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CONTRACT MANAGEMENT

High-Level Attention Needed to Transform DOD Services Acquisition





Highlights of [GAO-03-935](#), a report to congressional committees

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High-Level Attention Needed to Transform DOD Services Acquisition

Why GAO Did This Study

The Department of Defense's (DOD) spending on service contracts approaches \$100 billion annually, but recent legislation directs DOD to manage its services procurement more effectively.

Leading companies transformed management practices and achieved major savings after they analyzed spending patterns and coordinated procurement.

This report evaluates DOD's implementation of the legislation in light of congressional interest in promoting the use of best commercial practices for acquiring services.

What GAO Recommends

DOD should strengthen its contracting management structure for services and business processes to promote use of best practices such as centralizing key functions, conducting spend analyses, using commodity teams, achieving strategic orientation, reducing purchasing costs, and improving performance. DOD also needs a strategic plan on how the military departments could best accomplish this.

DOD concurred in principle with the recommendation to change its management structure and partially concurred with the recommendation for a strategic plan.

www.gao.gov/cgi-bin/getrpt?GAO-03-935.

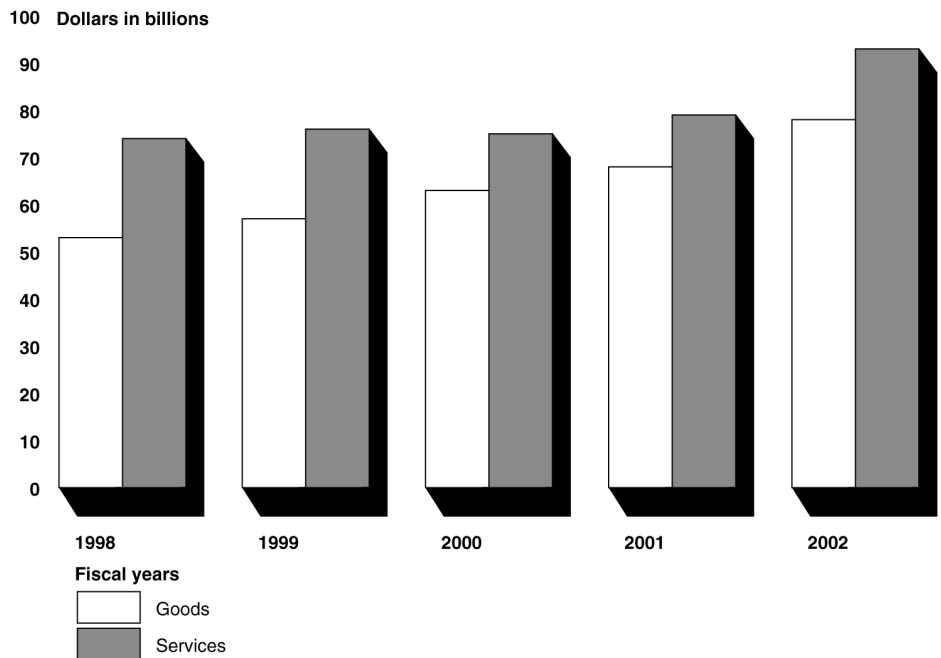
To view the full product, including the scope and methodology, click on the link above. For more information, contact David Cooper at (202) 512-4841 or Cooperd@gao.gov.

What GAO Found

DOD and the military departments each have a management structure in place for reviewing individual services acquisitions valued at \$500 million or more, but that approach does not provide a departmentwide assessment of how spending for services could be more effective. Greater attention is needed by DOD management to promote a strategic orientation by setting performance goals, including savings goals, and ensuring accountability for achieving them.

To support management decisions and improve visibility over spending on service contracts, DOD is developing an automated system to collect and analyze data by piloting a spend analysis. The analysis views spending from a DOD-wide perspective and identifies large-scale savings opportunities, but its scope is limited, and it is too early to tell how the department can make the best use of its results. The military departments are in the early stages of separate initiatives that may lead them to adopt a strategic approach to buying services, but DOD lacks a plan that coordinates these initiatives or provides a road map for future efforts.

DOD's Spending on Services Greater than Goods



Source: GAO analysis of DOD data.

Contents

Letter		1
	Results in Brief	2
	Background	3
	DOD Has Made Limited Progress Reforming Management Structure and Improving Knowledge of Service Spending	7
	DOD Does Not Have a Strategic Plan for Integrating Early Initiatives	10
	Conclusions	13
	Recommendations for Executive Action	14
	Agency Comments	15
	Scope and Methodology	16
Appendix I	Comparison of Selected Program Review Structure Requirements	18
Appendix II	Comments from the Department of Defense	20
Appendix III	GAO Contacts and Staff Acknowledgments	24
Tables		
	Table 1: Companies' Reported 2001 Procurement Spending and Savings	5
	Table 2: Comparison of Selected Program Review Structure Requirements with DOD and the Military Department Policies	18
Figures		
	Figure 1: DOD's Contract Dollars for Goods and Services	4
	Figure 2: Broad Principles and Practices of Strategic Sourcing at Leading Companies	6

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United States General Accounting Office
Washington, DC 20548

September 10, 2003

The Honorable John Warner
Chairman
The Honorable Carl Levin
Ranking Minority Member
Committee on Armed Services
United States Senate

The Honorable Duncan Hunter
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

Federal agencies spend billions of tax dollars each year to buy services ranging from clerical support and consulting services, to information technology services such as network support, to the management and operation of government facilities such as national laboratories. The Department of Defense (DOD) is, by far, the government's largest purchaser of services, acquiring about \$93 billion in services in fiscal year 2002.¹ However, our work, and the work of DOD's Inspector General, has found that this spending could be managed more efficiently.

Congressional concern over DOD services acquisition has been spurred by the contrasting experience of the private sector, depicted by our recent work.² A number of leading companies have achieved significant savings—without any reduction in services—by adopting a strategic approach involving the implementation of a variety of best practices. Using a strategic approach enabled the companies to transform their processes and thus get the best value in procuring services.

¹ Derived from our analysis of data extracted from the Defense Contract Action Data System. The data include actions categorized as research, development, test, and evaluation activities and exclude actions of \$25,000 or less and purchase card spending.

² U.S. General Accounting Office, *Best Practices: Taking a Strategic Approach Could Improve DOD's Acquisition of Services*, [GAO-02-230](#) (Washington, D.C.: Jan. 18, 2002) and *Best Practices: Improved Knowledge of DOD Service Contracts Could Reveal Significant Savings*, [GAO-03-661](#) (Washington, D.C.: June 9, 2003).

Recognizing that these experiences could help reform DOD, the Congress included provisions in the National Defense Authorization Act for Fiscal Year 2002³ to achieve significant savings through improved management and oversight of services procurement. Specifically, section 801 of this law requires DOD to establish (1) a management structure designed to provide visibility and establish accountability for services contracts, (2) a program review structure for major services acquisitions, and (3) an automated system to collect and analyze data to support management decisions in contracting for services. One of the aims of these requirements is to promote the use of best commercial practices, such as centralizing key functions, promoting strategic orientation, improving personnel skills and capabilities, conducting spending analyses, rationalizing supplier bases, and expanding the use of cross-functional, commodity-based teams.⁴

In this report, we evaluate DOD's implementation of the requirements of section 801. To conduct this work, we interviewed acquisition officials in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the military departments. We also reviewed policy memoranda and other documents pertaining to DOD's implementation of section 801 requirements. More information is contained in our Scope and Methodology section.

Results in Brief

DOD and the military departments have a management structure and a process in place at their respective headquarters for reviewing individual acquisitions valued at \$500 million or more, but that approach does not provide a departmentwide assessment of how spending for services could be more effective. DOD's management structure does not adequately promote a strategic orientation across the department by setting performance goals, including savings goals, and ensuring accountability for achieving them. DOD is starting to develop an automated system to collect and analyze data by beginning a spend analysis pilot that views spending from a DOD-wide perspective and identifies savings opportunities, but the pilot's scope is limited to a test of a few service categories. Each of the military departments is also in the early stages of separate initiatives that may lead each of them to adopt a strategic

³ Sections 801 and 802, Public Law 107-107, Dec. 28, 2001. Section 802 established goals for DOD to reduce services contracting costs over the next decade, in the expectation that the department could achieve significant savings without any reduction in services.

⁴ Senate Report 107-62 at pp. 326-327.

approach to buying services, but DOD lacks a plan that coordinates these initiatives or provides a road map for future efforts.

This report includes recommendations that DOD and the military departments further strengthen the management structure established in response to section 801 and develop a plan with guidance on carrying out more strategic and centralized responsibilities for the acquisition of services. With these recommendations, DOD can transform services acquisition business processes to achieve significant savings and improvements across the range of services that DOD purchases.

DOD commented on a draft of this report. DOD concurred in principle with the recommendation to further strengthen the management structure and partially concurred with the recommendation to develop a strategic plan. DOD expects that the various initiatives described in this report—such as the management structure for reviewing individual service acquisitions valued at \$500 million or more and the spend analysis pilot—will ultimately provide the information with which to decide what overarching joint management and business process changes are necessary. While these initiatives are steps in the right direction, DOD’s strategic plan should be explicit about how and when appropriate follow-through actions will take place so that significant, long-lasting performance improvements and cost savings are achieved. DOD’s comments can be found in appendix II.

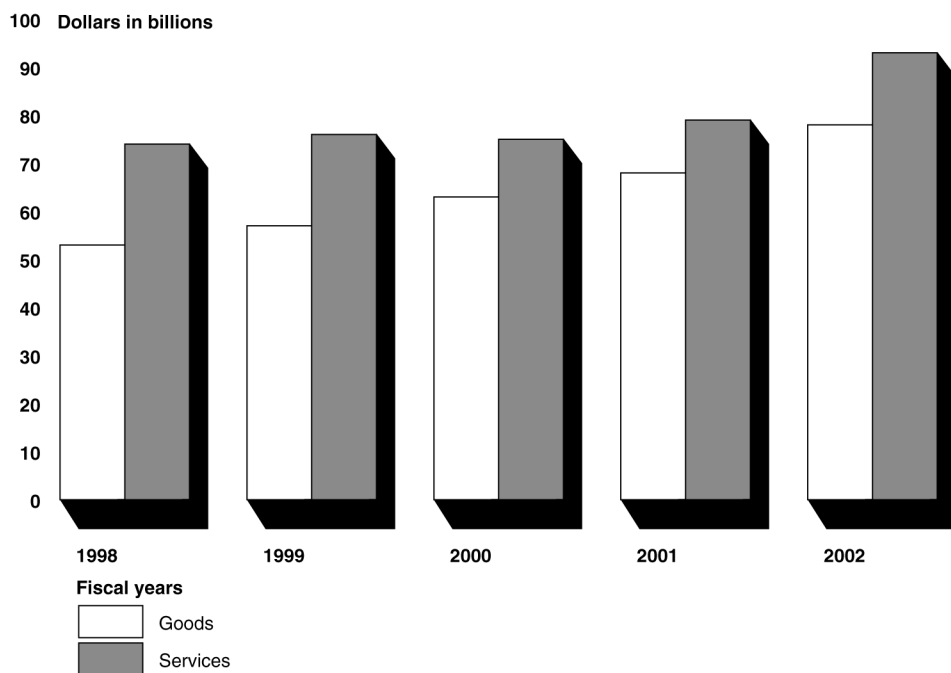
Background

DOD is historically the federal government’s largest purchaser of services. Between 2001 and 2002, DOD’s reported spending for services contracting increased almost 18 percent, to about \$93 billion.⁵ In addition to the sizeable sum of dollars involved, DOD contracts for a wide and complex range of services, such as professional, administrative, and management support; construction, repair, and maintenance; information technology; research and development; medical care; operation of government-owned

⁵ Derived from our analysis of data extracted from the Defense Contract Action Data System, adjusted to represent constant fiscal year 2002 dollars. The data exclude actions of \$25,000 or less and purchase card spending.

facilities; and transportation, travel, and relocation. In each of the past 5 years, DOD has spent more on services than on supply and equipment goods (which includes weapon systems and other military items) (see fig. 1).

Figure 1: DOD's Contract Dollars for Goods and Services



Source: GAO analysis of DOD data.

Note: Data extracted from the Defense Contract Action Data System for 1998–2002. Data are in constant 2002 dollars and include actions categorized as research, development, test, and evaluation activities. Figure excludes actions of \$25,000 or less and purchase card spending. We did not independently verify the information contained in the database. There are known data reliability problems with this data source, but we determined that the data were sufficient to provide general trend information for background reporting purposes.

Despite this huge investment in buying services, our work—and the work of the DOD Inspector General—has found that DOD's spending on services could be more efficient and more effectively managed. In fact, we have identified DOD's overall contract management as a high-risk area, most recently in our *Performance and Accountability* and *High-Risk*

Series issued this past January.⁶ Responsibility for acquiring services is spread among individual military commands, weapon system program offices, or functional units in various defense organizations, with limited visibility or control at the DOD- or military-department level. Our reports on DOD’s contract management have recommended that DOD use a strategic approach to improve acquisition of services.

Our work since 2000 at leading companies found that taking a more strategic approach to acquiring services enabled each company to stay competitive, reduce costs, and in many cases improve service levels.⁷ Pursuing such a strategic approach clearly pays off. Studies have reported some companies achieving savings of 10 to 20 percent of their total procurement costs, which include savings in the procurement of services. These leading companies reported achieving or expecting to achieve billions of dollars in savings as a result of taking a strategic approach to procurement. For example, table 1 summarizes the savings reported by the companies we studied most recently.

Table 1: Companies’ Reported 2001 Procurement Spending and Savings

Company	2001 procurement spend	Savings on procurement of goods and services
IBM	\$42.4 billion	Focuses on delivering competitive advantage year after year; reported saving hundreds of millions of dollars since 1994.
ChevronTexaco	\$16 billion- \$18 billion	Reported targeted savings of \$300 million a year by 2003. After 2005, targeted savings of \$1.3 billion a year.
Bausch & Lomb	\$900 million	Saved a reported \$20 million a year from 1998 to 2001.
Delta Air Lines	\$7 billion (approximate)	Reported saving more than \$200 million in procurement costs since 2000.
Dell	\$26 billion	Set goal to save 20% from its general procurement budget of \$3 billion to \$4 billion.

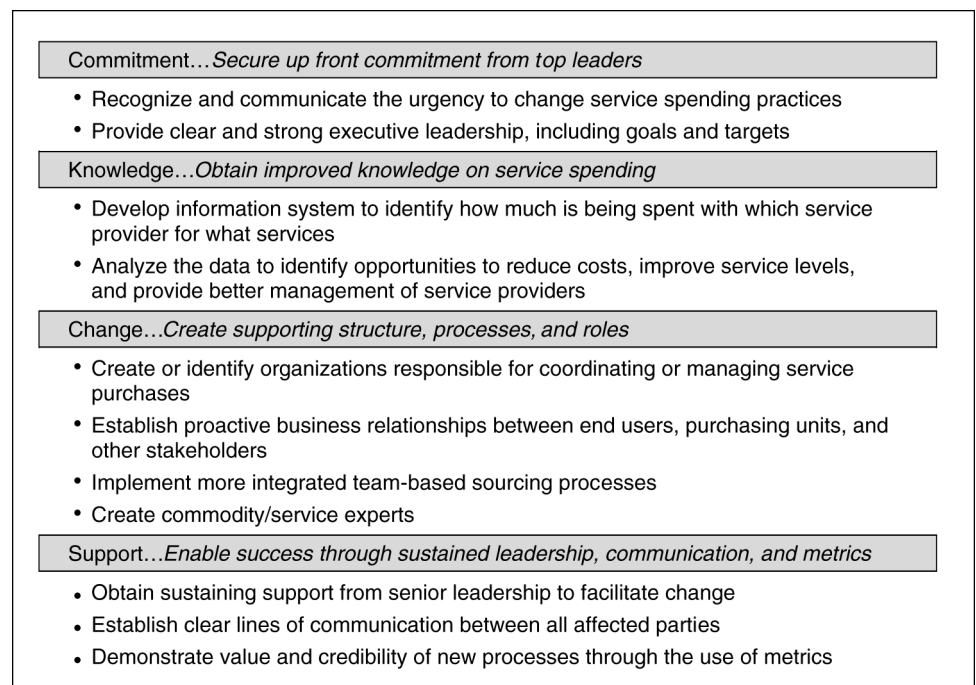
Source: GAO analysis.

⁶ U.S. General Accounting Office, *High-Risk Series: An Update*, [GAO-03-119](#) (Washington, D.C.: January 2003) and *Major Management Challenges and Program Risks: Department of Defense*, [GAO-03-98](#) (Washington, D.C.: January 2003).

⁷ [GAO-02-230](#) and [GAO-03-661](#).

The companies we studied did not follow exactly the same approach in the manner and degree to which they employed specific best practices, but the bottom line results were the same—substantial savings and, in many cases, service improvements. Figure 2 elaborates on the four broad principles and practices of leading companies that are critical to successfully carrying out the strategic approach. These principles and practices largely reflect a common sense approach, yet they also represent significant changes in the management approach companies use to acquire services.

Figure 2: Broad Principles and Practices of Strategic Sourcing at Leading Companies



Source: GAO.

Companies that have been successful in transforming procurement generally begin with a corporate decision to pursue a more strategic approach to acquiring services, with senior management providing the direction, vision, and clout necessary to obtain initial buy-in and acceptance of procurement reengineering. When adopting a strategic, best-practices approach for changing procurement business processes, companies begin with a spend analysis to examine purchasing patterns to see who is buying what from whom. By arming themselves with this

knowledge, they identify opportunities to leverage their buying power, reduce costs, and better manage their suppliers. Companies also institute a series of structural, process, and role changes aimed at moving away from a fragmented acquisition process to a more efficient and effective corporate process. These changes include adjustments to procurement management structure and processes such as instituting companywide purchasing of specific services; reshaping a decentralized process to follow a more coordinated, strategic approach; and increasing the involvement of the corporate procurement organization, including working across units to help identify service needs, select providers, and better manage contractor performance.

DOD Has Made Limited Progress Reforming Management Structure and Improving Knowledge of Service Spending

DOD has made limited progress in its overall implementation of section 801, particularly with respect to establishing a management structure to oversee a more strategic approach to the acquisition of services, as envisioned by the legislative history of this provision. While DOD's leaders express support for a strategic approach in this area, they have not translated that support into broad-based reforms.

The experience of leading companies offers particularly relevant insights into the nature of long-term changes in management structure and business processes. Long-term changes will be needed if the military departments and the defense agencies are to be successful in adopting a more strategic approach to acquiring services and achieving substantial savings and other benefits. Private sector experience demonstrates the need to change how services are acquired—by modernizing management structure and business processes—and setting performance goals, including savings, and establishing accountability for achieving them. Such changes are needed to move DOD and the military departments from a fragmented approach to doing business to one that is more coordinated and strategically oriented. The end goal is to institute a departmentwide perspective—one that will ensure that the organization is getting the best overall value.

Industry has found that several ingredients are critical to the successful adoption of a strategic approach. For example, senior management must provide continued support for common services acquisitions processes beyond the initial impetus. Another example is to cut across traditional organizational boundaries that contributed to the fragmented approach by restructuring procurement management and assigning a central or corporate procurement organization greater responsibility and authority for strategic planning and oversight of the companies' service spending.

Companies also involve business units in this coordinated approach by designating commodity managers to oversee key services and making extensive use of cross-functional commodity teams to make sure they have the right mix of knowledge, technical expertise, and credibility. Finally, companies extensively use metrics to measure total savings and other financial and nonfinancial benefits, to set realistic goals for improvement, and to document results over time.

To date, DOD has not significantly transformed its management structure in response to the 2002 national defense authorization requirements, and its crosscutting effort to improve oversight will focus on only a portion of military department spending for services. Specifically, the Under Secretary of Defense for Acquisition, Technology, and Logistics and each of the military departments now have policies in place for a management structure and a process for reviewing major (i.e., large-dollar or program-critical) services acquisitions for adherence to performance-based, competition and other contracting requirements. (See app. I for a descriptive comparison of DOD and military department policies.)

DOD modeled its review process for acquiring services after the review process for acquiring major weapons systems; the policy is intended to elevate high-dollar value services to the same level of importance and oversight. DOD intends that the new program review structure provide oversight before it commits the government to a major acquisition to ensure that military departments and defense agencies' buying strategies are adequately planned, performance-based, and competed. The new policy similarly establishes a high-dollar threshold of \$500 million or more for selecting which service acquisitions must move forward from lower-level field activities, commands, and program offices to the military department headquarters (and possibly to DOD) for advance review and approval.⁸

⁸ For service acquisitions under the \$500 million threshold, DOD's policy assigns review and approval responsibility to a designated official in component headquarters below the military department headquarters level, such as a command headquarters. Also, although DOD's policy requires the military department headquarters to review and approve all service acquisition strategies of \$500 million or more, the Air Force policy adopts a lower threshold. That is, Air Force subordinate organizations must forward all service acquisitions valued at \$100 million or more to headquarters. An Air Force procurement policy official told us this resulted in identifying more contracts for headquarters review than would otherwise be anticipated under DOD's threshold of \$500 million or more.

We expect that this new policy will lead to very few service acquisition strategies and a small portion of overall service spending being subjected to central oversight at the military department headquarters level or at DOD headquarters. DOD officials acknowledge that most service acquisitions cost less than the \$500 million threshold required for headquarters-level reviews, and the total value of the few contract actions likely to be forwarded under that threshold will amount to a small portion of DOD's total spending on services, which is approaching \$100 billion each year. DOD's review criteria indicate that the central reviews that do take place will be focused on approving individual acquisitions rather than coordinating smaller, more fragmented requirements for service contracts to leverage buying power and assessing how spending could be more effective. Our discussions with procurement policy officials in the various military departments confirmed that they expect no more than a few acquisitions to be reviewed at the DOD or military department headquarters level each year. While the new process complies with the act's requirements to improve oversight of major service acquisitions, it has not led to centralized responsibility, visibility, or accountability over the majority of contracting for services.

In response to the legislative requirement to develop an automated system to collect and analyze data, DOD has started a spend analysis pilot that views spending from a DOD-wide perspective and identifies large-scale savings opportunities. However, the scope of the pilot is limited to a test of a few service categories. Thirteen months after Congress directed that DOD create an automated system to support management decisions for the acquisition of services, the Deputy Secretary of Defense tasked a new team to carry out the pilot. In May 2003, DOD hired a vendor to support the team by performing an initial spend analysis and developing strategic sourcing business cases for only 5 to 10 service categories. Efforts to extract data for the pilot spend analysis will be restricted to information taken from centrally available databases on services contract actions (excluding research and development) in excess of \$25,000, a limitation due to the 90-day time frame established for completing the spend

analysis.⁹ Pilot projects and associated efforts will be completed by September 2004, so it is too early to tell how DOD will make the best use of the results.¹⁰

DOD Does Not Have a Strategic Plan for Integrating Early Initiatives

Even though DOD's senior leadership called for dramatic changes to current practices for acquiring services about 2 years ago, and proposed various initiatives and plans to transform business processes, DOD's early initiatives have not moved forward quickly, expanded or broadened in scope, or been well coordinated. The experience of leading companies we studied in our prior work indicates that successfully addressing service acquisition challenges requires concerted action and sustained top-level attention, efforts that must be reinforced by a sound strategic plan.

Moreover, section 801 required DOD to issue guidance on how the military departments should carry out their management responsibilities for services contracting. To date, the only guidance that DOD has issued involves review of individual major service acquisitions for adherence to performance-based, competition, and other acquisition strategy requirements. DOD has not established a strategic plan that provides a road map for transforming its services contracting process and recognizes the integrated nature of services contracting management problems and their related solutions.¹¹

Air Force, Army, and Navy headquarters procurement organizations have initiatives underway to better manage the acquisition of services, but they are in the early stages of development and unconnected to each other. Limited progress has taken place on key efforts to coordinate responsibility and leverage purchasing power, even in the pursuit of key goals such as reducing unnecessary spending and redirecting funds to

⁹ DOD furnished the spend analysis vendor data extracted from the Defense Contract Action Data System. In fiscal year 2002, DOD reported more than 254,000 contract actions in excess of \$25,000 for nonresearch and development services, totaling about \$66 billion. However, a sizeable sum of spending is not captured in the data DOD is furnishing to the spend analysis vendor. For example, in fiscal year 2002, DOD reported about \$26.9 billion in contract actions for research, development, test, and evaluation services and another \$9.8 billion in contract actions for goods and services of \$25,000 or less. Also missing from the spend analysis is DOD's purchase card spending, which totaled about \$6.1 billion in 2001.

¹⁰ For more information on DOD's pilot, see [GAO-03-661](#).

¹¹ [GAO-02-230](#), [GAO-03-98](#), and [GAO-03-119](#).

higher priorities such as modernization and readiness. Information we obtained on the military departments' early efforts suggests that military department leaders understand the value of a strategic approach in this area, but they have not yet translated that understanding into broad-based reforms to meet comprehensive performance goals, including savings. Although the Air Force, Army, and Navy initiatives that follow seek to include the basic principles of the framework used by leading companies when they acquire services, the initiatives are still under study, or in the early stages of implementation.

- At a January 2003 symposium, Air Force participants from headquarters and major commands discussed a vision for transforming contracting for services and taking a strategic, departmentwide approach based on commercial best practices.¹² At this event, the Deputy Assistant Secretary for Contracting called for rethinking business processes, noting that the Air Force spends over half of its discretionary dollars on services, yet most of the attention goes to managing goods. To move forward on this initiative, staff from acquisition headquarters and major commands are to work together on an 18-month project to capture, analyze, and use spend analysis data and develop an Air Force strategic sourcing plan for services acquisitions. Another key initiative participants considered was the establishment by the Air Force of a management council for services contracting. No time frame has been set for when the Air Force would activate such a council. However, the deputy assistant secretary's vision for adopting a best practices approach to contracting for services calls for radically transforming business processes within 5 years and establishing cross-functional, Air Force-wide councils to consolidate market knowledge and carry out strategic sourcing projects. In July 2003, in the first such effort to take advantage of its overall buying power, the Air Force formed a commodity council responsible for developing departmentwide strategies for buying and managing information

¹² This initiative follows on the action by the top leadership of the Air Force Materiel Command to commit to transforming how the air logistics centers acquire spare parts and equipment to support depot and field maintenance activity in Oklahoma City, Oklahoma; Ogden, Utah; and Warner Robins, Georgia. Since 2001, this command has made a number of changes in management structure and business processes in order to adopt a strategic approach to air logistics contracting based on commercial best practices. More recently, this command began focusing on services contracting and purchase card buying for similar procurement transformation. In fiscal year 2002, the command reported spending about \$35 billion on goods and services.

technology products.¹³ According to an Air Force official involved with this council, the lessons learned and best practices of this council will be carried forward to other commodity councils that will be established by the Air Force. Another category that the Air Force is considering for a future commodity council is construction services.

- In 2001, top Army leadership approved a consolidation of Army contracting activities that focuses on the areas of installation management and general-purpose information technology. This initiative covers only a portion of the Army's service spending, and it involved the establishment of the Army Contracting Agency in October 2002 to centralize much installation-support contracting under a corporate management structure and called for consolidating similar and common use requirements to reduce costs. This central agency will be fully responsible for Army-wide purchases of general information technology and electronic commerce purchases¹⁴ and for large installation management contracting actions over \$500,000 that were previously decentralized. The agency's key anticipated benefit will be its ability to centralize large buys that are common Army-wide, while continuing to provide opportunities for small businesses to win contracts. To have an early demonstration of the value of this approach, the agency plans an October 2003 spend analysis of several services that could offer easy savings, including security guards, furniture refinishing, telecommunications, building demolition, and photocopying. The agency has yet to set a time frame for carrying out the consolidated purchases, which could be national or regional in scope. The agency's organizational structure assigns regional executive responsibility for managing services contracting, and includes a high-level council in headquarters for overseeing more strategic approaches to buying Army installation support services.
- The Navy is considering pilot tests of a more strategic approach for services spending in a few categories. Senior Navy leadership began a

¹³ The Air Force Standards System Group will lead the new information technology commodity council, whose initial focus will be on developing buying strategies for desktop and laptop computers, followed by peripheral computer products. The council will bring together experts from across the Air Force to establish information technology procurement strategies and put servicewide contracts in place for individual organizations to buy from.

¹⁴ The Army Contracting Agency's E-Commerce and Commercial Contracting Center will be responsible for Army-wide purchases of general purpose, commercial off-the-shelf hardware, software, and associated support services. (Army-wide responsibility is not included for information technology purchases of tactical and strategic systems.)

study in September 2002 to recommend business process changes in the Navy's acquisition program.¹⁵ A Navy official conducting the preliminary spend analysis of Navy purchasing data estimated opportunities to save \$115 million through taking a more strategic, coordinated approach to buying \$1.5 billion in support services (engineering; logistics; program, general, and facilities management; and training). The Navy official said that, sometime this year, senior Navy leadership is expected to approve the study's recommendations to pilot-test consolidated acquisition for support services. To lead these innovative management approaches, the Secretary of the Navy earlier this year approved a new position for a Director of Program Analysis and Business Transformation within the Office of the Deputy Assistant Secretary for Acquisition Management. A Navy procurement policy official involved with the ongoing effort told us that the Navy's pilot tests are likely to be affected by DOD's spend analysis pilot that is testing DOD-wide strategic sourcing strategies for 5 to 10 services. Since Navy procurement policy officials are also involved in DOD's pilot, he anticipates having to coordinate the Navy's pilot as both initiatives move forward.

A strategic plan could help DOD ensure that these early initiatives successfully lead to lower costs and improved acquisition of services. Such a plan would identify, coordinate, and prioritize these initiatives; integrate the military departments' services contracting management structures; ensure comprehensive coverage of services spending; promote and support collaboration; and establish accountability, transparency, and visibility for tracking performance and achieving results. However, some of the procurement policy officials we interviewed have expressed skepticism that broad-based reforms to foster a more strategic approach are necessary or beneficial, or that DOD could fully adopt private sector strategies in view of its current decentralized acquisition environment and other constraints.

Conclusions

Given the federal government's critical budget challenges, DOD's transformation of its business processes is more important than ever if the department is to get the most from every dollar spent. Senior leadership has for 2 years expressed a commitment to improving the

¹⁵ In 2002, the Navy hired a consultant to examine the effectiveness and efficiency of spending on products and services, among other areas. Although Navy and Marine Corps organizations had a number of ongoing initiatives to reduce costs, this study was to examine opportunities to leverage efficiencies across the enterprise.

department's acquisition of services. Nonetheless, DOD and the military departments remain in the early stages of developing new business processes for the strategic acquisition of services.

DOD's leaders have made a commitment to adopt best practices and make dramatic changes. Translating that commitment into specific management improvements will allow DOD to take on the more difficult tasks of developing a reliable and accurate picture of spending on services across DOD; determining what structures, mechanisms, and metrics can be employed to foster a strategic approach; and tailoring those structures to meet DOD's unique requirements. Given that DOD's spending on services contracts is approaching \$100 billion annually, the potential benefits for enhancing visibility and control of services spending are significant.

Recommendations for Executive Action

To achieve significant improvements across the range of services DOD purchases, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics to work with the military departments and the defense agencies to further strengthen the management structure. This structure, established in response to section 801, should promote the use of best commercial practices such as centralizing key functions, conducting spend analyses, expanding the use of cross-functional commodity teams, achieving strategic orientation, achieving savings by reducing purchasing costs and other efficiencies, and improving service contracts' performance and outcomes.

We also recommend that the Secretary of Defense direct the Under Secretary to develop a strategic plan with guidance for the military departments and the defense agencies on how to carry out their responsibilities for managing acquisition of services. Key elements of this guidance should address

- improving knowledge of services spending by collecting and analyzing data about services procurements across DOD and within military departments and defense agencies,
- promoting collaboration across DOD and within military departments and defense agencies by establishing cross-functional teams to carry out coordinated purchasing of services, and
- establishing strategic savings and performance goals, measuring results, and ensuring accountability by assigning high-level responsibility for monitoring those results.

Agency Comments

In commenting on a draft of this report, DOD concurred in principle with the recommendation to further strengthen the management structure established in response to section 801 and partially concurred with the recommendation to develop a plan with guidance to the military departments on carrying out their strategic and centralized responsibilities for the acquisition of services.

DOD expects that various initiatives being pursued to enhance services acquisition management structures and processes—such as the management structure for reviewing individual service acquisitions valued at more than \$500 million and the spend analysis pilot assessed in this report—will ultimately provide the information with which to decide what overarching joint management and business process changes are necessary. DOD cites these initiatives as demonstrating a full commitment to improving acquisition of services. DOD further states that these efforts—such as collecting and enhancing data, performing spend analyses, and establishing commodity teams—are similar to industry best practices—and have already had significant impacts on the manner in which services are acquired.

We agree that the initiatives are positive steps in the right direction to improve acquisition of services. However, it is too early to tell if these early efforts will lead DOD and the military departments to make the type of long-term changes that are necessary to achieve significant results in terms of savings and service improvements.

Moreover, according to DOD, factors such as unusual size, organizational complexity, and restrictive acquisition environment mean that DOD cannot adhere strictly to the commercial best practices described in the report. Yet, none of the companies we studied followed exactly the same approach in employing specific best practices. Likewise, DOD and the military departments need to work together and determine how these practices can be adapted to fit their unique needs, challenges, and complexities. Significant bottom line results in terms of savings and service improvements are likely with adequate follow-through on the various initiatives. DOD's strategic plan should be explicit about how and when appropriate follow-through actions will take place so that significant, long-lasting performance improvements and cost savings are achieved.

DOD's comments can be found in appendix II.

Scope and Methodology

Section 801 of the National Defense Authorization Act for Fiscal Year 2002¹⁶ requires DOD to establish a management structure and a program review structure and to collect and analyze data on purchases in order to improve management of the acquisition of services. As described in the legislative history,¹⁷ these requirements provide tools with which the department can promote the use of best commercial practices to reform DOD's services procurement management and oversight and to achieve significant savings. Section 801 also directed us to assess DOD's compliance with the requirements and to report to congressional armed services committees on the assessment.

To conduct this work, we interviewed officials—including those responsible for Defense Procurement and Acquisition Policy, and Acquisition Resources and Analysis—in the Office of the Secretary of Defense and the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics. We also interviewed officials responsible for service acquisition policy and management in the Air Force, the Army, and the Navy. We interviewed both DOD's and the various services' officials about policy memoranda and related actions taken to implement section 801 requirements, including the evolving nature of implementation actions over several months. We also discussed comparisons between DOD's and the military departments' services acquisition management reforms and leading companies' best practices for taking a strategic approach, which were identified in our previous work and promoted by the legislation. To assess compliance with the policy and guidance requirements for the management and program review structures, we reviewed internal memoranda and policy documents issued by the Under Secretary of Defense and the military departments.

For background on DOD's contract spending on services, we analyzed computer-generated data extracted from the Defense Contract Action Data System. We did not independently verify the information contained in the database. There are known data reliability problems with this data source, but we determined that the data are sufficient to provide general trend information for background reporting purposes.

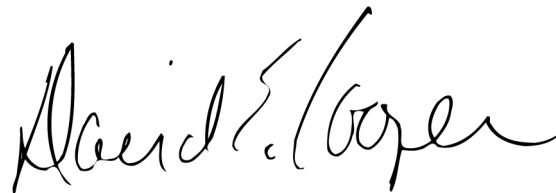
We conducted our review from November 2002 to July 2003 in accordance with generally accepted government auditing standards.

¹⁶ Public Law 107-107.

¹⁷ Senate Report 107-62 at pp. 326-327.

We are sending copies of this report to other interested congressional committees; the Secretary of Defense; the Deputy Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; and the Under Secretaries of Defense (Acquisition, Technology, and Logistics) and (Comptroller). 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>.

Should you have any questions on matters discussed in this report, please call me at (202) 512-4841. Other contacts and staff acknowledgments are listed in appendix III.

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: Comparison of Selected Program Review Structure Requirements

In response to 2002 national defense authorization requirements, the Under Secretary of Defense for Acquisition, Technology, and Logistics and the military departments developed and implemented policies for a program review structure to oversee large-dollar and program-critical services acquisitions. The review process, modeled after DOD's review process for major weapons systems, seeks to ensure major service acquisition strategies are adequately planned, performance-based, competed, and address socioeconomic goals. In most cases, an acquisition must be valued at \$500 million or more to prompt review at the headquarters level for DOD and the military departments.¹ Table 2 compares selected aspects of the legislation's requirements with, and the implementation status of, DOD and military department policies.

Table 2: Comparison of Selected Program Review Structure Requirements with DOD and the Military Department Policies

Program review structure requirement	DOD policy	Air Force policy	Army policy	Navy policy
Set standards, based on dollar thresholds or other criteria, on which major services procurements will be reviewed and approved by either a DOD or military department senior procurement executive	<p>Except for information technology and weapon system-related services, the Under Secretary of Defense for Acquisition, Technology, and Logistics shall review all major service acquisitions (1) with values of \$2 billion or more and (2) deemed special interest.</p> <p>In February 2003, the Under Secretary delegated all review responsibility to the military departments, with the exception of case-by-case acquisitions deemed to have special interest.</p>	<p>Except for information technology, space, and weapon system-related services, the Program Executive Officer for Services in the Office of the Assistant Secretary (Acquisition) shall review all major service acquisitions (1) with values of \$100 million or more and (2) deemed special interest.</p> <p>This review includes all competitive sourcing/privatization proposals involving 300 or more Air Force positions.</p>	<p>Except for information technology and weapon system-related services, the Army Acquisition Executive (i.e., the Assistant Secretary (Acquisition, Logistics, and Technology)) shall review all major service acquisitions (1) with values of \$500 million or more and (2) deemed special interest.</p> <p>The executive may delegate review responsibility to the Deputy Assistant Secretary (Policy and Procurement).</p>	<p>Except for information technology and weapon system-related services, the Navy Acquisition Executive (i.e., the Assistant Secretary (Research, Development, and Acquisition)) shall review all major service acquisitions (1) with values of \$1 billion or more and (2) deemed special interest.</p> <p>The Deputy Assistant Secretary for Acquisition Management shall review major service acquisitions with values between \$500 million and \$1 billion.</p>

¹ For service acquisitions under the \$500 million threshold, DOD's policy assigns review and approval responsibility to a designated official in component headquarters below the military department headquarters level, such as a command headquarters.

**Appendix I: Comparison of Selected Program
Review Structure Requirements**

Program review structure requirement	DOD policy	Air Force policy	Army policy	Navy policy
Establish major service acquisition's decision point when executive's review and approval will occur	Approval occurs prior to committing DOD to the major service acquisition's strategy. If the Under Secretary determines within 10 days of receipt to review, up to 30 working days can be used to review and approve the strategy.	Approval occurs prior to committing the Air Force to the major service acquisition's strategy. Contracting activities should include 30 days in the acquisition schedule for Air Force headquarters review and 90 days for DOD review.	Approval occurs prior to committing the Army to the major service acquisition's strategy.	Approval occurs prior to committing the Navy to the major service acquisition's strategy.
Set specific matters that will be reviewed	The review process covers (1) acquisition strategy in terms of performance-based approach, full and open competition, and small business goal achievement; and (2) contractor performance metrics for tracking cost, schedule, and outcomes.	The management and oversight process for the acquisition of services covers (1) acquisition strategy in terms of performance-based approach, full and open competition, and small business goal achievement; and (2) contractor performance metrics for tracking cost, schedule, and outcomes.	The management and oversight process for the acquisition of services covers (1) acquisition strategy in terms of performance-based approach, full and open competition, and small business goal achievement; and (2) contractor performance metrics for tracking cost, schedule, and outcomes.	The management and oversight process for the acquisition of services covers (1) acquisition strategy in terms of performance-based approach, full and open competition, and small business goal achievement; and (2) contractor performance metrics for tracking cost, schedule, and outcomes.
Status				
Number of major service acquisitions reviewed since implementation	One (for the Army) as of July 2003.	Three as of July 2003, including one competitive sourcing action.	Two as of July 2003.	None as of July 2003.

Source: GAO analysis.

Appendix II: Comments from the Department of Defense



ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

SEP 2 2003

DPAP/P


Mr. David E. Cooper
Acquisition and Sourcing Management
United States General Accounting Office
441 G. Street N.W.
Washington, DC 20548

Dear Mr. Cooper:

This is the Department of Defense (DoD) response to the GAO draft report, 'CONTRACT MANAGEMENT: High-Level Attention Needed to Transform DoD Services,' dated August 6, 2003 (GAO Code 120190/GAO-03-935). The Department concurs in principle with the first recommendation and partially concurs with the second. The Department is fully committed to improving our acquisition of services and is actively pursuing changes in conjunction with other transformation efforts.

Thank you for giving DoD this opportunity to comment on the draft report. My point of contact is Mr. David Boyd at (703) 697-6710 or via e-mail at david.boyd@osd.mil.

Sincerely,


Deidre A. Lee
Director, Defense Procurement &
Acquisition Policy

Attachment:
As stated



GAO DRAFT REPORT – DATED AUGUST 6, 2003
GAO CODE 120190/GAO-03-935

“CONTRACT MANAGEMENT: HIGH-LEVEL ATTENTION NEEDED TO
TRANSFORM DOD SERVICES”

DEPARTMENT OF DEFENSE COMMENTS
TO THE RECOMMENDATIONS

RECOMMENDATION 1: To achieve significant improvements across the range of services DOD purchases, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics to work with the military departments and defense agencies to further strengthen the management structure. This structure, established in response to section 801, should promote the use of best commercial practices such as centralizing key functions, conducting spend analyses, expanding the use of cross-functional commodity teams, achieving strategic orientation, achieving savings by reducing purchasing costs and other efficiencies, and improving service contracts’ performance and outcomes.

DOD RESPONSE: Concur in Principle: The Department met the statutory requirements of Section 801 and continues to enhance the management structures and processes through a variety of activities as outlined below. These initiatives will provide us with the information to determine what over-arching joint management and process changes are necessary.

The draft report compares the Department’s efforts to industry best practices and cites examples of commercial savings through the process of initiating management structure and process changes, collecting and enhancing data, performing spend analyses and establishing commodity teams to develop strategic acquisition plans. The Department initiated similar efforts. Due to our unusual size in terms of dollars and actions, the high number of data collection systems and processes, the large number of personnel involved, legislatively mandated procurement restrictions and our commitment to socio-economic programs, the Department cannot adhere strictly to commercial best practices as described in the report.

The Department is taking action to be more strategic in the acquisition of services. To date, we have initiated the following actions to enhance the management of the

acquisition of services:

- Implemented Services Contracts Oversight Processes for each of the military departments which ensure that service acquisitions are of the highest quality and support DoD objectives; are performance based; and planned and administered to achieve the intended results.
- Established and implemented the Army Contracting Agency. This realignment involved both structural and process changes and will give Army senior leadership a strategic view of their services acquisition profile.
- Established the Air Force Program Executive Office for Services responsible for providing centralized program management of services acquisitions.
- Established the DoD Integrated Process Team (IPT) for Spend Analysis. This effort incorporates the essential elements of commercial spend analyses (e.g. data enrichment, commodity teams, etc.). Pilot projects resulting from this spend analysis will provide lessons learned for the development of future spend analysis efforts.
- Procured the services of a commercial firm with spend analysis experience to identify commodity areas offering potential efficiency improvements.
- Initiated the process of establishing commodity teams to begin developing pilot program strategic plans resulting from the spend analysis.
- Established commodity councils within individual military departments.
- Created business intelligence systems collecting budget, financial, human capital and contract specific data within individual components possessing significant data capability to support spend analysis and other management decision making efforts.
- Established a collaborative initiative within the Department's Business Management Modernization Program (BMMP) Acquisition Domain to further the means by which acquisition data can be automated for utilization in the development of strategic business decisions.

Collectively, the initiatives outlined above have already made significant impacts on the manner in which the Department manages the acquisition of services and also the acquisition of supplies. As these initiatives evolve, the Department will identify what changes are required and how best to implement them.

RECOMMENDATION 2: We also recommend that the Secretary of Defense direct the under secretary to develop a strategic plan with guidance to the military departments and for the defense agencies on how to carry out their responsibilities for managing acquisition of services. Key elements of this guidance should address (1) improving knowledge of services spending by collecting and analyzing data about services procurements across DOD and within military departments and defense agencies, (2) promoting collaboration across DOD and within military departments and defense agencies by establishing cross-functional teams to carry out coordinated purchasing of services, and (3) establishing strategic savings and performance goals, measuring results,

3

Attachment 1

and ensuring accountability by assigning high-level responsibility for monitoring those results.

DOD RESPONSE: Partially-Concur. As stated in our response to recommendation 1 above, the Department initiated numerous actions to strengthen our management of the acquisition of services. Of the three elements within this recommendation, two have already been addressed. We are currently working with the BMMP Acquisition Domain to develop the ability to collect and analyze all procurement data (supplies and services) at the joint level. We are promoting collaboration across DoD through the establishment of cross-functional commodity teams as a result of the spend analysis IPT. Through the development of these teams and their resulting work, we will ascertain how to better utilize industry best practices. We believe that the efforts outlined above will allow the Department to improve its ability to strategically plan the acquisition of services from which performance and savings goals then can be developed.

Attachment 1

4

Appendix III: GAO Contacts and Staff Acknowledgments

GAO Contacts

Ralph Dawn (202) 512-4544
Carolyn Kirby (202) 512-9843

Acknowledgments

In addition to those named above, Cordell Smith, Bob Swierczek, and Ralph White made key contributions to this report.

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