

**GAO**

Testimony

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## DEFENSE MANAGEMENT

# Actions Needed to Overcome Long-standing Challenges with Weapon Systems Acquisition and Service Contract Management

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**GAO**

Accountability \* Integrity \* Reliability

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Highlights of [GAO-09-362T](#), a testimony before the Subcommittee on Defense, Committee on Appropriations, House of Representatives

## Why GAO Did This Study

Today's testimony addresses the challenges DOD faces to improve the efficiency and effectiveness of its weapon systems acquisition and contract management. GAO has designated both areas as high risk areas since the early 1990s. DOD's major weapon systems programs continue to take longer to develop, cost more, and deliver fewer quantities and capabilities than originally planned. DOD also continues to face long-standing challenges managing service contracts and contractors. For example, the oversight of service contracts has been recognized as a material weakness in the Army. The current fiscal environment combined with the current operational demands elevates the need to improve weapon systems acquisition and contract management.

DOD has taken steps in response to recommendations GAO has made over the past decade. Taken collectively, these actions reflect the commitment of DOD senior leadership. However, to fully address these challenges the department needs to (1) translate policy into practice, (2) ensure steps undertaken result in intended outcomes, and (3) conduct a fundamental reexamination of its reliance on contractors.

In preparing this testimony, GAO drew from issued reports, containing statements of scope and methodology used, and testimonies.

To view the full product, including the scope and methodology, click on [GAO-09-362T](#). For more information, contact Janet St. Laurent at (202) 512-4402 or [stlaurentj@gao.gov](mailto:stlaurentj@gao.gov) or Katherine V Schinas at (202) 512-4841 or [schinasik@gao.gov](mailto:schinasik@gao.gov).

## DEFENSE MANAGEMENT

### Actions Needed to Overcome Long-standing Challenges with Weapon Systems Acquisition and Service Contract Management

#### What GAO Found

Several underlying systemic problems at the strategic level and at the program level continue to contribute to poor weapon systems acquisition. The total acquisition cost of DOD's 2007 portfolio of major programs has grown by 26 percent over initial estimates. At the strategic level, DOD does not prioritize weapon system investments, and its processes for matching warfighter needs with resources are fragmented and broken. DOD largely continues to define warfighting needs and make investment decisions on a service-by-service basis and assesses these requirements and their funding implications under separate decision-making processes. Invariably, DOD and the Congress end up continually shifting funds to and from programs—undermining well-performing programs to pay for poorly performing ones. At the program level, weapon system programs are initiated without sufficient knowledge about requirements, technology, and design maturity. Instead, managers rely on assumptions that are consistently too optimistic, exposing programs to significant and unnecessary risks and ultimately cost growth and schedule delays. In December 2008, DOD revised its guidance to improve its acquisition of major weapon systems, consistent with recommendations GAO has made. We have previously raised concerns, however, with DOD's implementation of guidance on weapon systems acquisition.

In fiscal year 2008, DOD obligated about \$200 billion for contractor-provided services, more than doubling the amount it spent a decade ago when measured in real terms. GAO's previous work has highlighted several examples of the risks inherent in using contractors, including ethics concerns, diminished institutional capacity, potentially greater costs, and mission risks. Further, the lack of well-defined requirements, difficulties employing sound business practices, and workforce and training issues hinder efforts to effectively manage and oversee contracts and contractors. These factors ultimately contribute to higher costs, schedule delays, unmet goals, and negative operational impacts. These issues take on a heightened significance in Iraq and Afghanistan, where DOD estimated that more than 200,000 contractor personnel were engaged as of July 2008, exceeding the number of uniformed military personnel there. As of October 2008, the number of contractor personnel in both countries had increased to over 230,000. DOD has taken several steps in response to GAO's recommendations aimed at improving management and oversight of contractors. These include issuing policy and guidance addressing contract management, identifying skill gaps in DOD's acquisition workforce, improving training for military commanders and contract oversight personnel, and creating a focal point within the department for issues associated with the use of contractors to support deployed forces. DOD, however, has not conducted a comprehensive assessment to determine the appropriate mix of military, civilian, and contractor personnel.

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today to discuss the challenges the Department of Defense (DOD) must overcome if it is to improve the efficiency and effectiveness of its weapon systems acquisitions and service contract management. This hearing is timely—about 3 weeks ago, we issued our 2009 update to our high-risk series that identified both of these areas as being at risk for fraud, waste, abuse and mismanagement.<sup>1</sup> The issues we identified in each area are not new; we first designated DOD weapon systems acquisition as a high-risk area in 1990, and 2 years later, we took the same action with regard to DOD contract management.

With an annual appropriation of about \$512 billion in fiscal year 2009 and supplemental funding of about \$807 billion over the past several years to support the global war on terrorism, DOD has a larger budget than any other federal agency. As the Secretary of Defense testified last month, however, “the spigot of defense funding opened by 9/11 is closing.” The Secretary noted that with two major ongoing campaigns, the economic crisis and resulting budget pressures will force hard choices on DOD, including hard choices regarding defense acquisitions. He further identified defense acquisition as the chief institutional challenge facing the department. While the combat effectiveness of U.S. forces and weapon systems is unparalleled, DOD has not been as effective in managing its ongoing business operations, which have adversely affected mission performance and increased the department’s vulnerability to fraud, waste, abuse, and mismanagement. The department’s senior leadership has shown a commitment to transforming business operations, including its weapon systems acquisition and contract management processes, but challenges remain in sustaining and building on this momentum.

DOD’s major weapon systems continue to take longer to develop, cost more, and deliver fewer quantities and capabilities than originally planned. Current operational demands have highlighted the impact of these persistent problems as DOD has been forced to work outside of its traditional acquisition process to acquire equipment that meets warfighter needs, as was the case with the Mine Resistant Ambush Protected vehicle. Further, investment in weapons acquisition programs is now at its highest level in two decades. The department was expected to invest more than

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<sup>1</sup> GAO, *High-Risk Series: An Update*, [GAO-09-271](#) (Washington, D.C.: January 2009). Appendix I provides a list of GAO’s 2009 high-risk areas.

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\$357 billion over the next 5 years on the development and procurement of major defense acquisition programs. Given the size of this investment, poor outcomes in DOD's weapon system programs reverberate across the entire federal government. Every dollar wasted during the development and acquisition of weapon systems is money not available for other priorities within DOD and across the government.

In fiscal year 2008, DOD spent about \$200 billion on contractor services, an amount that has more than doubled in real terms over the past decade. DOD estimated that over 200,000 contractor personnel were supporting operations in Iraq and Afghanistan in July 2008, exceeding the number of uniformed military personnel in both countries. As of October 2008, the number of contractor personnel in both countries had increased to over 230,000. In both the United States and at deployed locations, DOD relies heavily on contractors to help meet critical missions. At installations within the United States, contractors provide base operations support (e.g., food and housing) and other administrative and logistical support. In Iraq and Afghanistan, contractors not only provide traditional logistical support—such as base operations support and the maintenance of weapons systems—but also intelligence analysis and interpreters who accompany military patrols. It is important to note that the increased use of contractors both in the United States and at deployed locations is the result of thousands of individual decisions and not the result of comprehensive planning across the department. For example, the Secretary of Defense recently stated that the growth of contractor services in Iraq in many respects happened without a coherent strategy.

GAO has issued numerous reports over the last decade discussing DOD's long-standing challenges managing and overseeing service contractors. A recent memorandum issued by the Assistant Secretary of the Army for Acquisition, Logistics, and Technology underscored these challenges, stating that oversight of service contracts is a recognized material weakness in the Army and that when appropriate contract administration is not performed or is performed only by exception, it exposes the Army to an unacceptable risk of contract fraud and affects the Army's ability to fully leverage all its resources toward prosecuting the global war on terrorism. He went on to note that nothing short of a culture change is needed to correct the contract administration problems the Army continues to experience.

Today, I will discuss the challenges that affect DOD's acquisition of major weapon systems, DOD's management and oversight of service contracts, and steps DOD has taken in response to our recommendations for these

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issues. I will conclude with some observations on what further actions the department should take to address these challenges.

In preparing this testimony, we relied on our extensive body of work on DOD's acquisition of weapon systems and contract management issues. A list of these products is provided in appendix II. This work was 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.

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**Fragmented  
Processes,  
Unexecutable  
Business Cases, and  
Lack of Knowledge  
Underlie Poor  
Weapon Program  
Outcomes**

Since fiscal year 2000, DOD has significantly increased the number of major defense acquisition programs and its overall investment in them. During this same time period, acquisition outcomes have not improved. For example, in last year's assessment of selected DOD weapon programs, we found that total acquisition costs for the fiscal year 2007 portfolio of major defense acquisition programs increased 26 percent and development costs increased by 40 percent from first estimates—both of which are higher than the corresponding increases in DOD's fiscal year 2000 portfolio.<sup>2</sup> In most cases, the programs we assessed failed to deliver capabilities when promised—often forcing warfighters to spend additional funds on maintaining legacy systems. Our analysis showed that current programs experienced, on average, a 21-month delay in delivering initial capabilities to the warfighter, a 5-month increase over fiscal year 2000 programs as shown in table 1. Continued cost growth results in less funding being available for other DOD priorities and programs, while continued failure to deliver weapon systems on time delays providing critical capabilities to the warfighter. We are currently updating our analysis and intend to issue our assessment of DOD's current portfolio in March.

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<sup>2</sup> GAO, *Defense Acquisitions: Assessments of Selected Weapon Programs*, [GAO-08-467SP](#) (Washington, D.C.: Mar. 31, 2008).

**Table 1: Analysis of DOD Major Defense Acquisition Program Portfolios**

Fiscal year 2008 dollars	Fiscal year		
	2000 portfolio	2005 portfolio	2007 portfolio
<b>Portfolio size</b>			
Number of programs	75	91	95
Total planned commitments	\$790 billion	\$1.5 trillion	\$1.6 trillion
Commitments outstanding	\$380 billion	\$887 billion	\$858 billion
<b>Portfolio performance</b>			
Change to total RDT&E costs from first estimate	27 percent	33 percent	40 percent
Change in total acquisition cost from first estimate	6 percent	18 percent	26 percent
Estimated total acquisition cost growth	\$42 billion	\$202 billion	\$295 billion
Share of programs with 25 percent or more increase in program acquisition unit cost	37 percent	44 percent	44 percent
Average schedule delay in delivering initial capabilities	16 months	17 months	21 months

Source: GAO analysis of DOD data.

Note: Data were obtained from DOD's Selected Acquisition Reports (dated December 1999, 2004, and 2006) or in a few cases, data were obtained directly from program offices. Number of programs reflects the programs with Selected Acquisition Reports. In our analysis we have broken a few Selected Acquisition Report programs (such as Missile Defense Agency systems) into smaller elements or programs. Not all programs had comparative cost and schedule data, and these programs were excluded from the analysis where appropriate. Also, data do not include full costs of developing Missile Defense Agency systems.

Several underlying systemic problems at the strategic level and at the program level continue to contribute to poor weapon system program outcomes. At the strategic level, DOD does not prioritize weapon system investments and the department's processes for matching warfighter needs with resources are fragmented and broken.<sup>3</sup> DOD largely continues to define warfighting needs and make investment decisions on a service-by-service basis and assess these requirements and their funding implications under separate decision-making processes. Ultimately, the process produces more demand for new programs than available resources can support, promoting an unhealthy competition for funds that

<sup>3</sup> DOD has three major processes involved in making weapon system investment decisions, including the Joint Capabilities Integration and Development System for identifying warfighting needs; the Planning, Programming, Budgeting and Execution system, for allocating resources; and the Defense Acquisition System for managing product development and procurement.

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encourages programs to pursue overly ambitious capabilities, develop unrealistically low cost estimates and optimistic schedules, and to suppress bad news. Similarly, DOD's funding process does little to prevent programs from going forward with unreliable cost estimates and lengthy development cycles, which is not a sound basis for allocating resources and ensuring program stability. Invariably, DOD and the Congress end up continually shifting funds to and from programs—undermining well-performing programs to pay for poorly performing ones.

At the program level, programs are started without knowing what resources will truly be needed and are managed with lower levels of product knowledge at critical junctures than expected under best practices standards. For example, in our March 2008 assessment, we found that only 12 percent of the 41 programs we reviewed had matured all critical technologies at the start of the development effort.<sup>4</sup> None of the 26 programs we reviewed that were at or had passed their production decisions had obtained adequate levels of knowledge. In the absence of such knowledge, managers rely heavily on assumptions about system requirements, technology, and design maturity, which are consistently too optimistic. These gaps are largely the result of a lack of a disciplined systems engineering<sup>5</sup> analysis prior to beginning system development, as well as DOD's tendency to allow new requirements to be added well into the acquisition cycle. This exposes programs to significant and unnecessary technology, design, and production risks, and ultimately damaging cost growth and schedule delays. With high-levels of uncertainty about technologies, design, and requirements, program cost estimates and related funding needs are often understated, effectively setting programs up for failure.

When DOD consistently allows unsound, unexecutable programs to pass through the requirements, funding, and acquisition processes, accountability suffers. Program managers cannot be held accountable when the programs they are handed already have a low probability of success. Moreover, program managers are not empowered to make go or no-go decisions, have little control over funding, cannot veto new requirements, have little authority over staffing, and are frequently

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<sup>4</sup> [GAO-08-467SP](#).

<sup>5</sup> Systems engineering translates customer needs into specific product requirements for which requisite technological, software, engineering, and production capabilities can be identified through requirements analysis, design, and testing.

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changed during a program's development. Consequently, DOD officials are rarely held accountable for these poor outcomes, and the acquisition environment does not provide the appropriate incentives for contractors to stay within cost and schedule targets, making them strong enablers of the status quo.

With regard to improving its acquisition of weapon systems, DOD has made changes consistent with the knowledge-based approach to weapons development that GAO has recommended in its work. In December 2008, DOD revised DOD Instruction 5000.02, which provides procedures for managing major defense acquisition programs in ways that aim to provide key department leaders with the knowledge needed to make informed decisions before a program starts and to maintain discipline once it begins. For example, the revised instruction includes procedures for the completion of key systems engineering activities before the start of the systems development, a requirement for more prototyping early in programs, and the establishment of review boards to monitor weapon system configuration changes. We have previously raised concerns, however, with DOD's implementation of guidance on weapon systems acquisition. At the same time, DOD must begin making better choices that reflect joint capability needs and match requirements with resources. Given the nation's ongoing financial and economic crisis, DOD's investment decisions cannot continue to be driven by the military services that propose programs that overpromise capabilities and underestimate costs simply to start and sustain development programs.

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## DOD Continues to Face Long-standing Challenges Managing Service Contracts and Contractors

DOD Has Yet to Fully Assess Which Functions and Activities Should be Performed by Contractors, Limiting Its Ability to Mitigate Risks

DOD has increasingly relied on contractors to support its missions and operations, due in part to such factors as the reductions in DOD's civilian and military personnel following the collapse of the Soviet Union, the increasing complexity of weapons systems, and more recently, the increased demands related to the global war on terrorism, such as the need for large numbers of Arabic speakers. DOD officials have stated that without a significant increase in its civilian and military workforce, the



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department is likely to continue to rely on contractors both in the United States and overseas in support of future deployments. For example, in October 2008, the then-Under Secretary of the Army stated that the Army has more requirements than available force structure and that much of the Army's mission would be impossible without the support provided by contractors. Similarly, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness testified in 2008 that the structure of the U.S. military has been adapted to an environment in which contractors are an indispensable part of the force. In that regard, DOD estimated that more than 230,000 contractor personnel were supporting operations in Iraq and Afghanistan as of October 2008.

This reliance on contractors to support DOD's current mission was not the result of a strategic or deliberate process but resulted from thousands of individual decisions to use contractors to provide specific capabilities. As the Secretary of Defense testified last month, DOD has not thought holistically or coherently about the department's use of contractors particularly when it comes to combat environments. DOD has long-standing guidance for determining the appropriate mix of manpower—military, civilian, and contractors—necessary to accomplish the department's mission. This guidance, however, is primarily focused on individual decisions whether to use contractors to provide specific capabilities and not the overarching question of what the appropriate role of contractors should be. In October 2008, the Under Secretary of the Army acknowledged that DOD has not made much progress in assessing the appropriate role of contractors on the battlefield and stated that any serious or purposeful discussion about the future size of the Army must include the role of contractors.

We have increasingly called for DOD to be more strategic in how it uses contractors. For example, in November 2006, we reported that DOD lacked a proactive strategic approach to managing services acquisitions and needed to determine, among other things, areas of specific risks that were inherent when acquiring services and that should be managed with greater attention.<sup>6</sup> Indeed, we have called on DOD to conduct a fundamental reexamination of when and under what circumstances DOD should use contractors as opposed to civil servants or military personnel. Similarly, in January 2008, we testified that DOD needs to determine the

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<sup>6</sup> GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, GAO-07-20 (Washington, D.C.: Nov. 9, 2006).

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appropriate balance between contractors and military personnel in deployed locations.<sup>7</sup> Without a fundamental understanding of its reliance on contractors and the capabilities they should provide, DOD's ability to mitigate the risks associated with using contractors is limited.

Our previous work has highlighted several examples of the risks inherent to using contractors, including ethics concerns, diminished institutional capacity, potentially greater costs, and mission risks. Examples include:

- Certain contractor employees often work side-by-side with government employees, performing such tasks as studying alternative ways to acquire desired capabilities, developing contract requirements, and advising or assisting on source selection, budget planning, and award-fee determinations. Contractor employees are generally not subject, however, to the same laws and regulations that are designed to prevent conflicts of interests among federal employees.<sup>8</sup>
- The Army Contracting Agency's Contracting Center of Excellence relied on contractors to support acquisition and contracting decisions, which raised concerns about the Army's efforts to mitigate the risks of conflicts of interest or losing control over decision making.<sup>9</sup> Similarly, for 11 Air Force space program offices, contractors accounted for 64 percent of cost-estimating personnel, raising questions from the cost-estimating community about whether numbers and qualifications of government personnel are sufficient to provide oversight of and insight into contractor cost estimates.<sup>10</sup>
- One underlying premise of using contractors is that doing so will be more cost-effective than using government personnel. This may not always be the case. In one instance, we found that the Army Contracting Agency's Contracting Center of Excellence was paying up to 27 percent more for

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<sup>7</sup> GAO, *Military Operations: Implementation of Existing Guidance and Other Actions Needed to Improve DOD's Oversight and Management of Contractors in Future Operations*, [GAO-08-436T](#) (Washington, D.C.: Jan. 24, 2008).

<sup>8</sup> GAO, *Defense Contracting: Additional Personal Conflict of Interest Safeguards Needed for Certain DOD Contractor Employees*, [GAO-08-169](#) (Washington, D.C.: Mar. 7, 2008).

<sup>9</sup> GAO, *Defense Contracting: Army Case Study Delineates Concerns with Use of Contractors as Contract Specialists*, [GAO-08-360](#) (Washington, D.C.: Mar. 26, 2008).

<sup>10</sup> 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).

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contractor-provided contract specialists than it would have for similarly graded government employees.

- Reliance on contractors can create mission risks when contractors are supporting deployed forces. For example, because contractors cannot be ordered to serve in contingency environments, the possibility that they will not deploy can create risks that the mission they support may not be effectively carried out. Further, if commanders are unaware of their reliance on contractors they may not realize that substantial numbers of military personnel may be redirected from their primary responsibilities to provide force protection or assume functions anticipated to be performed by contractors and commanders therefore may not plan accordingly. The Chairman of the Joint Chiefs of Staff has directed the Joint Staff to examine the use of DOD service contracts (contractors) in Iraq and Afghanistan in order to better understand the range and depth of contractor capabilities necessary to support the Joint Force.

In assessing the appropriate role of contractors, it is important to recognize that contractors can provide important benefits such as flexibility to fulfill immediate needs. In some cases, DOD's specific needs may be too limited, too technical or have other characteristics that do not make it cost-effective for DOD to develop an organic capability. For example, we reported in 2008 that the repair of battle-damaged Stryker vehicles was contracted out because DOD did not have people with the specific welding skills required to perform this type of repair.<sup>11</sup> In other cases, contractors are used because they are cheaper. For example, we reported in 2007 that the Army's decision to contract for the operation and maintenance of the firing range at Fort Hood resulted in an estimated \$6 million savings.<sup>12</sup> In addition, both DOD and others have stated the department has limited capacity to pick up some or all of the capabilities currently provided by contractors. For example, DOD has reported that replacing the 13,000 armed private security contractors currently supporting the department in Iraq and Afghanistan, would require at least an additional 40,000 military personnel, given DOD's current rotation policies.

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<sup>11</sup> GAO, *Military Operations: DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations*, [GAO-08-1087](#) (Washington, D.C.: Sept. 26, 2008).

<sup>12</sup> GAO, *Defense Budget: Trends in Operation and Maintenance Costs and Support Services Contracting*, [GAO-07-631](#) (Washington, D.C.: May 18, 2007).

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## DOD Continues to Face Challenges in Employing Sound Business Practices When Contracting for and Managing Service Contracts

Once the decision has been made to use contractors to support DOD's missions or operations, it is essential that DOD clearly defines its requirements and employs sound business practices, such as using appropriate contracting vehicles and the collection and distribution of critical information. Our work, however, on DOD's use of time-and-materials contracts and undefinitized contract actions—two contracting practices that are often used when requirements are uncertain or changing—identified weaknesses in DOD's management and oversight, increasing the government's risk. Examples include:

- In June 2007, we found numerous issues with DOD's use of time-and-materials contracts.<sup>13</sup> DOD reported that it obligated nearly \$10 billion under time-and-materials contracts in fiscal year 2005, acquiring, among other services, professional, administrative, and management support services. Some specific examples of the services DOD acquired included subject matter experts in the intelligence field and systems engineering support. These contracts are appropriate when specific circumstances justify the risks, but our findings indicate that they are often used as a default for a variety of reasons—ease, speed, and flexibility when requirements or funding are uncertain. Time-and-materials contracts are considered high risk for the government because they provide no positive profit incentive to the contractor for cost control or labor efficiency and their use is supposed to be limited to cases where no other contract type is suitable. We found, however, that DOD underreported its use of time-and-materials contracts; frequently did not justify why time-and-materials contracts were the only contract type suitable for the procurement; made few attempts to convert follow-on work to less risky contract types; and was inconsistent in the rigor with which contract monitoring occurred.
- In that same month, we reported that DOD needed to improve its management and oversight of undefinitized contract actions (UCAs), under which DOD can authorize contractors to begin work and incur costs before reaching a final agreement on contract terms and conditions, including price.<sup>14</sup> The contractor has little incentive to control costs during this period, creating a potential for wasted taxpayer dollars. We found that DOD did not know the full extent it used UCAs because the government's

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<sup>13</sup> GAO, *Defense Contracting: Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts*, [GAO-07-273](#) (Washington, D.C.: June 29, 2007).

<sup>14</sup> GAO, *Defense Contracting: Use of Undefinitized Contract Actions Understated and Definitization Time Frames Often Not Met*, [GAO-07-559](#) (Washington, D.C.: June 19, 2007).

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federal procurement data system did not track UCAs awarded under certain contract actions, such as task or delivery order contracts. Moreover, we found that (1) the use of some UCAs could have been avoided with better acquisition planning; (2) DOD frequently did not definitize the UCAs within the required time frames thereby increasing the cost risk to the government; and (3) contracting officers were not documenting the basis for the profit or fee negotiated, as required. We called on DOD to strengthen management controls and oversight of UCAs to reduce the risk of DOD paying unnecessary costs and potentially excessive profit rates.

- In a separate report, issued in July 2007, we found that DOD's failure to adhere to key contracting principles on a multibillion dollar contract to restore Iraq's oil infrastructure increased the government's risk.<sup>15</sup> In this case, we found that the lack of timely negotiations on task orders that were issued as UCAs contributed significantly to DOD's decision to pay nearly all of the \$221 million in costs questioned by the Defense Contract Audit Agency (DCAA). All 10 task orders we reviewed were negotiated more than 180 days after the work commenced, and the contractor had incurred almost all its costs at the time of negotiations. The negotiation delays were in part caused by changing requirements, funding challenges, and inadequate contractor proposals.

Our previous work has also identified cost and oversight risks associated with inconsistent or limited collection and distribution of information. Examples include:

- Our 2008 review of several Army service contracts found that the Army's oversight of some of the contracts was inadequate due in part to contracting offices not maintaining complete contract files documenting contract administration and oversight actions taken, in accordance with DOD policy and guidance. As a result, incoming contract administration personnel did not know whether the contractors were meeting their contract requirements effectively and efficiently and therefore were limited in their ability to make informed decisions related to award fees, which can run into the millions of dollars.

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<sup>15</sup> GAO, *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk*, [GAO-07-839](#) (Washington, D.C.: July 31, 2007).

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- In addition, several GAO reports and testimonies have noted that despite years of experience using contractors to support deployed forces in the Balkans, Southwest Asia, Iraq, and Afghanistan, DOD has made few efforts to systematically collect and share lessons learned regarding the oversight and management of contractors supporting deployed forces. As a result, many of the management and oversight problems we identified in earlier operations have recurred in current operations. Moreover, without the sharing of lessons learned, substantial increases in forces in Afghanistan are likely to exacerbate those contract management and oversight challenges already present in Afghanistan.

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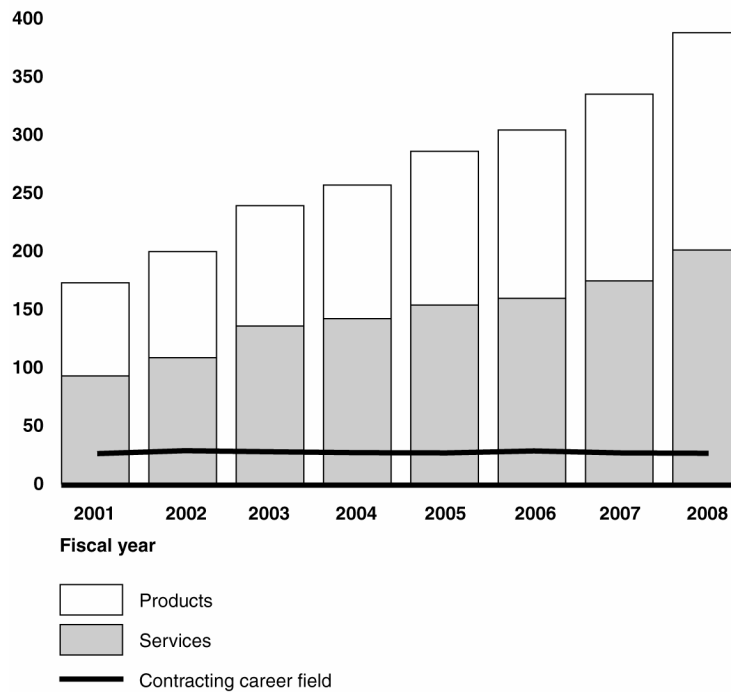
## Workforce Issues and Lack of Training Continue to Limit DOD's Ability to Provide Adequate Contract Oversight and Management

Properly managing the acquisition of services requires a workforce with the right skills and capabilities. In that regard, there are a number of individuals and organizations involved in the acquisition process, including contracting officers who award contracts, as well as those individuals who define requirements, receive or benefit from the services provided, and oversee contractor performance, including DCAA and the Defense Contract Management Agency (DCMA).

We and others have raised questions whether DOD has a sufficient number of trained acquisition and contract oversight personnel to meet its needs. For example, the increased volume of contracting is far in excess of the growth in DOD contract personnel. Between fiscal years 2001 and 2008, DOD obligations on contracts when measured in real terms, have more than doubled to over \$387 billion in total, and to more than \$200 billion just for services. Over the same time period, however, DOD reports its contracting career field grew by only about 1 percent as shown in figure 1. In 2008, DOD completed an assessment of its contracting workforce, in which more than 87 percent of its contracting workforce participated. DOD reports that this assessment provides a foundation for understanding the skills and capabilities its workforce currently and is in the process of determining how to close those gaps, such as through training or hiring additional personnel. DOD, however, lacks information on the competencies and skills needed in its entire workforce, particularly those who provide oversight or play other key roles in the acquisition process. We are currently assessing DOD's ability to determine the sufficiency of its acquisition workforce and its efforts to improve its workforce management and oversight and will be issuing a report in the spring.

**Figure 1: Changes in DOD's Contract Obligations and Contracting Workforce, Fiscal Year 2001 to Fiscal Year 2008**

Dollars are constant fiscal year 2008 dollars (in billions)  
 Workforce (in thousands)



Source: GAO analysis, Federal Procurement Data System-Next Generation, DOD.

Having too few contract oversight personnel presents unique difficulties at deployed locations given the more demanding operational environment compared to the United States because of an increased operational tempo, security considerations, and other factors. We and others have found significant deficiencies in DOD's oversight of contractors because of an inadequate number of trained personnel to carry out these duties. Examples include:

- We noted in January and September 2008 that the lack of qualified personnel hindered oversight of contracts to maintain military equipment in Kuwait and provide linguist services in Iraq and Afghanistan.<sup>16</sup> We found

<sup>16</sup> [GAO-08-1087](#) and GAO, *Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait*, [GAO-08-316R](#) (Washington, D.C: Jan. 22, 2008).

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that without adequate levels of qualified oversight personnel, DOD's ability to perform the various tasks needed to monitor contractor performance may be hindered. For example, we found that poor contractor performance can result in the warfighter not receiving equipment in a timely manner.

- In addition, the Army Inspector General reported in October 2007 that shortages of contracting officers, quality assurance personnel, and technically proficient contracting officer's representatives were noticeable at all levels, while the 2007 Commission on Army Acquisition and Program Management in Expeditionary Operations (the Gansler Commission) noted that shortages in personnel contributed to fraud, waste, and abuse in theatre.<sup>17</sup> If left unaddressed, the problems posed by personnel shortages in Iraq and elsewhere are likely to become more significant in Afghanistan as we increase the number of forces and the contractors who support them there.

An additional, long-standing challenge hindering management and oversight of contractors supporting deployed forces is the lack of training for military commanders and oversight personnel. As we testified in 2008, limited or no pre-deployment training on the use of contractor support can cause a variety of problems for military commanders in a deployed location, such as being unable to adequately plan for the use of those contractors and confusion regarding the military commanders' roles and responsibilities in managing and overseeing contractors.<sup>18</sup> Lack of training also affects the ability of contract oversight personnel to perform their duties. The customer (e.g., a military unit) for contractor-provided services at deployed locations is responsible for evaluating the contractor's performance and ensuring that contractor-provided services are used in an economical and efficient manner. Often this involves the use of contracting officer's representatives—individuals typically drawn from units receiving contractor-provided services, who are not normally contracting specialists, and for whom contract monitoring is an additional duty. We have repeatedly found that contract oversight personnel received little or no pre-deployment training on their roles and responsibilities in monitoring contractor performance, hindering the ability of those individuals to effectively manage and oversee contractors.

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<sup>17</sup> Commission on Army Acquisition and Program Management in Expeditionary Operations, *Urgent Reform Required: Army Expeditionary Contracting* (Oct. 31, 2007).

<sup>18</sup> [GAO-08-436T](#).



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While performing oversight is often the responsibility of military service contracting officers or their representatives, DCAA and DCMA play key roles in the oversight process. DCAA provides a critical internal control function on behalf of DOD and other federal agencies by performing a range of contract audit services, including reviewing contractors' cost accounting systems, conducting audits of contractor cost proposals and payment invoices, and providing contract advisory services to help assure that the government pays fair and reasonable prices. To be an effective control, DCAA must perform reliable audits. In a report we issued in July 2008, however, we identified a serious noncompliance with generally accepted government auditing standards at three field audit offices responsible for billions of dollars of contracting.<sup>19</sup> For example, we found that workpapers did not support reported opinions and sufficient audit work was not performed to support audit opinions and conclusions. As a result, DCAA cannot assure that these audits provided reliable information to support sound contract management business decisions or that contract payments are not vulnerable to significant amounts of fraud, waste, abuse, and mismanagement. The DCAA Director subsequently acknowledged agencywide problems and initiated a number of corrective actions. In addition, DOD included DCAA's failure to meet professional standards as a material internal control weakness in its fiscal year 2008 agency financial report.<sup>20</sup> We are currently assessing DCAA's corrective actions and anticipate issuing a report later this spring.

Similarly, DCMA provides oversight at more than 900 contractor facilities in the United States and across the world, providing contract administration services such as monitoring contractors' performance and management systems to ensure that cost, performance, and delivery schedules comply with the terms and conditions of the contracts. DCMA has also assumed additional responsibility for overseeing service contracts in Iraq, Afghanistan, and other deployed locations, including contracts that provide logistical support and private security services. In a July 2008 report, we noted that DCMA had increased staffing in these locations only by shifting resources from other locations and had asked the services to provide additional staff since DCMA did not have the resources to meet

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<sup>19</sup> GAO, *DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated*, [GAO-08-857](#) (Washington, D.C.: July 22, 2008).

<sup>20</sup> DOD, *Fiscal Year 2008 Agency Financial Report, Department of Defense* (Washington, D.C.: Nov. 17, 2008).

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the requirement.<sup>21</sup> As a result, it is uncertain whether DCMA has the resources to meet its commitments at home and abroad.

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## DOD Has Taken Some Steps to Address Service Contract Management and Oversight Challenges in Response to GAO Recommendations

GAO's body of work on contract management and the use of contractors to support deployed forces has resulted in numerous recommendations over the last several years. In response, DOD has issued guidance to address contracting weaknesses and promote the use of sound business arrangements. For example, in response to congressional direction and GAO recommendations, DOD has established a framework for reviewing major services acquisitions; promulgated regulations to better manage its use of contracting arrangements that can pose additional risks for the government, including time-and-materials contracts and undefinitized contracting actions; and has efforts under way to identify and improve the skills and capabilities of its workforce. For example, in response to recommendations from the Gansler Commission, the Army has proposed increasing its acquisition workforce by over 2,000 personnel. However, the Army also acknowledged that this process will take at least 3 to 5 years to complete.

DOD has also taken specific steps to address contingency contracting issues. GAO has made numerous recommendations over the past 10 years aimed at improving DOD's management and oversight of contractors supporting deployed forces, including the need for (1) DOD-wide guidance on how to manage contractors that support deployed forces, (2) improved training for military commanders and contract oversight personnel, and (3) a focal point within DOD dedicated to leading DOD's efforts to improve the management and oversight of contractors supporting deployed forces. As we reported in November 2008, DOD has been developing, revising, and finalizing new joint policies and guidance on the department's use of contractors to support deployed forces (which DOD now refers to as operational contract support).<sup>22</sup> Examples include:

- In October 2008, DOD finalized Joint Publication 4-10, "Operational Contract Support," which establishes doctrine and provides standardized

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<sup>21</sup> GAO, *Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions Are Needed to Sustain Improvements*, [GAO-08-966](#) (Washington, D.C.: July 31, 2008).

<sup>22</sup> GAO, *Contract Management: DOD Developed Draft Guidance for Operational Contract Support but Has Not Met All Legislative Requirements*, [GAO-09-114R](#) (Washington, D.C.: Nov. 20, 2008).

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guidance for planning, conducting, and assessing operational contract support integration and contractor management functions in support of joint operations.

- DOD is revising DOD Instruction 3020.41, “Program Management for the Preparation and Execution of Acquisitions for Contingency Operations,” which strengthens the department’s joint policies and guidance on program management, including the oversight of contractor personnel supporting a contingency operation.

DOD has also taken steps to improve the training of military commanders and contract oversight personnel. As we reported in November 2008, the Deputy Secretary of Defense issued a policy memorandum in August 2008 directing the appointment of trained contracting officer’s representatives prior to the award of contracts.<sup>23</sup> U.S. Joint Forces Command is developing two training programs for non-acquisition personnel to provide information necessary to operate effectively on contingency contracting matters and work with contractors on the battlefield. In addition, the Army has a number of training programs available that provide information on contract management and oversight to operational field commanders and their staffs. The Army is also providing similar training to units as they prepare to deploy, and DOD, the Army, and the Marine Corps have begun to incorporate contractors and contract operations in mission rehearsal exercises.

In October 2006, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness established the office of the Assistant Deputy Under Secretary of Defense (Program Support) to act as the focal point for DOD’s efforts to improve the management and oversight of contractors supporting deployed forces. This office has taken several steps to help formalize and coordinate efforts to address issues related to contractor support to deployed forces. For example, the office took a leading role in establishing a community of practice for operational contract support—comprising subject matter experts from the Office of the Secretary of Defense, the Joint Staff, and the services—that may be called upon to work on a specific task or project. Additionally, the office helped establish a Council of Colonels, which serves as a “gatekeeper” for initiatives, issues, or concepts, as well as a Joint Policy Development General Officer Steering Committee, which includes senior commissioned officers or

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<sup>23</sup> [GAO-09-114R](#).

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civilians designated by the services. The committee's objective is to guide the development of the Office of the Secretary of Defense, Joint Staff, and service policy, doctrine, and procedures to adequately reflect situational and legislative changes as they occur within operational contract support.

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## Concluding Observations

DOD has recognized it faces challenges with weapons systems acquisition and contract management and the department has taken steps to address these challenges, including those outlined in this testimony. The current economic crisis presents an opportunity and an imperative for DOD to act forcefully to implement new procedures and processes in a sustained, consistent, and effective manner across the department. In this context, to overcome these issues, the department needs to take additional actions. These include:

- In the near-term, DOD needs to ensure that existing and future guidance is fully complied with and implemented. Doing so will require continued, sustained commitment by senior DOD leadership to translate policy into practice and to hold decision makers accountable.
- At the same time, the department and its components have taken or plan to take actions to further address weapons systems acquisition and contract management challenges. However, many of these actions, such as the Army's efforts to increase its acquisition workforce, will not be fully implemented for several years and progress will need to be closely monitored to ensure the steps undertaken result in their intended outcomes.
- Risk is inherent when relying on contractors to support DOD missions. At the departmentwide level, DOD has yet to conduct the type of fundamental reexamination of its reliance on contractors that we called for in 2008.<sup>24</sup> Without understanding the depth and breadth of contractor support, the department will be unable to determine if it has the appropriate mix of military personnel, DOD civilians, and contractors. As a result, DOD may not be totally aware of the risks it faces and will therefore be unable to mitigate those risks in the most cost-effective and efficient manner.

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<sup>24</sup> GAO, *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight*, [GAO-08-572T](#) (Washington, D.C.: Mar. 11, 2008).

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The implementation of existing and emerging policy, monitoring of the department's actions, and the comprehensive assessment of what should and should not be contracted for are not easy tasks, but they are essential if DOD is to place itself in a better position to deliver goods and services to the warfighters. Moreover, with an expected increase of forces in Afghanistan, the urgency for action is heightened to help the department avoid the same risks of fraud, waste, and abuse it has experienced using contractors in support of Operation Iraqi Freedom.

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Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you or members of the subcommittee may have at this time.

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## Contacts and Acknowledgments

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# Appendix I: GAO's 2009 High-Risk List

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## Addressing Challenges in Broad-Based Transformations

- Modernizing the Outdated U.S. Financial Regulatory System (New)
- Protecting Public Health through Enhanced Oversight of Medical Products (New)
- Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals (New)
- 2010 Census (New in March 2008)
- Strategic Human Capital Management
- Managing Federal Real Property
- Protecting the Federal Government's Information Systems and the Nation's Critical Infrastructures
- Implementing and Transforming the Department of Homeland Security
- Establishing Effective Mechanisms for Sharing Terrorism-Related Information to Protect the Homeland
- DOD Approach to Business Transformation
  - Business Systems Modernization
  - Personnel Security Clearance Program
  - Support Infrastructure Management
  - Financial Management
  - Supply Chain Management
  - Weapon Systems Acquisition
- Funding the Nation's Surface Transportation System
- Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests
- Revamping Federal Oversight of Food Safety

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## Managing Federal Contracting More Effectively

- DOD Contract Management
- DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
- NASA Acquisition Management
- Management of Interagency Contracting

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## Assessing the Efficiency and Effectiveness of Tax Law Administration

- Enforcement of Tax Laws
- IRS Business Systems Modernization

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## Modernizing and Safeguarding Insurance and Benefit Programs

- Improving and Modernizing Federal Disability Programs
- Pension Benefit Guaranty Corporation Insurance Programs
- Medicare Program
- Medicaid Program
- National Flood Insurance Program

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# Appendix II: Selected GAO Products

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High-Risk Series	<i>High-Risk Series: An Update.</i> <a href="#">GAO-09-271</a> . Washington, D.C.: January 2009.
Weapon Systems	<i>Defense Acquisitions: Fundamental Changes Are Needed to Improve Weapon Program Outcomes.</i> <a href="#">GAO-08-1159T</a> . Washington, D.C.: September 25, 2008.  <i>Defense Acquisitions: Assessments of Selected Weapon Programs.</i> <a href="#">GAO-08-467SP</a> . Washington, D.C.: March 31, 2008.
Best Practices	<i>Defense Acquisitions: A Knowledge-Based Funding Approach Could Improve Major Weapon System Program Outcomes.</i> <a href="#">GAO-08-619</a> . Washington, D.C.: July 2, 2008.  <i>Best Practices: Increased Focus on Requirements and Oversight Needed to Improve DOD's Acquisition Environment and Weapon System Quality.</i> <a href="#">GAO-08-294</a> . Washington, D.C.: February 1, 2008.  <i>Space Acquisitions: Actions Needed to Expand and Sustain Use of Best Practices.</i> <a href="#">GAO-07-730T</a> . Washington, D.C.: April 19, 2007.
Investment Strategy	<i>Defense Acquisitions: DOD's Requirements Determination Process Has Not Been Effective in Prioritizing Joint Capabilities.</i> <a href="#">GAO-08-1060</a> . Washington, D.C.: September 25, 2008.  <i>Tactical Aircraft: DOD Needs a Joint and Integrated Investment Strategy.</i> <a href="#">GAO-07-415</a> . Washington, D.C.: April 2, 2007.  <i>Best Practices: An Integrated Portfolio Management Approach to Weapon System Investments Could Improve DOD's Acquisition Outcomes.</i> <a href="#">GAO-07-388</a> . Washington, D.C.: March 30, 2007.
Weapon System Reviews	<i>Defense Acquisitions: Cost to Deliver Zumwalt-Class Destroyers Likely to Exceed Budget.</i> <a href="#">GAO-08-804</a> . Washington, D.C.: July 31, 2008.  <i>Defense Acquisitions: Progress Made in Fielding Missile Defense, but Program Is Short of Meeting Goals.</i> <a href="#">GAO-08-448</a> . Washington, D.C.: March 14, 2008.

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*Joint Strike Fighter: Recent Decisions by DOD Add to Program Risks.* [GAO-08-388](#). Washington, D.C.: March 11, 2008.

*Defense Acquisitions: 2009 Is a Critical Juncture for the Army's Future Combat System.* [GAO-08-408](#). Washington, D.C.: March 7, 2008.

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## Contract Management

*DCAA Audits: Allegations That Certain Audits at Three Locations Did Not Meet Professional Standards Were Substantiated.* [GAO-08-857](#). Washington, D.C.: July 22, 2008.

*Defense Contracting: Post-Government Employment of Former DOD Officials Needs Greater Transparency.* [GAO-08-485](#). Washington, D.C.: May 21, 2008.

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

*Defense Contracting: Additional Personal Conflict of Interest Safeguards Needed for Certain DOD Contractor Employees.* [GAO-08-169](#). Washington, D.C.: March 7, 2008.

*Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk.* [GAO-07-839](#). Washington, D.C.: July 31, 2007.

*Defense Contracting: Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts.* [GAO-07-273](#). Washington, D.C.: June 29, 2007.

*Defense Contracting: Use of Undefined Contract Actions Understated and Definitization Time Frames Often Not Met.* [GAO-07-559](#). Washington, D.C.: June 19, 2007.

*Defense Acquisitions: Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services.* [GAO-07-832T](#), Washington, D.C.: May 10, 2007

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



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## Operational Contract Support

*Contract Management: DOD Developed Draft Guidance for Operational Contract Support but Has Not Met All Legislative Requirements.* [GAO-09-114R](#). Washington, D.C.: November 20, 2008.

*Contingency Contracting: DOD, State, and USAID Contracts and Contractor Personnel in Iraq and Afghanistan.* [GAO-09-19](#). Washington, D.C.: October 1, 2008.

*Military Operations: DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations.* [GAO-08-1087](#). Washington, D.C.: September 26, 2008.

*Rebuilding Iraq: DOD and State Department Have Improved Oversight and Coordination of Private Security Contractors in Iraq, but Further Actions Are Needed to Sustain Improvements.* [GAO-08-966](#). Washington, D.C.: July 31, 2008.

*Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight.* [GAO-08-572T](#). Washington, D.C.: March 11, 2008.

*Military Operations: Implementation of Existing Guidance and Other Actions Needed to Improve DOD's Oversight and Management of Contractors in Future Operations.* [GAO-08-436T](#). Washington, D.C.: January 24, 2008.

*Defense Acquisitions: DOD's Increased Reliance on Service Contractors Exacerbates Longstanding Challenges.* [GAO-08-621T](#). Washington, D.C.: January 23, 2008.

*Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait.* [GAO-08-316R](#). Washington, D.C.: January 23, 2008.

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

*Rebuilding Iraq: Continued Progress Requires Overcoming Contract Management Challenges.* [GAO-06-1130T](#). Washington, D.C.: September 28, 2006.

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*Military Operations: Background Screenings of Contractor Employees Supporting Deployed Forces May Lack Critical Information, but U.S. Forces Take Steps to Mitigate the Risks Contractors May Pose.* [GAO-06-999R](#). Washington, D.C.: September 22, 2006.

*Rebuilding Iraq: Actions Still Needed to Improve the Use of Private Security Providers.* [GAO-06-865T](#). Washington, D.C.: June 13, 2006.

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