

March 2005

CONTRACT
MANAGEMENT

Opportunities to
Improve Surveillance
on Department of
Defense Service
Contracts



G A O

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Highlights of [GAO-05-274](#), a report to the Secretary of Defense

Why GAO Did This Study

The Department of Defense (DOD) is the federal government's largest purchaser of contractor services, spending \$118 billion in fiscal year 2003 alone—an increase of 66 percent since fiscal year 1999. DOD is expected to rely increasingly on contractors to carry out its mission.

In recent reports, DOD has identified inadequate surveillance on service contracts. This report examines how DOD manages service contract surveillance. It looks at the extent of DOD's surveillance on a selection of service contracts, reasons why insufficient surveillance occurred, and efforts to improve surveillance.

What GAO Recommends

GAO recommends that DOD: require properly trained surveillance personnel be assigned to service contracts by the date of contract award; ensure surveillance personnel are held accountable for their duties; ensure DOD's service contract review process and data collection requirements provide more useful information; and revise guidance on surveillance for services procured from other agencies' contracts. DOD should also direct the Army to conduct surveillance, as appropriate, on ongoing Contract Advisory and Assistance Services contracts awarded before April 2004. DOD concurred with four of our recommendations and partially concurred with a fifth and identified actions it has taken or plans to take to address them.

www.gao.gov/cgi-bin/getrpt?GAO-05-274.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David E. Cooper at (617) 788-0555 or cooperd@gao.gov.

CONTRACT MANAGEMENT

Opportunities to Improve Surveillance on Department of Defense Service Contracts

What GAO Found

Surveillance varied on the 90 contracts we reviewed. Surveillance was insufficient on 26 of the contracts we reviewed but was sufficient on 64 contracts. Fifteen had no surveillance because no personnel were assigned such responsibilities; the other 11 had assigned personnel but could not provide evidence of surveillance due to incomplete documentation. Also, some surveillance personnel did not receive required training before beginning their assignments.

According to DOD officials, insufficient surveillance occurred because surveillance is not as important to contracting officials as awarding contracts and therefore, does not receive the priority needed to ensure that surveillance occurs. The Army, unlike the Air Force and Navy organizations we visited, does not require surveillance personnel to be assigned responsibility prior to contract award. We also found that surveillance personnel involved in our review were not evaluated on how well they perform their surveillance duties. Further, surveillance was usually a part-time responsibility and some personnel felt that they did not have enough time in a normal workday to perform their surveillance duties.

DOD has taken steps to implement provisions in the National Defense Authorization Act for Fiscal Year 2002 intended to improve the general management and oversight of service contract procurement and, in October 2004, DOD issued a policy that emphasized the proper use of other agencies' contracts. However, these efforts did little to improve service contract surveillance. On a more specific item, DOD did issue guidance that now requires appointment of surveillance personnel during the early planning phases of cost-reimbursable and time and materials service contracts. At the military service level, in April 2004, the Army revised its acquisition instructions and began requiring surveillance on some professional support service contracts; but, the revision did not apply to those contracts awarded before the enactment date that were still in effect.

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Abbreviations

ACA-North	Army Contracting Agency–North Region
AFMC	Air Force Materiel Command
DFARS	Defense Federal Acquisition Regulation Supplement
DOD	Department of Defense
FAR	Federal Acquisition Regulation
GSA	General Service Administration
NAVSEA	Naval Sea Systems Command
OSD	Office of the Secretary of Defense

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United States Government Accountability Office
Washington, DC 20548

March 17, 2005

The Honorable Donald H. Rumsfeld
Secretary of Defense
Washington, D.C.

Dear Secretary Rumsfeld:

The Department of Defense (DOD) is the federal government's largest purchaser of contractor provided services and its spending on those services has increased significantly over the past few years. Spending for services has increased about 66 percent since fiscal year 1999 and this trend is expected to continue as DOD increasingly relies more on contractors to carry out aspects of its mission. In fiscal year 2003, DOD spent over \$118 billion on services—about 57 percent of its procurement dollars.

Because of the increasing use of contractors and the large expenditures involved, quality assurance surveillance—oversight of the services being performed by the contractor—is important to provide assurance that contractors are providing timely and quality services and to help mitigate any contractor performance problems. Surveillance is not a one-step process. It begins with properly training personnel for assignment of surveillance responsibilities and involves ongoing surveillance actions throughout the performance period of the contract to ensure the government receives the services it contracted for in a timely manner. Surveillance includes creating an official record documenting that the contractor's performance was acceptable or unacceptable.

Because of past problems with inadequate surveillance identified by DOD,¹ GAO reports determining that contract management and oversight has not always been adequate,² and DOD's increasing reliance on service contracts, our overall review objective was to determine how DOD manages service contract surveillance. To address this issue we

¹DOD Inspector General, *Acquisition: Contracts for Professional, Administrative, and Management Support Services*, D-2004-015 (Oct. 30, 2003) and D-2000-100 (Mar. 10, 2000).

²GAO, *Major Management Challenges and Program Risks: Department of Defense*, [GAO-03-98](#) (Washington, D.C.: January 2003) and GAO, *High-Risk Series: An Update, Department of Defense Contract Management*, [GAO-05-207](#) (Washington D.C.: January 2005).

(1) examined the extent surveillance was performed on a selection of service contracts, (2) identified reasons for why insufficient surveillance occurred, and (3) identified recent efforts to help improve surveillance.

To conduct our work, we met with representatives of the Office of the Secretary of Defense (OSD) and the military services to discuss how contract surveillance is carried out across DOD and what efforts are being made to improve surveillance. We also selected and reviewed 90 service contracts and their associated surveillance records. The 90 contracts had a total value of about \$385.7 million at the time of contract award, but that value has increased significantly over time. These contracts were awarded primarily at three military commands within the military departments: (1) the Army Contracting Agency–North Region (ACA-North) at Fort Monroe, Virginia; (2) the Naval Sea Systems Command (NAVSEA) at the Navy Ship Yard, Washington, D.C.; and (3) the Air Force Materiel Command (AFMC) at Wright-Patterson Air Force Base, Ohio.³ Each of these organizations spends significant funding for services within their respective military department. Although our results are not projectable across all of DOD’s service contracts, they are illustrative of the challenges involved in conducting surveillance for services. We contacted contracting officers, surveillance personnel, and procurement management officials associated with each of the selected contracts to obtain information about surveillance. We did not include research and development contracts or construction contracts in the contracts selected because the surveillance process typically differs for these types of contracts. A more detailed discussion of our scope and methodology is in appendix I. We conducted our review from January 2004 to February 2005 in accordance with generally accepted government auditing standards.

Results in Brief

Surveillance varied on the 90 contracts we reviewed. Surveillance was insufficient on 26 of the contracts we reviewed but was sufficient on 64 contracts. Fifteen of the 26 contracts had no surveillance activity because no personnel were assigned surveillance responsibilities. The other 11 contracts had surveillance personnel assigned but could not provide evidence that surveillance was being conducted because of incomplete documentation. Further, some surveillance personnel did not receive required training prior to beginning their surveillance assignments on

³We also reviewed a small number of contracts associated with the Office of the Secretary of Defense and other defense agencies.

contracts. In some instances surveillance was very rigorous. For example, a Navy contract for critical submarine hull repair involved Navy personnel and an independent specialist using live video to observe all the repairs in real-time.

DOD officials attributed insufficient surveillance to a number of factors. Contract surveillance is not always a top priority for contracting officers and managers who oversee contracting organizations told us that surveillance is not given the same importance as getting the contract awarded. Also, the Army, unlike the Air Force and Navy organizations we visited, does not require that surveillance personnel be assigned to service contracts prior to contract award. In addition, no organization we visited consistently evaluates surveillance personnel on how well they perform their surveillance responsibilities. Finally, some surveillance personnel believe they do not have enough time in a normal workday to perform surveillance, a factor that may be influenced by declining personnel levels in DOD functional offices responsible for conducting surveillance.

DOD has begun implementing some initiatives that have the potential to improve service contract management and oversight practices on a broad basis. DOD has taken steps to implement provisions in the National Defense Authorization Act for Fiscal Year 2002⁴ intended to improve the management and oversight of service contract procurement and, in October 2004, it issued a policy that emphasized the proper use of other agencies' contracts. However, little has been done as part of these efforts to specifically improve DOD service contract surveillance practices. For specific types of contracts—cost-reimbursement⁵ and time and materials⁶ service contracts—DOD established additional guidance, in September 2004, that requires surveillance personnel be appointed to these contracts during the early planning phase to provide appropriate oversight. Also, in April 2004, the Army began requiring surveillance for the first time on certain types of professional support service contracts; however, Army

⁴Section 801, National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107, Dec. 28, 2001.

⁵Cost-reimbursement contracts provides for Government's payment of allowable costs incurred by the contractor. Federal Acquisition Regulation 16.301-1, Cost-Reimbursement Contracts (hereinafter FAR).

⁶Time-and-materials contracts that provide for acquiring supplies or services on the basis of direct contractor labor hours at fixed rates and materials at cost. FAR 16.601, Time-and-Materials Contracts.

officials told us this requirement did not apply to contracts of this type awarded prior to April 2004 that are still in effect.

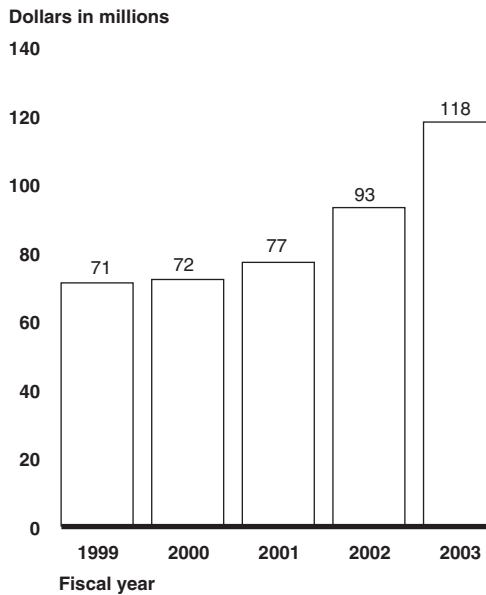
We are making four recommendations to help improve DOD service contract surveillance and one recommendation to help ensure that the Army is conducting surveillance on certain types of service contracts awarded and still in use prior to April 2004. DOD concurred with four of our recommendations and partially concurred with a fifth and identified actions it has taken or plans to take to address them.

Background

DOD and the federal government classify procurements as either the purchase of goods or services. DOD procures many types of services ranging from research and development efforts on major weapon systems to operating military installations.⁷ Service contracts, because they involve the contractor providing a service rather than a good, by nature require different approaches in describing requirements and overseeing contractor performance than the purchases of goods. DOD spends more of its procurement funds on services than it does on goods. Moreover, DOD spends significantly more than any other federal agency on services. DOD spending on services has been increasing significantly over the last several years—about 66 percent since fiscal year 1999—to a level of \$118 billion in fiscal year 2003 (see fig. 1).

⁷The DOD and the federal government have 24 different categories of service contracts. These categories range from contracts for information technology and medical services to base operating support.

Figure 1: DOD Spending on Services, FY 1999 through FY 2003



Source: GAO analysis of DOD data.

Surveillance and documentation that it occurred are required by the Federal Acquisition Regulation (FAR)⁸ and the Defense Federal Acquisition Regulation Supplement (DFARS).⁹ Moreover, documentation is necessary to help ensure accountability over the surveillance process. Surveillance involves government oversight of contractors with the purpose of ensuring that the contractor (the service provider) performs the requirements of the contract and the government (the service receiver or customer) receives the service as intended. Surveillance begins with trained personnel being nominated for and assigned surveillance responsibilities, and then conducting surveillance actions throughout the performance period of the contract to ensure the government receives the services required by the contract.

While surveillance is required by the DFARS, specific methods are not prescribed. DOD organizations use various methods to conduct surveillance, ranging from formal written assessments (monthly, semi-

⁸FAR 37.602-2, Quality Assurance and FAR 46.104, Contract Administration Office Responsibilities.

⁹ Defense Federal Acquisition Regulations Supplement 246.102.

annually, or annually) of contractor performance prepared by DOD surveillance personnel to more informal observations or inspections of contractor performance by surveillance personnel. The methods used generally relate to the dollar value of the contract and the risk associated with the service being provided.

Proper documentation of surveillance is required. Proper documentation is not only stressed in the DFARS but also in other DOD guidance that requires performance-based service contracts,¹⁰—which DOD is requiring to be used more often in the acquisition of services—to have a surveillance plan. Surveillance of contractor performance should be documented as it is conducted. DOD guidance maintains that this documentation constitutes an official record and the surveillance personnel assessing performance are to use a checklist to record their observations of the contractor’s performance. The guidance also concludes that all performance should be documented whether it is acceptable or not.

Surveillance personnel¹¹ are usually not considered part of DOD’s acquisition workforce. Instead, surveillance personnel represent the DOD functional organization receiving the service and are usually assigned surveillance as an ancillary responsibility in addition to their primary job. For example, if a DOD weapon system program office (a functional organization) has a need to contract for professional support services, the program office would assist the contracting officer by defining contract requirements and methods of contractor performance and by nominating an official to serve as the surveillance personnel. Surveillance personnel are likely to be full-time employees of the DOD organization needing the service and are generally knowledgeable about the aspects of the service to be provided by the contractor. This knowledge is useful in assessing contractor performance. However, it is the contracting officer’s responsibility to assign surveillance personnel and to ensure that surveillance is conducted on the contract. The surveillance personnel act as a liaison between the contracting officer and the contractor. If less than

¹⁰*Guidebook for Performance-Based Services Acquisition in the Department of Defense*, December 2000.

¹¹The military services, including the contracting offices we visited during this review use different terms to describe personnel involved in surveillance including: Quality Assurance Personnel (QAP), Quality Assurance Evaluator (QAE), Contracting Officer’s Representative (COR), Contracting Officer’s Technical Representative (COTR) and Task Order Manager (TOM). For purposes of this report, we will refer to all these positions as surveillance personnel.

adequate contractor performance is noted by the surveillance personnel, they notify the contracting officer as a first step toward corrective action. Appendix II shows in more detail the roles of contracting officers and surveillance personnel.

Congressional concern over the management of DOD's growing services procurement led Congress to include provisions in section 801 of the National Defense Authorization Act for Fiscal Year 2002¹² designed to improve management and oversight of services procurement and reinforce compliance with all applicable statutes, regulations, directives, and other requirements, regardless of whether the services were procured through DOD contracts or those of another agency. We have previously reported on section 801, but at that time DOD had not completely determined how to implement specifics of the legislation.¹³ In our prior report, we stated that DOD and the military departments had a management structure and a process in place for reviewing individual acquisitions valued at \$500 million or more, but the approach did not provide a departmentwide assessment of how spending for services could be more effective.

In October 2004, to help reinforce the requirements of section 801, DOD issued a policy designed to emphasize the proper use of other agencies' contracts. DOD spends billions of dollars every year using other agencies' contracts and is the largest purchaser of services from GSA's multiple award schedules program.

Sufficiency of Service Contract Surveillance Varied

The use of surveillance varied on the 90 contracts we reviewed. While 26 of the 90 DOD contracts we reviewed had insufficient surveillance, 64 contracts had sufficient, documented surveillance that in some instances was extensive. More specifically, 25 of the 26 contracts with insufficient surveillance were contracts for services that DOD obtained by using GSA contracts available under its multiple award schedules program. In addition, 13 surveillance personnel had not completed required training prior to being assigned surveillance responsibilities. Our review also found that 64 contracts had sufficient, documented surveillance and in some of these instances, surveillance was extensive.

¹²Public Law 107-107, Dec. 28, 2001.

¹³GAO, *Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition*, [GAO-03-935](#) (Washington, D.C.: Sep. 10, 2003).

Surveillance Personnel Not Always Assigned and Documentation Insufficient

For the 90 DOD service contracts we reviewed, 26 of the contracts (29 percent) had insufficient surveillance in that they lacked assigned surveillance personnel or complete documentation of surveillance.¹⁴ Of these 26 contracts, 15 contracts had no surveillance personnel assigned. Additionally, 11 of the 26 contracts had insufficient documentation to show if surveillance was occurring. Table 1 summarizes our findings for the 90 contracts and shows that there were more instances of insufficient surveillance related to the Army contracts compared to the Navy. All of the Air Force contracts we reviewed had surveillance. (See app. III for a more detailed summary of the 90 contracts.)

Table 1: Summary of Surveillance on DOD Service Contracts

Dollars in millions

DOD organization	Total contracts reviewed		Number of contracts with no surveillance personnel assigned	Number of contracts with insufficient evidence of surveillance
	Number of contracts	Award amount		
Air Force				
AFMC	20	\$39.0	0	0
Other organizations	8	2.4	0	0
Army				
ACA-North	19	86.2	7	2
Other organizations	11	20.7	6	1
Navy				
NAVSEA	20	226.6	0	0
Other organizations	6	8.7	1	4
OSD and other DOD agencies	6	2.1	1	4
Total	90	\$385.7	15	11

Source: GAO analysis of DOD data.

Our further analyses of the 90 contracts found only one common characteristic as to whether surveillance was affected by other contractual

¹⁴The \$46.6 million was the total value of the 26 contracts at the time they were awarded. Contracts can increase in value for a number of reasons after they are awarded. Contracts can increase in value when additional contract options are exercised, the scope of the contract changes, etc. For example, one NAVSEA contract increased from \$225,000 at contract award, but has the potential to increase to \$96 million. Many of the contracts we reviewed increased in value since they were awarded.

factors. Specifically, we found that of the 45 interagency contracts we reviewed where DOD awarded them using GSA's multiple award schedules program,¹⁵ 25 had insufficient surveillance. GAO has recently identified issues with DOD's use of interagency contracts in general and reported that they were not being effectively managed.¹⁶

We also found that the contract award amount was not always a good indication of the total value of the services that needed to be surveilled. While the award amount of the 90 contracts we reviewed was \$385.7 million in fiscal year 2003, the amount of funds obligated on about one-half of these contracts had grown to about \$1.5 billion as of November 2004.¹⁷ We found that for some of the 15 contracts without surveillance personnel assigned, the contract amounts have more than tripled over the course of the contract. For example, one Army contract for educational services was awarded for \$271,690 but had increased to \$900,125.

We did not find that the sufficiency of surveillance was related to other factors, including type of service contract (fixed price or cost-reimbursable), type of services being procured, use of performance-based contract methods, or dollar value at award. For some of the contracts without sufficient documentation of surveillance, we asked the personnel how the government's interests were being protected. They told us they were conducting surveillance, but they had not been keeping documented records to verify surveillance had taken place.

¹⁵GSA's multiple award schedules program provides federal agencies with a simplified process of acquiring commonly used supplies and services in varying quantities while obtaining volume discounts. In return, agencies utilizing the schedules program provide GSA with a user fee to cover GSA's administrative expenses.

¹⁶GAO, *High-Risk Series: An Update*, [GAO-05-207](#) (Washington D.C.: January 2005).

¹⁷We did not obtain the total amount of obligations for about one-half of the contracts.

Surveillance Personnel Training Not Always Completed Prior to Surveillance Beginning

Surveillance training, despite DOD regulations requiring such training, was not always completed prior to personnel being assigned surveillance responsibilities. Such training explains their responsibilities and identifies methods of conducting surveillance. On the contracts we reviewed, 13 surveillance personnel had not received the required training. Without timely training, surveillance personnel may not know how to perform their duties. We found examples of this late training at each of the commands we visited including 10 instances at AFMC, 2 instances at NAVSEA, and 1 instance at ACA-North. In some cases, surveillance personnel had not completed training until several months after assignment to a contract. See table 2 for a summary of surveillance personnel training information.

Table 2: Surveillance Personnel Training

Military command	Surveillance personnel assigned to contracts	Surveillance personnel not trained before assignment
Air Force Materiel Command	60	10
ACA-North	13	1
NAVSEA	31	2
Total	104	13

Source: GAO analysis of DOD data.

Surveillance Often Sufficient and Used to Identify Insufficient Contractor Performance

We found that 64 of the 90 contracts we reviewed had surveillance personnel who were assigned their surveillance responsibilities and were conducting and documenting surveillance. The 64 contracts included 20 that were awarded using GSA's multiple award schedules program. The amount of surveillance varied depending on the type of service being provided. In some instances, the surveillance was a very detailed, rigorous process. For example, one Navy contract we reviewed involved critical submarine hull repair. The surveillance on the services was extensive and involved Navy personnel and an independent specialist using live video to observe all the repairs in real time. For lower risk contracts, such as one involving maintenance of an Army recruiting internet site, surveillance was significantly less formal because the contractor and surveillance personnel actually shared office space and had daily interaction.

If surveillance is done properly, it has the potential to identify poor contractor performance and mitigate problems on a contract. For example, on one of the contracts we reviewed, AFMC was having problems with a custodial contract worth approximately \$3 million. The surveillance personnel assigned to the job followed the surveillance plan

and documented observations and customer complaints that the contractor was not meeting some of the contract requirements for a few consecutive months. In each instance, the contractor was asked to re-perform the tasks that were deemed unacceptable and the surveillance personnel informed the contracting officer of the issues. As the problems continued, the contracting officer involved the contractor's corporate headquarters and arranged a meeting to resolve the underlying problems. Two main problems were identified. Some tasks the government expected to be performed were not in the contract, and the contractor was providing poor service on other tasks. Both of these problems were remedied and surveillance showed the contractor subsequently received high ratings. Another example where surveillance caught insufficient performance was on a NAVSEA contract worth approximately \$14 million. The surveillance on this contract was structured so that the government would rate each contractor employee's performance. Two contract employees were not performing as required and the corporate headquarters subsequently replaced both of them within a few months.

AFMC and NAVSEA Practices Help Provide Sufficient Surveillance

NAVSEA and AFMC have policies that help ensure that surveillance begins as soon as possible on contracts. Both organizations require surveillance personnel to be assigned before or at contract award. Based on the contracts reviewed, we found that both organizations complied with their respective policies—each contract we reviewed had someone assigned to conduct surveillance. In contrast, the Army and ACA-North have no policy requiring surveillance personnel be assigned at or before contract award. Of the 26 contracts we identified as having insufficient surveillance, 16 were Army contracts, including 9 ACA-North contracts. The Air Force requires a team be created prior to the award of service contracts. This team is comprised of at least the contracting officer, a representative from the buying entity, and the surveillance personnel who will be assigned to the contract. This policy helps assure that surveillance is given a higher priority because the contract cannot be awarded until the team has met.

Contract Surveillance Not Always a High Priority

Surveillance was not always given high priority by either the contracting or functional organizations, according to officials responsible for the contracts we reviewed. These officials told us getting the contracts awarded, and thus supporting the customer, takes priority over assuring trained surveillance personnel are assigned prior to contract award. The Army, unlike the Air Force and Navy organizations we visited, does not require surveillance personnel to be assigned to contracts prior to the contract award date. Officials also told us almost all surveillance personnel are not evaluated on their surveillance responsibilities in their performance assessments because surveillance is considered a part-time or ancillary activity. Also, some surveillance personnel feel they do not have sufficient hours during their normal workday to get the job done.

Surveillance Secondary to Awarding Contracts

Federal and DOD acquisition regulations do not require surveillance personnel to be assigned prior to contract award. Contracting officials from all three service commands as well as OSD and senior military acquisition policy officials stated that, in general, the priority of contracting offices is awarding contracts, not assuring that trained surveillance personnel are assigned early on so that surveillance can begin upon contract award. Contracting officials told us that their primary objective is to get the necessary contracts awarded in order to support the functional office (the service customer) and that delaying a contract award because of delays in the assignment or training of surveillance personnel does not normally occur. It is the assignment of surveillance personnel that is usually delayed until after contract award because contracting officers cannot assign them until they are nominated by the functional office. NAVSEA and AFMC, however, have recognized the importance of timely assignment and require contracting officers to assign surveillance personnel by contract award. The Army and ACA-North have no such requirement. For all the NAVSEA contracts we reviewed, surveillance personnel were timely assigned.

Surveillance Personnel Not Rated on Surveillance Responsibilities

A further indication that surveillance is not always given a high priority is that almost all personnel involved in our review are not rated on performance of their surveillance responsibilities. NAVSEA and Army policy indicates that surveillance responsibilities should at least be considered in performance ratings, and Army training material indicates that surveillance performance should be evaluated; however, in almost all cases, personnel were not being assessed on these responsibilities. Officials at NAVSEA told us they plan to issue a policy memo encouraging the functional organizations to include surveillance duties in performance ratings. While these efforts demonstrate a willingness to hold surveillance

personnel accountable through ratings, they provide no plans or processes to help accomplish this. OSD and senior acquisition policy officials also acknowledge that assessing surveillance personnel on their responsibilities could improve accountability but told us this could require modifications to job descriptions, which could be a difficult task.

Some Air Force and Navy Surveillance Personnel Feel Not Enough Time to Perform Surveillance

Several Air Force and Navy personnel told us they do not always have sufficient time to focus on surveillance responsibilities; thus, possibly contributing to inadequate surveillance or leaving at risk the potential for not detecting contractor performance problems. Five NAVSEA surveillance personnel out of 17 we talked to told us they felt they did not have enough time, in a normal workday, to fully perform their surveillance duties. They told us they are usually assigned surveillance as a part-time duty to be done in addition to their regular, full-time job responsibilities. NAVSEA contract managers agreed that surveillance personnel at times do need to work additional hours to ensure surveillance is done. According to OSD and senior acquisition policy officials, this situation is occurring, in part, due to a reduction in the staffing of functional offices that nominate personnel to perform surveillance duties.

DOD Initiatives Affecting Surveillance

DOD is in the process of implementing some initiatives that may help improve contract management and oversight practices. DOD has taken some steps to implement provisions in the National Defense Authorization Act for Fiscal Year 2002¹⁸ designed to help improve the general management and oversight of service contract procurement and also recently issued a policy emphasizing the proper use of other agencies' contracts. DOD also recently established additional guidance on contract surveillance for cost-reimbursable and time and materials service contracts that states that surveillance personnel should be appointed to these types of service contracts during the early contract planning phase to help improve oversight. In addition, a recently revised Army acquisition instruction clarified surveillance requirements for certain types of service contracts for which the Army was not previously requiring surveillance.

¹⁸Section 801, Public Law 107-107, Dec. 28, 2001.

DOD Efforts to Improve Service Contract Management and Oversight

DOD has taken some steps to implement provisions in section 801 of the National Defense Authorization Act for Fiscal Year 2002,¹⁹ which was intended to improve DOD management and oversight of services procurement and reinforce compliance with all applicable statutes, regulations, directives, and other requirements, regardless of whether the services are procured through a DOD contract or other agencies' contracts. DOD also recently issued a policy placing emphasis on the proper use of other agencies' contracts, such as GSA's schedules program.

Regarding establishment of a management and review structure for service contracts, we reported in September 2003²⁰ that DOD and the military departments each had a management structure in place for reviewing individual service contracts valued at \$500 million or more prior to contract award, but that approach did not provide a departmentwide assessment of how spending for services could be more effective. During our current review, we found that DOD and the military departments continue to focus their efforts on activities that lead up to contract awards and do not track or assess the sufficiency of surveillance on service contracts regardless of their dollar value or risk. As a result, little has been done as part of implementing section 801 to specifically improve DOD surveillance practices.

Section 801 of the act,²¹ as well as DOD policy, requires that certain data elements on service contracts be collected and analyzed to help support management decisions. The requirement applies to contracts for services valued at \$100,000 or more. While DOD has been collecting data to comply with the act, no data related to contract surveillance is being collected because neither the act nor DOD guidance requires collection of this type of data. As a result, DOD is not tracking whether the assignment of surveillance personnel has taken place. Without this data, DOD and the military departments will likely continue to have limited visibility over the timely assignment of surveillance personnel and the results of surveillance.

¹⁹Section 801, Public Law 107-107, Dec. 28, 2001.

²⁰GAO, *Contract Management: High-Level Attention Needed to Transform DOD Services Acquisition*, [GAO-03-935](#) (Washington, D.C.: Sept. 10, 2003).

²¹Public Law 107-107, Dec. 28, 2001.

Further, DOD's October 2004 policy, which placed emphasis on the proper use of other agencies' contracts, does not specifically address surveillance. The policy focuses on ensuring that DOD's procurement processes and procedures are done correctly. As discussed earlier, surveillance on contracts awarded using interagency arrangements is an area where we found efforts could be improved—25 of the 26 contracts we determined to have insufficient surveillance were contracts using GSA's schedules program.

Additional DOD Surveillance Guidance for Cost Reimbursable and Time and Materials Service Contracts

In September 2004, OSD issued additional guidance to the military services on service contracts called cost-reimbursable and time and material contracts. The guidance stresses the need for the assignment of surveillance personnel for these contracts because they usually require significant government surveillance during contract performance to ensure the government receives good value.

The additional DOD guidance was issued in response to a 2003 DOD Inspector General report that found surveillance was inadequate for 29 of 43 cost-reimbursable contract actions.²² The Inspector General found that surveillance personnel were designated in writing, as required, on only 21 of 43 contract actions. Further, for these 21 contracts, 13 had insufficient surveillance. DOD's September 2004 guidance was issued to help correct some of these inadequacies.

Revised Army Acquisition Instruction

Revised Army acquisition instructions, issued in April 2004, now require surveillance personnel to be assigned for a certain type of service contract called Contract Advisory and Assistance Services.²³ Senior Army acquisition and other officials at the ACA-North told us that, in the past, these contracts required less surveillance because they were generally seen as lower risk; in addition, the officials noted that shortages of personnel in the functional offices also contributed to conducting less surveillance on this type of service contract. The Army was unable to provide us information on the quantity and dollar amounts associated with

²²DOD Inspector General, *Acquisition: Contracts for Professional, Administrative, and Management Support Services*, D-2004-015 (Oct. 30, 2003).

²³Contract Advisory and Assistance Services, CAAS, are contracts where contractors provide professional consultation and assistance to government organizations contracting for services.

these contracts that did not have surveillance; as a result, we were unable to determine the overall significance of this issue. We are encouraged that the Army has now decided to require surveillance for this type of contract. However, the new acquisition instructions are not retroactive and therefore do not provide a means to require surveillance for Contract Advisory and Assistance Services contracts awarded prior to April 2004 and still in effect.

Conclusions

If surveillance is not conducted, not sufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner. Ultimately, if surveillance is not being done, DOD can be at risk of paying contractors more than the value of the services they performed. Key to sufficient surveillance are personnel trained in how to conduct surveillance, assigned at or prior to contract award, held accountable for their surveillance duties, and conducting and documenting surveillance throughout the period of the contract. While DOD has taken some actions to improve management and oversight of service contracts, more can be done to ensure these practices are in place.

Recommendations for Executive Action

To help improve service contract surveillance and further mitigate risk, we recommend that the Secretary of Defense

- ensure that the proper surveillance training of personnel and their assignment to service contracts occurs no later than the date of contract award;
- develop practices to help ensure accountability for personnel carrying out surveillance responsibilities;
- ensure that DOD's service contract review process and associated data collection requirements provide information that will provide more management visibility over contract surveillance; and
- revise the October 2004 policy on proper use of other agencies' contracts to include guidance on conducting surveillance of services procured from other agencies' contracts.

Further, we recommend that the Secretary of Defense direct the Secretary of the Army to assign surveillance personnel to conduct surveillance, as appropriate, on ongoing Contract Advisory and Assistance Services contracts awarded prior to April 2004.

Agency Comments and Our Evaluation

DOD provided us with written comments on a draft of this report. DOD concurred with four of our recommendations and partially concurred with a fifth recommendation and identified actions it has taken or plans to take to address them. The comments appear in appendix IV.

DOD partially concurred with our recommendation that the Secretary develop practices to help ensure accountability for personnel carrying out surveillance responsibilities. DOD stated that it will review the feasibility of including a performance goal in a contracting officer representative's (surveillance personnel) annual performance evaluation which would address the representative's performance of their surveillance duties.

We believe DOD's willingness to review and determine the feasibility of this issue is a step in the right direction and we believe it could lead to a process that holds surveillance personnel accountable for their surveillance responsibilities. Whether this is done using annual performance evaluations or by other means, we believe it can only lead to more sufficient surveillance on DOD service contracts.

We are sending copies of this report to the Secretaries of the Air Force, the Army, and the Navy; appropriate congressional committees; and other interested parties. We will also provide copies to others on request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff has questions concerning this report, please contact me at (202) 512-4841 or by e-mail at cooperd@gao.gov, or James Fuquay at

(937) 258-7963. Key contributors to this report were R. Elizabeth DeVan, Johnetta Gatlin-Brown, Arthur James, Victoria Klepacz, John Krump, Jean Lee, Don Springman, and Robert Swierczek.

Sincerely yours,

A handwritten signature in black ink that reads "David E. Cooper". The signature is written in a cursive style with a large, prominent initial "D".

David E. Cooper, Director
Acquisition and Sourcing Management

Appendix I: Scope and Methodology

To conduct our work, we selected and reviewed 90 Department of Defense (DOD) service contracts, each with a contract action for an amount over \$100,000 in fiscal year 2003, and their associated surveillance records. For each contract, we reviewed surveillance actions for up to a 1-year period. Collectively, these contracts had a value of \$385.7 million at the time of contract award. The majority of these contracts (59) were awarded primarily at three military commands within the military departments: (1) the Army Contracting Agency–North Region (ACA-North) at Fort Monroe, Virginia; (2) the Naval Sea Systems Command (NAVSEA) at the Navy Ship Yard, Washington, D.C.; and (3) the Air Force Materiel Command (AFMC) at Wright-Patterson Air Force Base, Ohio. Each of these organizations spends significant funding for services within their respective military department. An additional 31 primarily Army, Navy and Air Force contracts that were selected were awarded using the General Service Administration’s schedules program; these contracts had been analyzed in a recent GAO review.¹ (See app. III for a listing of the contracts we reviewed.)

Our selection of contracts was not large enough to allow projection of our findings across DOD. In addition, it did not include research and development service contracts for weapon systems and construction contracts as the surveillance process typically differs for these types of service contracts.

We met with procurement management officials at the three military commands as well as senior acquisition policy officials for each of the military departments and OSD. We also contacted contracting officials or surveillance personnel associated with all 90 contracts selected to discuss the surveillance on each contract.

We reviewed the federal and DOD acquisition regulations and policies, as well as the instructions and regulations of the military departments and the commands we visited, to determine their processes for assigning surveillance personnel and performing surveillance on service contracts.

To assess whether DOD’s service contract management and oversight process developed to comply with section 801 of the National Defense

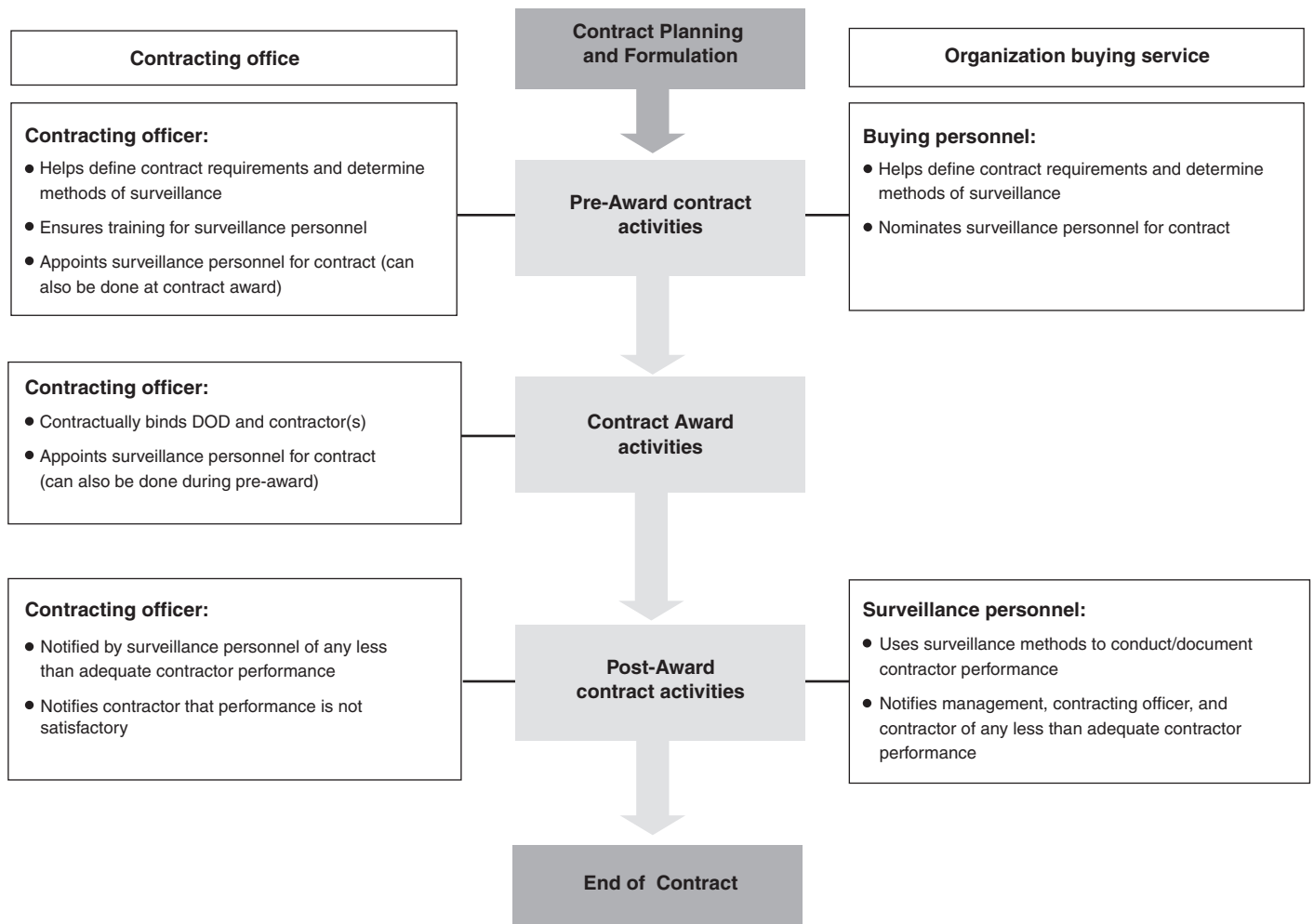
¹GAO, *Contract Management: Guidance Needed to Promote Competition for Defense Task Orders*, GAO-04-874 (Washington, D.C.: July 2004).

Authorization Act for Fiscal Year 2002² addressed contract surveillance, we reviewed the implementation policies of OSD and the military departments along with their associated data collection efforts. We also discussed DOD's efforts with senior OSD acquisition officials.

We conducted our review from January 2004 to February 2005 in accordance with generally accepted government auditing standards.

² Public Law 107-107, Dec. 28, 2001.

Appendix II: Roles of Contracting Officers and Surveillance Personnel



Source: GAO analysis of DOD data.

Appendix III: Contracts Reviewed

	Description of services	Award amount	Total obligations as of Nov. 24, 2004
Air Force			
AFMC			
1	Management Support Services	\$27,369,377	\$13,425,866
2	ADP & Telecommunication Services	4,466,003	—
3	ADP & Telecommunication Services	1,300,000	1,300,000
4	Fueling & Other Petroleum Services	1,211,480	5,036,280
5	Administrative Support Services	768,310	—
6	Administrative Support Services	692,042	—
7	Trash/Garbage Collection Services	438,855	999,831
8	ADP & Telecommunication Services	343,481	1,336,647
9	ADP & Telecommunication Services	340,749	39,997,549
10	Custodial/Janitorial Services	294,556	1,817,702
11	Technical Assistance	283,980	—
12	Research & Development Facilities	240,869	—
13	Custodial/Janitorial Services	214,007	1,841,015
14	Architect-Engineering Services	198,009	1,179,395
15	Technical Representative Services/Aircraft	170,040	6,114,699
16	ADP Data Entry Services	154,197	—
17	Architect-Engineering Services	134,555	1,002,798
18	ADP & Telecommunication Services	133,962	202,728
19	Technical Representative Services/Aircraft	117,764	654,266
20	ADP & Telecommunication Services	111,000	27,203,283
Other organizations			
21	ADP System Acquisition Support Services	667,554	—
22	ADP System Acquisition Support Services	376,708	—
23	Systems Engineering Services	323,308	—
24	Management Support Services	320,123	—
25	ADP & Telecommunication Services	254,298	—
26	Other ADP & Telecommunication Services	210,239	—
27	ADP & Telecommunication Services	145,468	—
28	ADP & Telecommunication Services	140,655	—

Appendix III: Contracts Reviewed

Evidence of surveillance	Surveillance personnel assigned	Surveillance personnel trained before duty	Contract/ order pricing type^a	DOD contract/ order via GSA schedules
Yes	Yes	Yes	FFP	No
Yes	Yes	Yes	T&M	Yes
Yes	Yes	Yes	FFP	No
Yes	Yes	Yes	FFP	No
Yes	Yes	—	LH	Yes
Yes	Yes	Yes	LH	Yes
Yes	Yes	—	FFP	No
Yes	Yes	Yes	FFP	No
Yes	Yes	—	T&M	No
Yes	Yes	No	FFP	No
Yes	Yes	Yes	FFP	Yes
Yes	Yes	Yes	LH	Yes
Yes	Yes	—	FFP	No
Yes	n/a	n/a	FFP	No
Yes	n/a	n/a	FFP	No
Yes	Yes	Yes	LH	Yes
Yes	n/a	n/a	FFP	No
Yes	Yes	Yes	COST	No
Yes	n/a	n/a	FFP	No
Yes	Yes	—	T&M	No
Yes	Yes	Yes	FFP	Yes
Yes	Yes	Yes	FFP	Yes
Yes	Yes	No	T&M	Yes
Yes	Yes	Yes	FFP	Yes
Yes	Yes	Yes	FFP	Yes
Yes	Yes	Yes	FFP	Yes
Yes	Yes	Yes	FFP	Yes
Yes	Yes	No	FFP	Yes

Appendix III: Contracts Reviewed

	Description of services	Award amount	Total obligations as of Nov. 24, 2004
Army			
ACA-North			
29	Logistics Support Services	49,402,900	50,058,493
30	Professional Services	21,717,754	—
31	Engineering Technical Services	5,406,297	10,688,167
32	Guard Services	3,637,858	38,176,593
33	Professional Services	1,746,076	—
34	Program Management/Support Services	1,107,053	64,850,669
35	Trash/Garbage Collection Services	660,735	451,142
36	Professional Services	543,651	—
37	Professional Services	297,961	—
38	Educational Services	271,690	—
39	Professional Services	253,477	—
40	Education & Training Services	175,450	63,576,850
41	Non-nuclear Ship Repair	160,720	1,769,422
42	Systems Engineering Services	159,111	28,038,198
43	ADP & Telecommunication Services	157,015	—
44	Non-nuclear Ship Repair	152,000	3,446,965
45	Conservation & Development Facilities Maintenance	144,718	—
46	Office Buildings Maintenance	129,250	1,175,090
47	Communications Services	110,463	110,463
Other organizations			
48	Engineering Technical Services	6,722,044	—
49	ADP & Telecommunication Services	5,999,724	—
50	Medical Services	3,791,788	—
51	Special Studies & Analyses	1,659,302	—
52	Medical Services	1,146,743	—
53	Programming Services	349,932	—
54	Patent & Trademark Services	288,417	—
55	ADP System Acquisition Support	238,992	—
56	Engineering Technical Services	192,894	—
57	Management Support Services	187,210	—
58	ADP System Acquisition Support	123,648	—

Appendix III: Contracts Reviewed

Evidence of surveillance	Surveillance personnel assigned	Surveillance personnel trained before duty	Contract/ order pricing type^a	DOD contract/ order via GSA schedules
Yes	Yes	Yes	CPAF	No
No	Yes	Yes	FFP	Yes
Yes	No	n/a	CPAF	No
Yes	Yes	No	FPAF	No
No	No	n/a	FFP	Yes
Yes	Yes	Yes	FFP	No
Yes	Yes	Yes	FFP	No
No	No	n/a	LH	Yes
No	No	n/a	LH	Yes
No	No	n/a	FFP	Yes
No	No	n/a	FFP	Yes
Yes	Yes	Yes	FFP	No
Yes	Yes	Yes	FFP	No
No	No	n/a	FFP	No
No	No	n/a	FFP	Yes
Yes	Yes	Yes	FFP	No
No	Yes	Yes	FFP	Yes
Yes	Yes	n/a	FFP	No
Yes	Yes	No	FFP	No
No	No	n/a	FFP	Yes
Yes	No	n/a	FFP	Yes
No	Yes	—	FFP	Yes
Yes	No	n/a	T&M	Yes
Yes	Yes	—	FFP	Yes
Yes	Yes	—	T&M	Yes
No	No	n/a	FFP	Yes
No	No	n/a	FFP	Yes
No	No	n/a	FFP	Yes
No	No	n/a	FFP	Yes
No	No	n/a	FFP	Yes

Appendix III: Contracts Reviewed

	Description of services	Award amount	Total obligations as of Nov. 24, 2004
Navy			
NAVSEA			
59	Modification of Equipment/Ships/Docks	196,709,927	575,647,323
60	Systems Engineering Services	5,616,591	23,609,031
61	Maintenance & Repair of Fire Control Equipment	4,791,859	75,750,011
62	Maintenance & Repair of Electrical & Electric Equipment	4,757,680	3,105,727
63	Professional Services	3,180,123	36,978,828
64	Professional Services	2,902,171	74,917,520
65	Program Management/Support Services	2,083,517	21,189,632
66	Equipment & Mats Testing/Fire Control	1,425,096	36,244,138
67	Professional Services	990,787	3,523,667
68	Engineering Technical Services	980,000	68,436,790
69	Professional Services	733,450	7,252,297
70	Professional Services	470,000	6,314,877
71	Professional Services	400,340	12,605,550
72	Program Management/Support Services	329,014	27,694,233
73	Professional Services	274,510	7,146,906
74	Maintenance & Repair of Equipment	250,000	33,101,536
75	Professional Services	225,000	11,272,286
76	Professional Services	195,518	26,758,191
77	Maintenance & Repair of Ship & Marine Equipment	148,320	1,118,694
78	Salvage Services	136,364	38,460,222
Other organizations			
79	ADP Software, Equipment, and Tele-Training	2,794,083	—
80	ADP Software, Equipment, and Tele-Training	2,586,967	—
81	Other ADP & Telecommunication Services	1,177,846	—
82	ADP & Telecommunication Services	841,402	—
83	ADP Facility Operations & Maintenance	830,491	—
84	ADP & Telecommunication Services	492,776	—

Appendix III: Contracts Reviewed

Evidence of surveillance	Surveillance personnel assigned	Surveillance personnel trained before duty	Contract/ order pricing type^a	DOD contract/ order via GSA schedules
Yes	Yes	Yes	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	Yes	CPAF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	No	CPAF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	No	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	No	CPFF	No
Yes	Yes	No	CPFF	No
Yes	Yes	Yes	CPFF	No
Yes	n/a	n/a	FFP	No
Yes	Yes	Yes	CPFF	No
Yes	Yes	No	CPFF	No
Yes	Yes	Yes	CPIF	No
Yes	n/a	n/a	CPAF	No
No	Yes	Yes	LH	Yes
No	Yes	Yes	LH	Yes
No	Yes	Yes	LH	Yes
No	Yes	—	LH	Yes
Yes	No	n/a	LH	Yes
No	No	n/a	LH	Yes

Appendix III: Contracts Reviewed

	Description of services	Award amount	Total obligations as of Nov. 24, 2004
OSD & Other Defense Agencies			
85	ADP Facility Operations & Maintenance	132,443	—
86	ADP & Telecommunication Services	1,033,000	—
87	ADP & Telecommunication Services	362,160	—
88	ADP & Telecom Services	237,024	—
89	ADP & Telecommunication Services	185,355	—
90	ADP & Telecommunication Services	156,740	—

Appendix III: Contracts Reviewed

Evidence of surveillance	Surveillance personnel assigned	Surveillance personnel trained before duty	Contract/ order pricing type^a	DOD contract/ order via GSA schedules
No	Yes	—	FFP	Yes
No	No	n/a	—	Yes
No	Yes	—	FFP	Yes
Yes	Yes	—	FFP	Yes
No	Yes	—	—	Yes
No	Yes	—	—	Yes

Source: GAO.

- ^aFFP – Firm Fixed Price
- T&M – Time and Materials
- LH – Labor Hour
- COST – Cost Type
- CPAF – Cost Plus Award Fee
- FPAF – Fixed Price Award Fee
- CPFF – Cost Plus Fixed Fee
- CDIF – Cost Plus Incentive Fee

Appendix IV: Comments from the Department of Defense



ACQUISITION
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

MAR 11 2005

Mr. David E. Cooper
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G. Street, NW
Washington, DC 20548

Dear Mr. Cooper:

This is the Department of Defense (DoD) response to the GAO draft report, "CONTRACT MANAGEMENT: Opportunities to Improve Surveillance on Department of Defense Service Contracts," dated February 8, 2005, (GAO Code 120313/GAO-05-274).

Please see the enclosed for DoD's comments. If you have any questions concerning this matter please contact Mr. William C. Timperley at 703-697-8336 or via e-mail at william.timperley@osd.mil.

A handwritten signature in cursive script, appearing to read "Deidre A. Lee".

Deidre A. Lee
Director, Defense Procurement
and Acquisition Policy

Enclosure:
As stated



**GAO Draft Report – Dated February 8, 2005
GAO CODE 120313/GAO-05-274**

**“CONTRACT MANAGEMENT: OPPORTUNITIES TO IMPROVE
SURVEILLANCE ON DOD SERVICE CONTRACTS”**

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

RECOMMENDATION 1: Ensure that the proper surveillance training of personnel and their assignment to service contracts occurs no later than the date of contract award.

DOD RESPONSE: Concur. DoD will modify DFARS to require that, unless a waiver is approved in writing, contracting officers must appoint a properly trained contracting officer representative (COR) in writing before performance commences on any contract action for services awarded by a DoD component or by another federal agency on behalf of DoD. The COR performs contract surveillance on behalf of the contracting officer.

RECOMMENDATION 2: Develop practices to help ensure accountability for personnel carrying out surveillance responsibilities.

DOD RESPONSE: Partially concur. The Department of Defense will review the feasibility of including a performance goal in a contracting officer’s representative (COR) annual performance evaluation which addresses the COR’s performance of their surveillance duties.

RECOMMENDATION 3: Ensure that DoD’s service contract review process and associated data collection requirements provide information that will provide more management visibility over contract surveillance.

DOD RESPONSE: Concur. DoD will review its contract review process and data collection requirements to ensure that adequate visibility is provided over contract surveillance personnel and activities.

RECOMMENDATION 4: Revise the October 2004 policy guidance on proper use of other agencies contracts to include guidance on conducting surveillance of service procured from other agencies’ contracts.

DOD RESPONSE: Concur. DoD will clarify its October 2004 policy guidance to require that properly trained contracting officer representative must be appointed for all contracts for services awarded by other federal agencies and for all orders placed against such contracts and that all government surveillance activity, or reason for the lack thereof, be fully documented by a DoD contracting officer.

RECOMMENDATION 5: That the Secretary of Defense direct the Secretary of the Army to assign surveillance personnel to conduct surveillance, as appropriate, on on-going Contract Advisory and Assistance Services (CAAS) contracts awarded prior to April 2004.

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

DOD RESPONSE: Concur: DoD will direct the Army to immediately assign a contracting officer's representative (COR) to perform surveillance on any CAAS contracts awarded prior to April 2004 where a COR is not currently assigned.

It should be noted that the Army has already undertaken steps to address these concerns. The Deputy Assistant Secretary of the Army (Policy and Procurement) signed a memorandum to the Director, Defense Procurement and Acquisition, dated April 2, 2004. This memorandum indicated that each Army contracting office is providing the Contracting Officer's Representatives (CORs) written appointments that adequately describe the COR duties and responsibilities, that all CORs have the necessary training before they are appointed and that the Army's Procurement Management Assessment Program continues to ensure that review teams assess service contracting during their reviews. In addition, the Army Contracting Agency (ACA) has published the Minimum Curriculum Requirements for COR Training, dated December 1, 2004, has issued an extensive COR Guide on January 11, 2005, (Both available on the ACA web page, <http://aca.saalt.army.mil/ACA>) and is currently preparing a surveillance guide for service contracts.

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