¹⁸ DOD does maintain data from its competitive sourcing, or A-76, program. However, the number of A-76 public/private competition contracts is relatively small and the results from this program may not be representative of the results from all services contracts for new or expanded operations and maintenance work. See GAO, *DOD Budget: Trends in Operation and Maintenance Costs and Support Services Contracting*, [GAO-07-631](#) (Washington, D.C.: May 18, 2007).

¹⁹ GAO, *Defense Contracting: Army Case Study Delineates Concerns with Use of Contractors as Contract Specialists*, [GAO-08-360](#) (Washington, D.C.: Mar. 26, 2008).

Pentagon Renovation Office, and Office of the Judge Advocate General. During fiscal year 2007, the agency awarded about 5,800 contract actions and obligated almost \$1.8 billion. CCE is one of many government agencies that have turned to contractors to support its contracting functions.

As a part of our review, we examined how the costs of CCE’s contractor contract specialists compared to those of its government contract specialists. Our analysis indicates that the government is paying more for the contractors. At CCE, the contractors are performing the same duties as their government counterparts and have been used in this role since 2003. We compared the costs of the government employees at the GS-12 and GS-13 levels to their equivalent contractor counterparts (referred to as contract specialists II and III) and found that, on average, the Army is paying up to 26 percent more for the contractors, as depicted in table 2.

Table 2: Comparison of the Average Cost of CCE’s Government and Contractor Contract Specialists

GS equivalent	Average hourly cost of a government contract specialist	Average hourly cost of a contractor contract specialist	Percentage difference between the hourly cost of a government employee and a contract employee
GS-12 equivalent	\$59.21	\$74.99	26.65
GS-13 equivalent	\$72.15	\$84.38	16.95

Source: GAO analysis based on government information and contract files.

Key elements of our analysis were:

- The loaded hourly cost of a government employee includes their salary, costs of the government’s contributions to the employee’s benefits, the costs to train the employee, the employee’s travel expenses, and the costs of operations overhead—which are the costs of the government employees that provide support services, such as budget analysts or human capital staff.
- Government employee salaries and benefits were based on actual data from one pay period. These data were then compared to the hourly cost of contractors ordered during the month of that pay period. The cost of a contractor employee is the fully loaded hourly rate the government pays for these services. We reported the weighted average of those hourly rates

because the agency used two contractors at two different rates during the pay period.

- We excluded the costs that the government incurs for both government and contractor-provided specialists. These include the costs of supplies, facilities, utilities, information technology, and communications costs.

This example is one illustrative case. In another example, officials at the Missile Defense Agency told us last year that, according to their calculations, the average cost of their government employees was \$140,000, compared with an average cost of \$175,000 for their contractors—who accounted for 57 percent of their 8,186 personnel positions.²⁰ We will continue to do work in this area.

Concluding Points

In closing, I believe that we must engage in a fundamental re-examination of when and under what circumstances we should use contractors versus civil servants or military personnel. This is a major and growing concern that needs immediate attention. Once the decision to contract has been made, we must address challenges we have observed in ensuring proper oversight of these arrangements—especially considering the evolving and enlarging role of contractors in federal acquisitions.

And we must elevate the acquisition function within the department. I would like to emphasize the critical need for actions to be taken to improve the acquisition workforce. The acquisition workforce's workload and complexity of responsibilities have been increasing without adequate agency attention to the workforce's size, skills and knowledge, and succession planning. DOD is experiencing a critical shortage of certain acquisition professionals with technical skills related to systems engineering, program management, and cost estimation. Without adequate oversight by and training of federal employees overseeing contracting activities, reliance on contractors to perform functions that once would have been performed by members of the federal workforce carries risk. As a final note, we are continuing to explore acquisition workforce issues in ongoing work and we hope to be making recommendations on these issues.

²⁰ Government employees accounted for 33 percent of the personnel positions, with the remainder filled by employees of federally funded research and development centers and university and affiliated research centers that were under contract or other types of agreements to perform missile defense tasks.

Mr. Chairman and Members of the subcommittee, this concludes my statement. I would be happy to answer any questions you might have.

Appendix I: Systemic Acquisition Challenges at the Department of Defense

1. Service budgets are allocated largely according to top-line historical percentages rather than Defense-wide strategic assessments and current and likely resource limitations.
2. Capabilities and requirements are based primarily on individual service wants versus collective Defense needs (i.e., based on current and expected future threats) that are both affordable and sustainable over time.
3. Defense consistently overpromises and underdelivers in connection with major weapons, information, and other systems (i.e., capabilities, costs, quantities, schedule).
4. Defense often employs a “plug and pray approach” when costs escalate (i.e., divide total funding dollars by cost per copy, plug in the number that can be purchased, then pray that Congress will provide more funding to buy more quantities).
5. Congress sometimes forces the department to buy items (e.g., weapon systems) and provide services (e.g., additional health care for non-active beneficiaries, such as active duty members’ dependents and military retirees and their dependents) that the department does not want and we cannot afford.
6. DOD tries to develop high-risk technologies after programs start instead of setting up funding, organizations, and processes to conduct high-risk technology development activities in low-cost environments (i.e., technology development is not separated from product development). Program decisions to move into design and production are made without adequate standards or knowledge.
7. Program requirements are often set at unrealistic levels, then changed frequently as recognition sets in that they cannot be achieved. As a result, too much time passes, threats may change, or members of the user and acquisition communities may simply change their mind. The resulting program instability causes cost escalation, schedule delays, smaller quantities, and reduced contractor accountability.
8. Contracts, especially service contracts, often do not have definitive or realistic requirements at the outset in order to control costs and facilitate accountability.
9. Contracts typically do not accurately reflect the complexity of projects or appropriately allocate risk between the contractors and the taxpayers (e.g., cost plus, cancellation charges).

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10. Key program staff rotate too frequently, thus promoting myopia and reducing accountability (i.e., tours based on time versus key milestones). Additionally, the revolving door between industry and the department presents potential conflicts of interest.
 11. The acquisition workforce faces serious challenges (e.g., size, skills, knowledge, succession planning).
 12. Incentive and award fees are often paid based on contractor attitudes and efforts versus positive results (i.e., cost, quality, schedule).
 13. Inadequate oversight is being conducted by both the department and Congress, which results in little to no accountability for recurring and systemic problems.
 14. Some individual program and funding decisions made within the department and by Congress serve to undercut sound policies.
 15. Lack of a professional, term-based chief management officer at the department serves to slow progress on defense transformation and reduce the chance of success in the acquisitions/contracting and other key business areas.

Appendix II: Definition of Waste

Several of my colleagues in the accountability community and I have developed a definition of waste. As we see it, waste involves the taxpayers in the aggregate not receiving reasonable value for money in connection with any government-funded activities due to an inappropriate act or omission by players with control over or access to government resources (e.g., executive, judicial or legislative branch employees; contractors; grantees; or other recipients). Importantly, waste involves a transgression that is less than fraud and abuse. Further, most waste does not involve a violation of law, but rather relates primarily to mismanagement, inappropriate actions, or inadequate oversight. Illustrative examples of waste could include the following:

- unreasonable, unrealistic, inadequate, or frequently changing requirements;
- proceeding with development or production of systems without achieving an adequate maturity of related technologies in situations where there is no compelling national security interest to do so;
- the failure to use competitive bidding in appropriate circumstances;
- an over-reliance on cost-plus contracting arrangements where reasonable alternatives are available;
- the payment of incentive and award fees in circumstances where the contractor's performance, in terms of costs, schedule, and quality outcomes, does not justify such fees;
- the failure to engage in selected pre-contracting activities for contingent events; and
- congressional directions (e.g., earmarks) and agency spending actions where the action would not otherwise be taken based on an objective value and risk assessment and considering available resources.

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