GAO Highlights

Highlights of GAO-06-800T, a testimony before the Subcommittee on Defense, Committee on Appropriations, House of Representatives

September 7, 2006

DOD ACQUISITIONS

Contracting for Better Outcomes

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 $250 billion annually. 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. DOD needs to ensure that its funds are spent wisely, and that it is buying the right things, the right way.

In this testimony, GAO discusses (1) recent trends in DOD contracting activity and the environment in which this activity takes place, and (2) practices which undermine its ability to establish sound business arrangements, particularly those involving the selection and oversight of DOD's contractors and incentivizing their performance.

This statement is based on work GAO has completed over the past 6 years covering a range of DOD acquisition and contracting issues. Some of these issues are long-standing. GAO has identified DOD contract management as a high-risk area for more than 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.

www.gao.gov/cgi-bin/getrpt?GAO-06-800T.

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

What GAO Found

DOD obligated nearly $270 billion on contracts for goods and services in fiscal year 2005, an 88 percent increase over the amount obligated in fiscal year 2000. All indications are that this upward trend will continue. Aside from growth in dollar value there have also been changes in what DOD is buying. DOD's new weapons system programs are expected to be the most expensive and complex ever and will consume an increasingly large share of its budget. In the last 5 years DOD has doubled its commitment to major weapon systems from $700 billion to $1.4 trillion, and DOD is counting on these efforts to fundamentally transform military operations. As overall obligations have increased so has its reliance on the private sector to provide services to fulfill DOD's missions and support its operations. Additionally, in recent years DOD has increased its use of existing contracts awarded by other agencies (i.e. interagency contracts). While this approach provides a number of benefits, our work, and that of some agency inspector generals, revealed instances of improper use, including issuing orders that were outside the scope of the underlying contract as well as failing to establish clear lines of accountability and responsibility. While the amount, nature, and complexity of DOD contract activity have increased, its acquisition workforce has remained relatively unchanged in size. At the same time, the acquisition workforce faces certain skills gaps and serious succession planning challenges.

There are a number of DOD practices which undermine its ability to establish sound business arrangements. For example, with regard to competition and pricing, we recently found that the Army acquired guard services under authorized sole-source contracts at 46 of 57 Army installations, despite the Army's recognition that it was paying about 25 percent more for its sole-source contracts than for those it previously awarded competitively. Another element of a sound business arrangement is the fee mechanism used to incentivize excellent contractor performance. In December 2005, we reported that DOD gives its contractors the opportunity to collectively earn billions of dollars through monetary incentives. Unfortunately, we found DOD programs routinely engaged in practices that failed to hold contractors accountable for achieving desired outcomes and undermined efforts to motivate results-based contractor performance. As a result, DOD paid out an estimated $8 billion in award fees on contracts in our study population, regardless of whether acquisition outcomes fell short of, met, or exceeded DOD's expectations. DOD also increased its risk of poor acquisition outcomes by not assuring that another element of a sound business arrangement, contractor oversight, was sufficient. For example, in 2005 we reported that DOD's oversight on nearly a third of 90 service contracts reviewed was insufficient, in part because DOD failed to assign performance monitors.