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MEASURING VALUE AND RISK IN SERVICES CONTRACTS

HEARING

BEFORE THE

PANEL ON DEFENSE ACQUISITION REFORM

OF THE

COMMITTEE ON ARMED SERVICES
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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MEASURING VALUE AND RISK IN SERVICES CONTRACTS

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ARMED SERVICES,
PANEL ON DEFENSE ACQUISITION REFORM,
Washington, DC, Thursday, April 23, 2009.

The panel met, pursuant to call, at 8:00 a.m., in room 1310, Longworth House Office Building, Hon. Rob Andrews (Chairman of the panel) presiding.

OPENING STATEMENT OF HON. ROBERT ANDREWS, A REPRESENTATIVE FROM NEW JERSEY, CHAIRMAN, PANEL ON DEFENSE ACQUISITION REFORM

Mr. ANDREWS. Ladies and gentlemen, good morning. The panel will come to order. We appreciate your attendance this morning, ladies and gentlemen of the public, and especially our witnesses.

The reason we start at an uncommonly early hour in the morning is, as you know, the Congress squeezes a lot of activities into a couple of days each week, a lot of hearings and markups and floor activity, and we think the work the panel is doing, your work, really bears attention. So we schedule these hearings early so that members can really listen to what you have to say and then get on to the rest of the bedlam of our day. So thank you for accommodating us in that respect.

The panel began our inquiry by asking how we might discern good measurements of the gap between what we pay and what we get, what value we get. And we first looked at weapons systems. Today we are going to look at the area of services that the Department of Defense (DOD) purchases. And what we do know about services is we buy a lot of them, we buy a lot more of them than we used to, and measuring what we spend on services is a very different project than measuring what we spend on major weapons systems and other pieces of hardware.

The data show that we are spending approximately $200 billion a year in buying services through the Department of Defense. That is about 60 percent of what we buy. So we are spending more on services than we are on hardware, so it certainly merits scrutiny. It also is a rising portion of the defense budget. It is about twice what we spent a decade ago. So we are buying more through services, we are spending a lot of money, and it is certainly an important question to ask whether the taxpayers and the service personnel and their families are getting value.

I don't want to prejudge the answer to that question, but there are some disturbing trends which we can already discern in large part through the terrific work of the people of the Government Accountability Office (GAO). In 2007, the GAO reported that in a phe-

nomenon which only the Defense Department could come up with this phrase, "undefinitized contracts," which in plain language means you start paying someone before you have agreed how much the contract is going to be. So I pay you to mow my lawn, and when it is half mowed, we will decide how much I am going to pay you. And that is a rather odd concept, and it is supposed to be used, I would take it, in emergency circumstances. The GAO found that in one instance the DOD had paid contractors nearly $221 million in questioned costs in one of those arrangements. So the fact that these vehicles are being used in and of itself merits inquiry.

In fiscal 2005, the DOD obligated nearly $10 billion for professional administrative management support and other services under what are referred to as time and materials contracts, which are contracts where there is really no effective incentive for the vendor to hold down costs. Now, again, these are contracts that are supposed to be let only in unique circumstances where there is no other vehicle available that would make sense under those circumstances. So there is a question as to whether that vehicle is being used too often, unwisely and what have you.

And then in the 2008 review, the GAO found that there were incomplete contract files at some Army contracting offices which is hindering the administration's ability to discern facts and patterns.

So we already know there are some disturbing indicia. What we are going to focus on this morning, though, is how do we construct metrics that help us properly understand whether taxpayers and service personnel are getting full value for the money that is spent?

The other point that I say we can sort of discern that is self-evident is that measuring the answer to that question in the service-contracting area is quite different than it would be in the weapons-acquisition area. The word "service contract" implies a huge diversity of things, everything from day care centers to catering services to legal and health care services. So you are measuring a much more diverse body of purchases. Very often these are short-term rather than long-term. Very often they are done in very small tranches or very small amounts. So it is a very different measurement project than the other one. But as I say, it is very important. The taxpayers are paying in excess of $200 billion a year.

There are some early indicia that there are trouble problems for us to look at. And the good news is there is some excellent work that has been done. In the area of the Air Force, Ms. Baldwin is going to talk about some innovations that have happened there. Mr. Parsons is going to talk about progress that has already been made in the Army very recently. So we are going to try to come away this morning with a better understanding of how we might measure the difference, the difference, if any, between value and expenditure in these areas.

So we welcome the witnesses.

I want to ask my friend and the ranking Republican Mr. Conaway for his comments.

STATEMENT OF HON. K. MICHAEL CONAWAY, A REPRESENTATIVE FROM TEXAS, RANKING MEMBER, PANEL ON DEFENSE ACQUISITION REFORM

Mr. CONAWAY. Thank you, Mr. Chairman.

Today's hearing is an appropriate follow-on to the panel's first hearing, which focused on how DOD and GAO currently assess performance of major weapons systems. Quite often these are the programs that grab the headlines in the media and consume a great deal of our time. This is quite reasonable. It is easy to understand why a fighter aircraft or a satellite might be so costly. These are exquisitely engineered mechanical structures that perform under conditions that most of us would never envision even using our cars and televisions in. Nevertheless it is actually services, not hardware, that consume the majority of defense dollars.

Today the DOD obligates $200 billion for contractor-supported services, a nearly twofold increase in spending in services in last several years. This increase in spending is largely, but not entirely, the result of ongoing contingency operations in Iraq and Afghanistan. In fact, this increase in spending on services is not unique to DOD. On a government-wide basis, over 60 percent of total contracting spending is on services.

I think we often take for granted the breadth of services required, as the Chairman mentioned earlier, by DOD. The Department issues contracts for commercial services ranging from insurance to construction to dining, child care moving, mortuary and to travel. The Department also issues a variety of contracts for noncommercial services such as engineering, research and development, security information technology.

As challenging as it is to measure performance against the plan for the development of a piece of technology, it could be infinitely more difficult to measure performance against a fluid requirement such as advisory or assistant services. I hope we hear more today about how the Department is meeting this challenge and what additional recommendations our witnesses can provide for improving our performance measures for service contracts.

Similarly it is often impossible to precisely define the requirements for services in advance. For example, how does one precisely define the number of meals that have to be served at a dining facility in a yet to be established forward-operating base, or the number of hours it will require to solve an unanticipated engineering problem? Therefore the type of contract used plays a critical role in determining the value received by our government.

As we have spent significantly more money on services, what lessons have we learned to optimize the value to the taxpayer?

Lastly, since many of these services are commercial in nature, one may conclude that consolidating contracting for services might increase the government's buying power and improve the dissemination of best practices. On the other hand, increasing the use of centers of excellence for services contracting may remove the contracting officers from the place of execution, making it more difficult to share contractor performance data. I would be interested to learn more about the benefits and drawbacks to centralizing the award of services contracts.

I also encourage our witnesses to share their views on existing laws and regulations that are particularly helpful or not helpful to the Department's efforts to obtain the best value and capability for our warfighters from service contracts.

With that I conclude and again thank my fellow members and you, Mr. Chairman. I look forward to our witnesses' testimony.

Mr. ANDREWS. Thank you very much.

I am going to read brief biographies of our witnesses, and we are going to get to the testimony. I think you are all veterans of testimony here on the Hill, but I will remind you that your written statements, without objection, have been entered into the record of the hearing. We would ask you to synopsize those written statements in a five-minute oral statement. We would like you to try to stick to that five minutes so the members have ample opportunity for give-and-take with you.

Laura Baldwin is the senior economist at the RAND Corporation. She has been with RAND since 1994, after completing a Ph.D. in economics from Duke University. In 2007, she was named Director of the Resource Management Program within Project AIR FORCE. And prior to that she was Associate Director of the program.

Dr. Baldwin's research has addressed a variety of Air Force logistics and acquisition challenges associated with staffing, the structure of transfer prices, many of the issues that we are looking at here today. In addition to her program management and research responsibilities, Dr. Baldwin is a co-organizer of RAND's defense economic sessions at the annual Western Economic Association International professional meetings.

Welcome, Dr. Baldwin. We are glad that you are here.

Mr. William Solis serves as the Director in the Defense Capabilities and Management Team at the U.S. Government Accountability Office, GAO. The Comptroller General of the United States appointed Mr. Solis to this senior executive position in July of 2002. Prior to this appointment, he has worked on a variety of engagements that cover topics such as military readiness, training, weapons systems effectiveness, housing and military doctrine. As the director, he is responsible for a wide range of GAO program evaluations in the area of defense logistics and warfighter support involving each of the military services, the Defense Logistics Agency, as well as the Joint and Office of Secretary of Defense program offices.

Over 30 years of service at GAO, Mr. Solis has served in a wide variety of positions. Most recently he was selected to receive the 2008 GAO award for distinguished service.

Congratulations on that, Mr. Solis. We are glad that you are with us.

John Hutton is a Director also of the U.S. GAO, working for the Acquisition and Sourcing Management Team. In this capacity, he provides direct support to congressional committees and members on a range of acquisition and sourcing issues aimed at improving federal agencies' ability to buy products and services efficiently and effectively.

You are the guy that was invented for this hearing this morning.

Mr. Hutton is a native of Chicopee, Massachusetts; received a B.A. in public administration from American International College, a master's in public administration from Syracuse University's

Maxwell School, and a master's in national security strategy from the National War College in 2002. He attended the Senior Executive Fellows Program at Harvard in 2005. And he has also received numerous awards at GAO for outstanding performance, including the GAO's Meritorious Service Award.

Thank you, Mr. Hutton, for your service and being here this morning.

Mr. Jeffrey Parsons is the Executive Director of the U.S. Army's Contracting Command, a new major subordinate command of the U.S. Army Materiel Command, AMC. Prior to assuming his current position, Mr. Parsons served as the Director of Contracting for the Office of Command Contracting, Headquarters, AMC, at Fort Belvoir, Virginia.

Mr. Parsons received his bachelor's degree in psychology from St. Joseph's University in Philadelphia—the hawk will never die, is that right, Mr. Parsons—and holds two masters degrees, one in administration with a concentration in procurement and contracting from the George Washington University, and the other in national resource strategy from the National Defense University.

We are very fortunate to have four individuals of such skill and commitment to address these issues this morning.

Ms. Baldwin, we will begin with you, and we enjoy hearing your testimony.

STATEMENT OF LAURA BALDWIN, DIRECTOR, RESOURCE MANAGEMENT PROGRAM, RAND PROJECT AIR FORCE

Ms. BALDWIN. Chairman and distinguished Members, thank you for inviting me to testify at this panel on measuring value and risk in service contracts. I am a senior economist at the RAND Corporation, and I currently serve as the Director of the Resource Management Program within Project AIR FORCE.

For more than a decade, RAND has conducted a broad portfolio of research on implementing best purchasing and supply management practices within the Department of Defense. My testimony today will describe research that I co-led along with my colleague John Ausink, who is here today, that examines successful commercial practices for managing service acquisition, and that is focused on performance metrics to improve contract outcomes. I have a copy of the report with me. This research was sponsored by the Air Force Deputy Assistant Secretary for Contracting and was conducted during fiscal year 2003.

[The information referred to is retained in the committee files and can be viewed upon request.]

I will begin by providing some context from the research, followed by a discussion of what we did, what we found, and how it is relevant to the U.S. Air Force. In terms of context, the Department of Defense purchases many services, including commercial services for its facilities and installations, such professional services as consulting and engineering support, and such weapons systems-oriented services as research and development and test and evaluation.

In response to emphasis on improving services acquisition within the fiscal year 2002 National Defense Authorization Act, RAND's Project AIR FORCE was asked to develop a portfolio of overarching

measures to allow the Air Force to assess the health of its service acquisition activities, to diagnose problems and to target improvement efforts. To develop this portfolio of metrics, we conducted a series of interviews with commercial-sector purchasing professionals who are respected by their peers for successfully creating and implementing what are widely accepted as best purchasing and supply management practices, focusing on their application to service acquisitions. The services discussed in our data sources are similar to commercial like services purchased by the Air Force, including facilities services, telecommunications services and other support activities.

Our primary finding is that commercial firms are shifting away from uncoordinated purchasing at lower levels of their organizations and moving towards a corporate approach to managing their service acquisitions in much the same way as they manage their acquisition of direct materials. Commercial firms are increasingly using commodity councils, which are centralized cross-functional teams, to develop organization-wide purchasing and supply management strategies for services. And moreover, such firms are developing and using performance metrics, similar to those used for goods, to manage their purchased services and their purchasing organizations that support those strategies.

Here I will focus on our findings related to performance metrics. To inform decisionmaking, our interviewees recommended results-oriented metrics, both forward-looking and retrospective, that focus on how acquisition activities support both short-term and long-term corporate objectives. The most frequent results-oriented metrics include cost, quality, supplier satisfaction, implementation of new initiatives such as supplier development, and special interest items such as small business participation.

Cost metrics were typically oriented towards measuring cost savings over time, often adjusting for exogenous market factors. Quality, which is more difficult to quantify for services than for goods, was typically measured in terms of user satisfaction or service reliability. Supplier satisfaction was used as a forward-looking indicator of whether the buying firm will be able to continue doing business with the best providers. Metrics for implementing new initiatives were a mixture of forward-looking process measures and retrospective outcome measures. Commercial firms indicated that they also used metrics such as internal customer satisfaction, personnel training and retention, and ethics violations to manage the internal purchasing organization. Although the Air Force is not a commercial firm, it can learn from commercial firms' experiences in managing its own service acquisitions.

Our findings recommend a balanced portfolio of performance metrics, representing both short- and long-run considerations and internal and external activities. These recommendations are based on the six major categories of metrics discussed earlier: cost, quality, supplier satisfaction, new initiatives, special interests and internal management.

The Air Force will find it challenging to populate some of these metrics. While some data such as contract costs are found in Air Force data systems, others such as supplier and customer satisfac-

tion will require implementation of new data-collection procedures for effective implementation.

More broadly, our analyses suggest that good metrics are necessary, but not sufficient to extract maximum value from purchase services, that they are most powerful when implemented in a centralized management framework.

This concludes my oral remarks. Thank you, and I welcome any questions you might have.

Mr. ANDREWS. Thank you, Dr. Baldwin. As I said your full statement is entered into the record.

[The prepared statement of Ms. Baldwin can be found in the Appendix on page 35.]

Mr. ANDREWS. Mr. Solis, Mr. Hutton, welcome. We appreciate the great work GAO does on so many issues, and we are glad you are with us this morning.

STATEMENT OF WILLIAM M. SOLIS, DIRECTOR, DEFENSE CAPABILITIES AND MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE, AND JOHN HUTTON, DIRECTOR, ACQUISITION AND SOURCING MANAGEMENT, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. SOLIS. Thank you very much. Chairman Andrews, Ranking Member Conaway, members of the panel, I appreciate the opportunity to be here along with my colleague, John Hutton, to discuss the challenges DOD faces in ensuring it gets good value for the taxpayers' dollars and attains quality contractor services in a cost-efficient and effective manner. Many of these challenges are longstanding, but they have become increasingly important as the Department's reliance on contractors for services has grown in size and scope to the point that DOD officials have acknowledged their inability to perform their mission without contractor support.

My statement today will focus on two areas, first challenges DOD faces in consistently following sound contracting and contract management practices, and, second, recent actions DOD has taken to improve its management of services contract.

From the outset, I think it is important to recognize that the issue is not whether the Department should contract for services, for it must. The issue is to what extent it should, and how best to provide oversight when it does. Our previous work shows that it is essential that DOD employ sound practices when using contractors to support its missions or operations to ensure that the Department receives good value. These practices include clearly defining requirements, using an appropriate contract type, and properly overseeing contract administration.

Further, an overarching issue that impacts DOD's ability to properly manage its growing acquisition of services is having an adequate workforce with the right skills and capabilities.

I would like to spend a few moments to elaborate what we have found with regard to these challenges. First, properly defining requirements are a prerequisite to obtaining value, both at the DOD-wide level and at the contract level. At the Department of Defense level, the Department should have an understanding of what it needs to contract for and why. However, the Department does not currently have complete and accurate information on the number

of services contracts in use, the services being provided by those contracts, the number of contractors providing those services and the number and types of contracts awarded.

At the contract level, poorly defined or changing requirements have contributed to increased costs as well as services that do not meet the Department's needs. The absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes.

Second, we have found that DOD does not always use the contract types or business arrangements that would result in the best value to the government. Selecting the appropriate contracting arrangement is important because some contracts increase the governments's cost risk. For example, in January 2008, we reported on a cost-plus, fixed-fee provision of a task order to repair military equipment for use in Iraq and Afghanistan required the Army to pay the contractor to fix equipment that had failed to meet quality standards established in the task order.

Third, we have reported on numerous occasions that DOD did not adequately manage and assess contractor performance, putting the Department at risk of being unable to identify and correct poor contractor performance in a timely manner.

Collectively these problems expose DOD to unnecessary risk and make it difficult for the Department to ensure that it is getting good value for the dollars spent.

In response to congressional legislation and numerous GAO recommendations on contract management and the use of contractors to support deployed forces, DOD has taken a number of actions including issuing guidance to address contracting weaknesses and promote the use of sound business arrangements, establishing a framework for reviewing major system acquisitions, promulgating regulations to better manage its use of contracting arrangements that compose additional risk for the government, and begun efforts to identify and improve the skills and capabilities of its workforce. These efforts include steps to improve training of military commanders and contract oversight personnel.

These are positive steps, but in order to improve contract outcomes on the whole, DOD must ensure that these policy changes and other efforts are consistently put into practice and reflected in the decisions made on individual acquisitions. For example, in the near term, DOD must act forcefully to implement the new procedures and processes in a sustained, consistent and effective manner across the Department. Doing so will require continued sustained commitment by senior DOD leadership to translate policy and practice and to hold decision makers accountable.

At the same time, many of the actions DOD is taking, such as the Army's efforts to increase its acquisition workforce, will not be fully implemented for several years. DOD will need to continue to monitor such efforts to ensure intended outcomes are achieved.

At the department-wide level, DOD has yet to conduct the type of fundamental examination or reexamination of its reliance on contractors that we called for in 2008. Without an understanding of the depth and breadth of contractor support, the Department will be unable to determine if it has the appropriate mix of military personnel, DOD civilians and contractors. As a result, DOD may

not be totally aware of its risk it faces and will therefore be unable to mitigate those risks in a cost-effective and efficient manner.

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

This concludes my statement, and we will be happy to answer your questions.

Mr. ANDREWS. Mr. Solis, thank you very much.

[The joint prepared statement of Mr. Solis and Mr. Hutton can be found in the Appendix on page 43.]

Mr. ANDREWS. Mr. Hutton, are you adding something? You are certainly welcome to.

Mr. HUTTON. Mr. Chairman, Mr. Solis has covered both sides of the issue.

Mr. ANDREWS. Very well. As I say, the joint statement that you wrote is already part of the record.

Mr. Parsons, welcome. We are looking forward to hearing from you.

STATEMENT OF JEFFREY P. PARSONS, EXECUTIVE DIRECTOR, U.S. ARMY CONTRACTING COMMAND, U.S. ARMY MATERIEL COMMAND

Mr. PARSONS. Thank you. Chairman Andrews, Congressman Conaway and distinguished members of the Defense Acquisition Reform Panel, thank you for this opportunity to discuss the processes used by the Army Materiel Command to measure value and risk in service contracts. We are pleased to report that these processes enable our contracting mission to be agile, expeditionary and responsive to our warfighters, while ensuring proper fiscal stewardship of taxpayer dollars.

We are pleased to report to you that we have increased the resources devoted to oversight of service contracts and have also developed improved techniques for evaluating and managing those contracts to provide good value to the taxpayer and effective support to deployed warfighters. The Army Materiel Command has improved its Contracting Officer Representative Program, has a plan in place to increase the number of personnel in the contract administration area, and has improved its ability to inspect the worldwide contracting offices that execute the Army's acquisition programs.

In addition, the Army has increased the rigor of its acquisition process to focus on obtaining better values from the service contracts it awards.

Recent RAND studies and GAO reports state that the Department of Defense needs to become more strategic in the way it buys and manages services. Trends in Army service contracting support the fact that the Army has embraced this concept. On major service contracts over $500 million, a panel of senior experts in con-

tracting, finance and law, as well as the senior representatives from the technical areas that are the focus of the acquisition, review the acquisition strategy to ensure that the planned contract will provide an efficient and effective solution to the Army's needs, and that there are strong metrics that will enable the Army to track the value delivered by the contractor that ultimately receives the contract.

One of the interesting side benefits of the senior review is the evolution of a deliberate strategic sourcing movement that focuses on establishing Army-wide contracts for common-use supplies and services. For example, we now have an Army-wide contract for cell phone service that has achieved substantial discounts from Government Services Administration (GSA) contract prices and provides better controls over who is given a cell phone and what type of calling program they may use. Net effect is the cost avoidance is $79.2 million per year. The centralized agreements provide consistent enterprise terms and conditions; eliminate activation, deactivation and other fees; and provide aggressive prices on both cellular devices and service plans.

This approach is not limited to commercially available services. The Army uses suites of multiple-award, indefinite-quantity contracts to support all types of operations leveraging our service spending. The Field and Installation Readiness Support Team, commonly known as "FIRST," provides logistical support requirements including logistics program management, repair and maintenance support, supply chain management, quality assurance support, logistics training support and transportation support in both the Continental United States (CONUS) and Outside the Continental United States (OCONUS) locations. The first program metrics include how well small business and competition requirements are being met, as well as goals for reducing logistics burdens, customer satisfaction, timeliness of performance, cost control and reliability.

The Global Maintenance and Supply Program metrics include how well the contractor met the technical requirements of its individual task orders. Currently we are at 99.7 percent, which is an improvement over previous lows of 69 percent. Cost and schedule performance are evaluated on a program level across all task orders.

We continue to search out even more opportunities to better leverage Army's purchasing power. For example, we are reviewing alternative ways to support the Army's installation maintenance support contracts; $438.2 million worth of work is performed by 37 contractors under 41 contracts. Under the AMC Materiel Enterprise approach, we will eliminate redundancy in contracts and capabilities, and thereby gain efficiencies across the Army. This is an example of how we strive every day to improve the value the Army and the taxpayer receive from Army contracts.

The Army has made great progress in providing training and tools for overall contracting activities and expeditionary operations. This includes improvements in contractor oversight and tracking value realized under contracts.

We have also shared expectations for contingency contracting support and are increasing our oversight of deployed contracting of-

ficials. The Army uses a pocket-sized joint contingency contracting handbook to equip contingency contracting officers with the necessary tools for joint service operations. This handbook has been incorporated in new training material for the Expeditionary Contingency Force structure. We will soon also field the Virtual Contracting Enterprise that will move existing contracting tools to a Web-based environment allowing for the sharing of contract information and enhanced oversight in a paperless environment, including the tracking of contract performance information.

As stewards of the taxpayers' dollars, the Army is committed to excellence in managing and documenting contractor performance and the overall discipline of contract administration services. With service contracts representing an ever-increasing percentage of our overall contract dollars, greater emphasis is rightfully being placed on their management and oversight. This includes documenting contractors' current and past performance, and developing key metrics related to cost, schedule and performance during acquisition planning that focus on value delivered to the Army, and tracking those metrics as part of contract administration and oversight.

Those metrics are key early warning signals to program officials as they are the first indicators that a program is in trouble, be it from technical difficulties beyond the contractors' control due to changes in the operating environment caused by war-related issues or problems directly related to contractor performance.

Despite exceptionally hard circumstances, the Army's contracting and acquisition staff has made improvements in the strategic management of the Army requirements, and specifically has better insight into the values being delivered under key service contracts. We believe with improved staff levels and contract administration, this trend will continue. The Army is dedicated toward executing its warfighting mission while simultaneously protecting the taxpayers' interest. It is my honor to lead the Army Contracting Command as we persevere to achieve those goals.

This concludes my statement, and I welcome any questions you may have.

Mr. ANDREWS. Thank you very much, Mr. Parsons.

[The prepared statement of Mr. Parsons can be found in the Appendix on page 69.]

Mr. ANDREWS. And I thank each of you for your contribution this morning.

In reading your testimony, it appears to me that although it is by no means the exclusive cause that one of the major causes of any gap that we have in the value between what we get and what we pay is a flawed requirements process, that we don't really understand what is going on in it, and we don't handle it very well. And I wanted to emphasize an example of a process that evidently didn't work very well and then one that did, to learn more about that.

On page five of the GAO report, the GAO written testimony, Mr. Solis and Mr. Hutton, you tell us about a problem in Iraq where the Defense Contract Audit Agency (DCAA) had a dispute with a contractor on providing meals for the soldiers in Iraq that resulted in $171 million in questioned costs. Do you have the document I am referring to? It is page five of the testimony document here.

I want to make sure I understood this correctly. It says that negotiations resulted in a settlement whereby $36 million would not be paid to the contractor. Does that mean that $135 million was?

Mr. HUTTON. Yes, I believe that is correct.

Mr. ANDREWS. And if I understand correctly, the dispute was whether or not the contract required us to pay on the basis of the scope of work in the document or the actual head count at the base.

Now, do you know whether the contract answered that question in advance? In other words, did this dispute come up because the contract was vague and ambiguous, or did it come up because there was a dispute about the factual meaning of it?

Mr. HUTTON. It is my understanding, sir, that the dispute centered on the statement of work and differing views.

The CHAIRMAN. I am sorry?

Mr. HUTTON. I am sorry. My understanding is that the dispute centered on the statement of work and how that was written.

Mr. ANDREWS. So, Mr. Parsons, do you know the answer to that question? Was the contract just ambiguously worded?

Mr. PARSONS. Sir, I think the contract they are making reference to is the Logistics Civil Augmentation Program, especially the early days of the operation, and that was part of the issue, and it gets to the heart of the matter and being able to really identify clearly what the requirements are, especially in a service contract.

Mr. ANDREWS. Can I say something? I am not a very good lawyer. I went to law school. One thing I did learn, if you are writing a contract, one of the basic things you put in there is are we going to pay on the basis of number of people who show up to get fed or some other basis?

How did the contract get written so ambiguously in the first place? Who dropped the ball on that? Do we know?

Mr. HUTTON. I can't point to that, sir, but what I can point to again, though, is one thing that we have noticed is, particularly in this environment, sometimes that people act to move very swiftly to get something under contract, and when you do that, these types of problems arise. And I think that is one of the things——

Mr. ANDREWS. I think that is a valid excuse if it is the issue that they were supposed to deliver a certain kind of food and couldn't do it because of refrigeration problems. But it is pretty basic that, you know, if you have ever planned a sweet 16 party for your daughter, we are going to pay the caterer on the basis of either the number of people who show up, or we are going to pay them for 200 people. It is kind of self-evident that you write that in the contract from the beginning.

Now, let's talk about apparently a successful story. Mr. Parsons, you talked about the cell phone initiative that you say saved us $79.2 million. Can you tell us a little bit more about that, what you did and how you did it?

Mr. PARSONS. I would be happy to, sir. And one of the things that we really noticed when we started taking a lot the cell phone service is that there were people across the Army writing their own contracts or entering into agreements for cell phone services. So we really weren't leveraging the total dollar value of cell phone service. So we were able to convince the Chief Intelligence Officer (CIO) of the Army that we need to find a way to write a single contract or

a single series of contracts that would allow us to leverage that spend. Then we also found that the terms and conditions of the contracts varied, and again, by bringing all those dollars together, we were able to negotiate with the vendors a more favorable pricing plan than what was currently in the GSA contracts.

But more importantly, I think, and this again gets back to the requirements issue, it alerted a lot of organizations to the extent of the cell phones that they had out there. And they started asking questions like, well, why does everybody need a cell phone? And then they started putting some policies in place on who would have them, what they were authorized for. And we found that by reducing the requirements that weren't well defined, we saved as much money through reducing requirements as we did in the actual pricing.

Mr. ANDREWS. So the savings really came from two achievements, right? The first was leveraging our purchasing power, the Sam's Club approach, right? We bought more of it, so you get a better price. And the second was the various decision makers started to do an inventory of how many cell phones they had out there, and they said, how come we have so many out? Maybe we need fewer than we have. Why did that happen? Is that because your organization got stood up and caused that? What was the causal phenomenon that caused that good development to occur?

Mr. PARSONS. I wouldn't attribute it to the standup of the Army Contracting Command, although one of the things we have developed within our command is what we call a Strategic Sourcing Branch. Really what we have been doing is capitalizing on a lot of the work that RAND did back in the late 1990s and early 2000.

Mr. ANDREWS. In this instance did this sort of spontaneously combust, or did someone—who made a decision that said, you know what, we have to bring all these contracts under a centralized authority and get more bang for our buck or more minutes for our dollar in this case?

Mr. PARSONS. It was initiated out of the Army Acquisition Office. Lieutenant General Thompson, who is the military deputy for the Army acquisition executive, who is a strong supporter for strategic sourcing and encouraged us and all the organizations within the Army to start taking a look at their service spend to see how we can get our arms around that to better leverage it——

Mr. ANDREWS. I want to be sure we move on to my colleagues. But I did want to just ask one more question, and I assume the GAO witnesses would be the best to know, perhaps Mr. Parsons and you, Ms. Baldwin. Is there one person in the Department of Defense who can answer this question: What do your data show that of the $200 billion that we spend, how much might it be—how much of that might be wasted? Is there a person who could say, yeah, you know what? Based upon the data, I think we probably could recover $15 billion of that and do a better job; or, all of it is fine. Is there a person who is in charge of answering that question? Mr. Hutton.

Mr. HUTTON. I do not believe there is a person that can answer that question. That is in part one of the points that we made in our 2006 report was the need to look at service contracting from a strategic as well as a transactional level, meaning at the contract

level. The important thing right now is does DOD know exactly what they are buying, what they are paying, how many contractors do they have and——

Mr. ANDREWS. The answer is no.

Mr. HUTTON. I think what Mr. Parsons was talking about strategic sourcing is one opportunity of centralized procurement——

Mr. ANDREWS. But the answer to your rhetorical question is, no, they do not, they do not have that complete database?

Mr. HUTTON. People that assign a percent to how much is wasted, no.

Mr. ANDREWS. Ms. Baldwin, in your analysis of the private sector, would the answer to my question, the private sector, typically be yes, that at Microsoft or—I was going to say Bank of America, I guess I shouldn't—at a large private-sector institution that there would be an officer who would be able to say, this is what we spend on services, and I can assure you that we are getting what we should; or, I am troubled that it might be five or six percent off? Does the private sector typically have the data and have such a person?

Ms. BALDWIN. Certainly the goal of setting up the strategic corporate-wide offices to manage purchasing more broadly, services in specific, commercial firms struggle with this, too, is what we found. Even the leading firms that we interviewed for this particular study, they were still in the process of gathering the right data, creating the right systems to be able to get the information they need to better manage this. But, yes, the goal is for them to be able to look broadly——

Mr. ANDREWS. Are they closer to achieving the goal than we are?

Ms. BALDWIN. I can't speak for the other services, but our work in the Air Force suggests that some in the commercial sector are ahead of that, in that capability. I wouldn't say that broadly. Commercial firms have the same issues that the Air Force and other services have.

Mr. ANDREWS. Thank you all very much.

Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman. I have a couple of just relatively insignificant questions to start with.

Ms. Baldwin, you mentioned supplier satisfaction at least twice. What does that mean?

Ms. BALDWIN. It means, broadly, how the supplier views the working relationship with the customer firm. So do they feel like they have a good working relationship? Can they talk with them? Do they feel like they are being treated fairly?

Mr. CONAWAY. So you would put that in the matrix of—where in the matrix indicia, where would that go? Bottom? Top?

Ms. BALDWIN. That would be—well, it is one of the three measures that the firms we interviewed said that they reported that to high-level management. So I would think it would rank——

Mr. CONAWAY. What do they do with that data if someone says, I really don't like working for you? It is a rhetorical question.

Ms. BALDWIN. I can't answer that question specifically.

Mr. CONAWAY. Mr. Parsons, listening to your statement, it sounds like you have it going totally in the right direction, you have everything solved, which is generally the kind of testimony we

get from folks. You mentioned a consolidation of contracts for facilities management, almost $500 million in services. Where is that? What progress have you made on getting that done?

Mr. PARSONS. Sir, just recently the Army Materiel Command and the Installation Management Command have agreed to transfer the maintenance functions at the installation level over to Army Materiel Command. When we started that process, what we found was that over 30-some installations, we had 40-some contracts, with 37 different contracts valued at $438 million for essentially the same types of services being performed for maintenance. But there is no standardization of requirements, inspections and those types of things. And so now what we are doing is we have done an inventory of all those contracts and are assessing how can we strategically source those. Do we really need 40-some contracts, or do we need maybe 3 or 4 on a regional basis and then try to standardize the terms and conditions and the way that we will oversee the management?

Mr. CONAWAY. When are you going to report back to us that that has saved us X amount of money or has done what you wanted it to do?

Mr. PARSONS. When can we report back? Sir, we just initiated this action. I would say probably another six months to a year before we will be able to report what type of savings we are going to see out of that.

Mr. CONAWAY. Thirty installations, that is the total in the Army? Or is that just CONUS?

Mr. PARSONS. It is just CONUS, does not include OCONUS, and it only includes maintenance that was being performed out of what they call the Directorate of Logistics.

Mr. CONAWAY. So it is relatively narrow. If you look at the risks of loss to the taxpayer, obviously the full-flown strategic, use all the buzzwords you guys use, kind of a management system to make all this work, at what level does it make sense to begin applying those, and at what level below which it doesn't make sense? I mean, you spend more time in management and oversight and reporting than you do on actually buying the stuff that you are trying to get provided. Is there a de minimis amount? Is there some line that you put in the deal?

Mr. Solis.

Mr. SOLIS. Last year, for example, the Congress put in legislation, section 807, which required the Department and the services to begin to do an inventory of all the contracted services to develop a baseline of what exactly was being contracted out, how many contractors you are using, the cost of those contractors and the type of services provided. I think that is the kind of thing at the strategic level that will help not only to look at it from a procurement function, but from a human capital or blended workforce in terms of what am I going to need, how am I going to do that?

I think at the other end, I think in looking at different contracts and going back to your issue of risk, I think particularly for deployed, when you have contracts in a contingency or a deployed location, I think your risk is going to probably be higher because of the things you have to do in terms of providing oversight and getting out and seeing how those things are working. And I think it

becomes, you know, in terms of looking at what you are going to spend your time in terms of oversight, those are the kinds of decisions that you have to look at, where are my risks at, what is the potential for fraud, waste and abuse, and I think that is where you probably need to focus what kind of attention in terms of oversight you are going to do versus something back here possibly in CONUS, I will just say some service like grass cutting or some of the things you can monitor more easily. But I think the different types of contracts, and more complex contracts particularly, for like intel services and maintenance services, you have to spend your time to look at those things more.

Mr. CONAWAY. Are the recommendations that you are making and Mr. Parsons and Ms. Baldwin, is that concept reflected in how you set your system up; in other words, is it more of a risk-based arena? If you have a contract to cut the grass around this building, relatively little exposure to the taxpayer of major waste, fraud and abuse. We don't want any, but, Mr. Parsons, Ms. Baldwin, does that fold in with what you guys recommend?

Ms. BALDWIN. Yes, that is exactly what we have seen in the commercial sector, that they first look broadly to understand how much are we spending in these individual areas, looking at a service across an organization, not specific contracts, and then they make those decisions based on dollar value and their risk of poor performance.

Mr. CONAWAY. Mr. Parsons.

Mr. PARSONS. Sir, we actually take a look and stratify our service contracts on the level of oversight they will review. In fact, the Department of Defense does that as well. Any service contractor over $1 billion is actually reviewed by what they call a peer review at the Office of the Secretary of Defense (OSD) level now where we have got senior-level service-type people that review certain acquisitions over $1 billion. Within the Army——

Mr. CONAWAY. Is that on services or——

Mr. PARSONS. Services and hardware, but they are doing it both. In the Army they do it at the $500 million. At my level I do it at $250 million——

Mr. CONAWAY. One final one. It is a bit broad. There has been a recommendation that we create these centers for excellence for purchasing. I have great confidence that center will work wonderfully to make sure the Pentagon has everything it needs. How confident are we that that consolidated purchasing will make sure that some warfighter in a trench in the Horn of Africa gets what they need?

Ms. BALDWIN. I think that what you are highlighting is the need to have user involvement in those decisions. And certainly our research suggests that in the commercial sector purchasing professionals are a key part of this process, but they are only one player. The user has to be directly involved, and you have to have industry experts as well. So you have to have that user representation, that warfighter representation.

Mr. HUTTON. Mr. Conaway, I would add that what you just pointed out, the centralized procurement organization, I think you get—you can get some efficiencies, and you can leverage perhaps even your workforce in a certain way. But I would like to take it

back to, though, to be sure that you are getting good outcomes, you have to make sure you have sufficient people to oversee the actual execution of that contract, and that means having people assigned up front like a contracting officer representative and having them there in sufficient numbers, sufficiently trained to make sure that you are getting that outcome.

Mr. CONAWAY. Thank you, Mr. Chairman.

Mr. ANDREWS. Thank you, Mr. Conaway.

Mr. Cooper.

Mr. COOPER. Thank you, Mr. Chairman. I thank the witnesses.

In any organization, mistakes are going to happen. And the real question is how you deal with those mistakes? Like in a hospital you might get the doctors together to confer about what happened with the bad outcome. Sometimes there are after-action reports in other contexts.

I would be curious, particularly for Mr. Parsons, to understand mistakes that you have personally seen so that we can get some raw data on which to kind of build an understanding.

Mr. PARSONS. Sir, are you asking whether we have raw data to——

Mr. COOPER. No. I want your personal recollection of mistakes that you have seen in your tenure, and then we can talk about what we did about them, a bad contract, a bad contractor, those sorts of things.

Mr. PARSONS. As far as the performance? I have a hearing difficulty. So I am not following you completely.

Mr. COOPER. As far as the government and the taxpayer not getting value for the money that was expended. And it might be performance. It might be price. It might be all sorts of things. But you gave us some of the most cheerful testimony I have ever heard. It almost didn't seem to apply to this topic. So I am interested in the horror stories.

Mr. PARSONS. Certainly I think there are instances of what are perceived to be horror stories out there.

Mr. COOPER. Give us those instances.

Mr. PARSONS. I think in reference to the GAO testimony in reference to the early days of Logistics Civil Augmentation Program and how well or how well we did not define those requirements are an example of, you know, where we can get ourselves in a position where we are not getting the best value for the taxpayers.

Mr. COOPER. Give me some examples.

Mr. PARSONS. Specific examples?

Mr. COOPER. Yes.

Mr. PARSONS. Well, sir, I think the dining facility is one that——

Mr. COOPER. That is from their report. I want examples that you have seen.

Mr. PARSONS. I think another example—and, again, this was one that Ms. Harman was aware of—is our global maintenance and support services contract where we did not have proper oversight of the High Mobility Multipurpose Wheeled Vehicle (HMMWV) repairs that were taking place in Kuwait. We had very poor first-pass yields. A lot of the work was being rejected, and the contractor was redoing the work. The way the contract was structured, we ended up paying for that rework again. So I think that is an example of

a horror story where we had a poorly defined requirement. We didn't have the right type of contract vehicle in place, and we did not have adequate oversight.

Mr. COOPER. So we paid twice for vehicle repairs in Kuwait because we had a poorly defined requirement that didn't specify they should be repaired properly the first time?

Mr. PARSONS. Correct. When we would inspect the vehicles, there was a reject of anywhere from 30 to 40 percent. But the way the contract was written, essentially the contractor, when they were directed to redo the work, was allowed to bill the government again.

Mr. COOPER. Who wrote that contract? This gets back to Mr. Andrews' question about per capita or fixed price. Who would write a contract saying that a 30 or 40 percent failure to repair rate could be acceptable?

Mr. PARSONS. Nobody.

Mr. COOPER. Well, someone wrote the contract.

Mr. PARSONS. The contracting officer is the one that wrote the contract out of Rock Island, our Rock Island contracting center. But it was a good example of where we did not have adequate controls or proper metrics in place to make sure we are getting value.

Mr. COOPER. Give another example other than the one you just gave.

Mr. PARSONS. Sir, the other area where I know that we have a lot of challenges is in the area of what we call advisory and assistance services, where you really are buying contractor support to help manage your operation. And while I can't give you a specific example, I know that one of the areas we have been looking at very hard is do we really need all of these contractors providing some of the services and support services within our operations?

Oftentimes what you find is that the requirements are not well defined, and many times we aren't even sure totally what the value is that those contracts are providing, certainly in the area of advisory and assistance services. So the DOD has a very strong initiative right now to take a very hard look at that. Any of those types of services that are enduring we are looking at trying to reconvert to civilian positives. And then for those that are contractor is to put in proper oversight and metrics to evaluate their performance.

Mr. COOPER. Who initiates the purchase of services that the government does not want?

Mr. PARSONS. What was that again, sir?

Mr. COOPER. Who initiates the purchase of services that the government does not want?

Mr. PARSONS. Who does that?

Mr. COOPER. Is this Rock Island again who does this?

Mr. PARSONS. Sir, I have 115 different contracting locations, all of them which buy services to some degree. And as I mentioned earlier, what we are trying to do in our contracting community is to establish a strategic sourcing organization that looks at all that service spend to find ways to do this better, be more consistent in our terms and conditions and our oversight.

Mr. COOPER. I see that my time has expired, Mr. Chairman.

Mr. ANDREWS. Thank you very much, Mr. Cooper.

Mr. Coffman is recognized.

Mr. COFFMAN. Thank you, Mr. Chairman.

It seems if we go back, say, from the post-World War II environment until now, that there has been an expanded role of outside contractors in what may have been deemed traditional military functions in a post-World War II environment to the present, that evolution.

So it seems to me that maybe it falls in two categories. There is the one category of the more routine items that are fairly transparent, that are easy to come up with what the requirements are, and that can be competitively bid, and there is some certainty going in as to what the costs are going to be. And then you get into this I guess what I would call a murkier area, and that is, say, using contractors in a deployed environment where it seems to be more of a cost-plus structure to—that it is harder to define the requirements, that they are not as routine.

And so it seems to be that—first of all, maybe from anybody on the panel, is that an accurate description of where we are today in those two categories of contracts, that the cost-plus one being more for the irregularity and uncertainty of, say, having a contractor in a deployed environment versus somebody in CONUS, in the United States, cutting the grass as an example? Can anybody comment on that.

Mr. PARSONS. Sir, I think definitely, you know, where the requirements are fairly known and can be defined, we tend to use fixed-price contracts, and it reduces the government's overall risk.

Where the requirements are less defined, where conditions are changing, we typically do use the cost-type contracts, and that is where we assume more risk. And as the GAO noted, that is where we need to provide more contract oversight, when we use those types of instruments.

Mr. COFFMAN. Have we gone too far in that process? I mean, have we set ourselves up for failure by virtue of outsourcing too much? Have we gone too far in this continuum of things that were done by the military, that aren't done by the military, that maybe we should look at returning to having the military perform some of these functions and not having contractors?

Mr. SOLIS. I would offer, one of the things that Admiral Mullen initiated I think last year was to begin to look at, for future operations based on what has happened in Iraq and Afghanistan, to look at future operations to look at the reliance on contractors. And I think for future operations they are going to be looking and planning from the get-go to see, is this where we want to be, is this what we are going to have to do in terms of contracting out, or is it better to bring it back in-house, either a uniformed military member or DOD civilian.

So I think that kind of examination is the kind of thing that I think we have said should be done, and I think the joint staff and the combatant commands are starting to do this.

And I also mention the provision of 807, which begins to look at what exactly is the Department and the services starting to contract—what are they contracting, to get a baseline to see if that is where the Department wants to be, whether it is for grass-cutting, intel services, interrogators, private security contractors. And I think that is the kind of examination that will hopefully begin to answer the question that you are asking: Have we gone too far?

Mr. COFFMAN. Okay.

Yes?

Mr. HUTTON. Sir, I might just add to that, as Mr. Solis said, knowing what you are buying is important, and in making those specific decisions as to what you want to make sure is a core capacity of the military or a civilian person can do it.

But part of that is you really don't know if you are over-relying on contractors until you know what you are contracting for. And there is an aspect of it that I think is important. There are certain activity you might be asking a contractor to do that might be very sensitive or activities that are closely supporting, say, an inherently governmental function. And when you are in that arena, I think it is important that the government has the capacity to understand and oversee that contractor in those situations.

They also have to think about whether that is something that they prefer to use a government person or not. But if they have to use a contractor because of the mission expediency, and they want to use the government, at that point they have to be thinking and doing advanced planning of how they are going to bring in the people to be on the government side, if that is their policy choice.

So the government has to have capacity to be able to oversee that contractors. And if that number, that ratio gets out of balance, I think the government is at risk.

Mr. COFFMAN. Okay.

I served with the United States Marine Corps in Iraq, and I think the contractors did a great job. But I don't know if it was cost-competitive. I have no idea, just being the end user.

But there was some criticism, certainly, that I read about back home about sole source contracts not bid out on a competitive basis, extremely large contracts like Halliburton. And I wonder if any of you can comment on that.

Mr. PARSONS. Well, sir, I think the Army recognized that, within a few years after the extended operation, that being in a position where we just had one contractor providing those types of services presented some risk to us. So that is why we moved to Wildcat IV, Logistics Civil Augmentation IV, where we now have three contractors that compete for that work at the task order basis.

So another lesson learned as we go forward in this is, in the future, we should have vehicles that allow multiple contractors to perform that work. And then capitalizing upon what Mr. Hutton said is, we also need to make sure we have got the right number of folks that are available to provide oversight of that contractor effort.

And I think that was the biggest lesson learned that we had in Iraq and Afghanistan, is that while you can probably debate on whether it is too much contracting or too many contractors, I think it was clear we didn't have enough people to do the oversight of what we were contracting for. And that is where we are working hard to reverse that.

Mr. COFFMAN. Okay.

In this situation that you mentioned with the Humvees, I mean, in Kuwait, I think probably you wouldn't have to go that far back to where an upper echelon of maintenance would have been performed by a maintenance command, in-house military organization.

And, you know, somebody would have been relieved if they had a fail rate at that level in place with somebody, a competent military commander.

Mr. PARSONS. Sir, the level of maintenance that was really taking place there in Kuwait was above what you find in a typical maintenance unit. But you are exactly right, we do have experience in doing major overhaul and repair. We weren't taking those practices that we use here in the States and applying them in an overseas condition, which we have reversed since then.

Mr. COFFMAN. Okay.

Thank you, Mr. Chairman.

Mr. ANDREWS. Thank you, Mr. Coffman.

Mr. Ellsworth.

Mr. ELLSWORTH. Thank you, Mr. Chairman.

And thank you to our witnesses.

I have heard for years, for a long, long time, that government ought to run more like a business. I guess my first question is to you, Mr. Parsons. And thanks for being here. I know it seems like you are the one catching the brunt of this, and I apologize for that.

The cell phone example, when did that initiative begin? When did that occur in time, that you had this savings?

Mr. PARSONS. Sir, I don't know the exact date, but I think it was in 2006, 2007.

In fact, there is a report that was sent to the Office of Management and Budget (OMB) by OSD in fiscal year 2007 that captures a lot of these different initiatives we have in strategic sourcing, including the cell phones. So, if the panel is not aware of this report, I would recommend that you take a look, because I think it has some great examples of where the Department has been trying to move in strategic sourcing for the last several years.

Mr. ELLSWORTH. And I appreciate that, and I applaud those efforts. I was just trying to think, when we said that, and we didn't bring up the date, I can remember on a much smaller level at the Vandenberg County Sheriff's Office, 300 officers, we did that same thing when the phones were in big black bags. If you remember, we had the antenna on the side that you flipped up. And we looked at the cost of phones, and did the narcotics officer need it, and how many minutes. I know it is a much bigger scale for the United States Army. But we were doing those kind of things in 1985 with bag phones. And then, as it progressed—and we were just a small sheriff's department.

And I guess that is my point. Does anybody remember what year we were talking about the $400 hammers and the toilet seats? Anybody remember what year?

Mr. PARSONS. 1985.

Mr. ELLSWORTH. You know, we have been talking about these kinds of things for a long, long time. And we are bragging, and that is good. I am all for saving $171 million. But 2006, 2007 on phones, and they are just figuring out that we need to maybe work contracts on the cell phones? So maybe we do need to run more like a business, not to make a profit, but if businesses ran like government did, this economy would be in a lot worse shape than it is now.

I guess my next thing would be: During your testimony, Mr. Solis and Mr. Parsons, your poker faces weren't exactly—you weren't putting them to use.

Ms. Baldwin, you did a great job.

But when you were listening, there were, just in facial expressions, Mr. Solis, things that you heard Mr. Parsons say during his testimony. Anything you want to bring up, comments to what he said?

Then I will give Mr. Parsons the same chance, because you had a few reactions to some of the things Mr. Solis said in his.

And so, any things that you heard in the testimony you would like to say, "Well, that is not exactly right," or, "We see it a different way?" And don't fight, please.

Mr. HUTTON. Because I am in the middle.

Mr. ELLSWORTH. Yeah, that is right.

Mr. SOLIS. I don't know that I would necessarily debate what he said. I think, again, what I have seen, not just in contract services, but when the Department says, "We are making changes, we have policies in place now," I think the key is going to be execution and can they pull those things off. We talk about the need for more oversight and continued oversight, particularly in deployed locations. Is that really going to happen?

And I mentioned at the end of my testimony about Afghanistan, there is going to be probably—and there already is—a substantial amount of contract support that is going in for Afghanistan. Given that we still have a large contractor-supported force over in Iraq, where are we going to find the folks and how are we going to do the oversight in Afghanistan? I think the Gansler report said it is going to take a number of years to build the acquisition workforce.

So, again, I think we are at a point where I think a lot of people have gotten religion that we need to do better jobs on this. The question is, a couple of years from now, a year from now, are we going to be in any better shape? What is the Department really going to be able to do about that?

I think if you look even going back to the increases in forces that the military has, how many of those folks are going be in the acquisition workforce? How are you making provisions for those things?

So there is a lot of work to be done. And I have seen those kinds of things, and I think they are promising things, but will it be sustained, and can the leadership continue that? I think that is the key.

Mr. ELLSWORTH. And I think, Mr. Parsons, in your own comments on page six about the Global Maintenance and Supply Services (GMASS), it says, "We are beginning to get a handle on." And you have been at this since 1977. I am just picking on you because you are here. But, you know, if we are just now beginning to get a handle on this in 2009, where we have been? We have been procuring for quite a long time.

But I would give you a chance. And I know we got the red light, but they may give us a second.

Mr. PARSONS. Yeah, well, when I say we are beginning, I think really what we are doing is we are taking the lessons that we learned out of that GMASS and really now applying that across the board when it comes to contract oversight.

You know, actually, especially from my personal perspective, having the GAO go out and identify these shortfalls has really been helpful in getting the Department, especially the Department of the Army, to realize that this contracting business is serious; we are very dependent upon contractor support. And we need to put the right type of focus on this to make sure that we are doing this properly, not only to get the support to the warfighter, but also to make sure that we are executing the taxpayer dollars responsibly.

And, you know, I think we have worked very closely with the GAO. I know that Major General Radden, who had responsibility of the GMASS contract, followed up with the GAO on the improvements we have done there. We have now taken those improvements and are spreading that across the command.

In relation to Afghanistan, I think that the Department also recognizes that there is going to be a large contractor support mission there. We have the operational commanders recognizing that they have to play in that, from the standpoint that they have to provide CORs, contracting officer representatives. We have recently published a Contracting Officer Representative Handbook that goes to all of our deployed forces. And, most recently, the commander in Afghanistan issued direction to all of his brigades, all of his commanders, that they will provide people and get them trained to do proper oversight of contracting.

So I think we are on the right path. And I agree, it is frustrating that it has taken as long as it has. But I think as long as we keep this focus and continue to get the support out of panels like yours in Congress so that we don't fall back into the past practices, I think that the warfighter and the taxpayer will be better off in the long run.

Mr. ELLSWORTH. Thank you all.

Thank you, Mr. Chairman.

Mr. ANDREWS. Thank you, Mr. Ellsworth.

Mr. Conaway, I think Mr. Cooper had a follow-up question. I would obviously offer you the same opportunity, if you would like.

Mr. CONAWAY. Mr. Parsons and everyone has talked about the shortage of personnel in the system. Do you track the number of people that you want versus the number of people you have in place? And do you have a plan that says, by six years out, five years out, whatever it is, you will have those folks fully populated? Do you have the resources to do that?

It may be somewhat dynamic, but how shorthanded are you in your system, which, as I suspect—we heard the same thing about the weapons systems. They don't have the right number of people, as well. So how many people are you short, and how are you going to manage to get to that right number? And how long will it take?

Mr. PARSONS. When we established the Army Contracting Command, if you recall, the Gansler Commission also recommended increasing the number of contracting officials we had, both on the military and on the civilian side. And this command will add about an additional 1,000 civilians and about an additional 400—700 military.

Mr. CONAWAY. 400 to 700?

Mr. PARSONS. 700 additional military.

Mr. CONAWAY. What was the 400? You said 400.

Mr. PARSONS. That was a mistake. The total is 700 additional.

At our end state, which should be about 2013, between the active, the reserve, and the guard, we should have over 1,000 soldiers that have contracting expertise, which is a three-fold, four-times increase over what we had at the early days of Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF). So that will be a marked improvement and will be able to give us the type of individuals we need to deploy in environments like Iraq and Afghanistan.

Mr. CONAWAY. Okay. In order to maintain that end strength, though—I mean, those folks get out. You are going to have to have a pipeline of folks that would provide that level of end strength. Is that possible to do? Is it rational to do?

Mr. PARSONS. Sir, we have a disciplined accessions plan that brings a certain number of new officers and new non-commissioned officers (NCOs) into the contracting workforce each year. So we plan that. We know what our exit rates will be, our attrition rates, and we plan for that for the new accession. So we will have a constant pipeline.

Mr. CONAWAY. So why are you shorthanded on the civilian side?

Mr. PARSONS. On the civilian side, we are doing the same thing. I have hired, out of the additional 1,000, I have about 400, 450 additional civilians on board since last March.

Mr. CONAWAY. So when will you have the other 550?

Mr. PARSONS. Our plan is to try to have those in the next two years.

To be honest with you, our challenge right now is trying to hire what we call mid-grade level folks, you know, people that have between 5 and 15 or 5 and 20 years of experience. There is such a shortage of those across the Federal Government, all the federal agencies are competing for them. So what we find ourselves doing is hiring a lot of new people, entry-level people, and it is going to take time to get them trained and experienced.

But approximately 30 percent of my workforce today on the civilian side has less than 5 years of contracting experience.

Mr. CONAWAY. You can only hire mid-grade folks who are already in the system? You can't hire from the private sector at those levels, with equivalent experience?

Mr. PARSONS. It is a challenge to hire them.

Mr. CONAWAY. But you can. I mean, there is no restriction of hiring somebody in the middle from outside the system.

Mr. PARSONS. Well, if they are outside of Federal Government contracting and don't have Federal Government contracting experience, it is hard to bring them in at the mid-grade level. You have to, again, bring them in at entry level, unless they have some kind of procurement or purchasing experience.

And I will give you an example. Out at Warren, Michigan, near Detroit, where I have a contracting office, we have hired a number of former buyers from the auto industry and have brought them in and get them up to speed rather quickly.

Mr. CONAWAY. Okay. So there is no legislative or regulatory restriction to doing that. It is just finding the right people.

Mr. PARSONS. Correct.

Mr. CONAWAY. Okay.

Thank you, Mr. Chairman.

Mr. ANDREWS. Mr. Cooper, did you have a follow-up question?

Mr. COOPER. Thank you, Mr. Chairman. I just wanted to give Mr. Parsons another chance, given his 32-year career in contracting, to help us find some more horror stories.

Mr. Parsons.

Mr. PARSONS. Sir, I am a little bit perplexed on how to answer the horror stories. I mean, my experience over the 32 years is that we aren't always as efficient as we should be in the way we acquire goods and services. But I think as the GAO has pointed out, and I think based on my experience, it really starts with the requirements definition. And do you really know what it is you are buying? Do you really understand what it is? And then how best do you execute that?

Mr. COOPER. Thank you, Mr. Parsons, but those are generalities. How many contractors have been banned from doing DOD work in cases that you have supervised?

Mr. PARSONS. Cases that I supervised.

Mr. COOPER. Or been directly involved with or knowledgeable about.

Mr. PARSONS. In 32 years, I would just say a handful that I have been involved with——

Mr. COOPER. Can you remember the details of any of those cases?

Mr. PARSONS. Well, certainly the one that I have testified before, having to do with A.E. Yates Ltd. (AEY) delivering ammunition to the Afghanistan army, is one that I was personally involved with.

Mr. COOPER. So you were involved with that? Faulty ammunition. This was faulty World War I or II ammunition?

Mr. PARSONS. This was a situation where the contractor was delivering ammunition that had its origins in China, which was prohibited by contract and prohibited by law.

Mr. COOPER. And these were two young people who had been given this government contract with little, if any, prior experience, if the newspaper reports were correct?

Mr. PARSONS. Correct.

Mr. COOPER. How were they chosen as a suitable contractor?

Mr. PARSONS. Sir, the process, the acquisition process, does not discriminate based on age. It does not discriminate based on the extent of contracts they have had before. There was a deliberate process that went through. There were some gaps in that process. The contracting officer was not aware of some poor performance by that contractor. I think——

Mr. COOPER. They had no experience, right? They were two college kids who, like, thought they would get in the business.

Okay, that is two examples you have given us. Is there a third?

Mr. PARSONS. Sir, really, you know, again, if I gave it some thought, I am sure I could come up with some other examples of where I have seen some poor——

Mr. COOPER. Well, maybe we can hold the record open so you can supply us some written examples.

[The information referred to can be found in the Appendix on page 85.]

Mr. PARSONS. Okay.

Mr. COOPER. Final point, if the chairman would indulge me. I would be curious, especially from our GAO friends, about how many pages of regulations regarding purchasing that there are. Like, is it possible for a human being in any one of Mr. Parsons's 115 contracting locations to completely master the material?

Mr. HUTTON. I can't tell you how many pages, but I believe it is a very thick—if you are talking about the Federal Acquisition Regulations, it is very thick. It is probably thousands of pages.

But if I can make one comment, because you are asking for horror stories, my observation would be it is difficult because you don't know—you wouldn't know any horror stories unless you have real good contractor surveillance. And that has been one issue that we have been pushing on. Typically, the examples are coming because auditors have gone in later and identified some of these.

I would like to loop back, though, to what the DOD is trying to do, which I hope will either prevent horror stories or help them find them themselves and be able to take corrective actions. That would be when they are looking at the pre-award and post-award as part of their peer review process, where they bring people in and look at how they are defining their requirements, are they getting sufficient competition, things like that, before the award, and then in the post-awards where you go evaluate.

And that is where I think your question about value comes in, too, in their post-award peer review—and this is all new. I don't know to what extent they have executed this yet, but it is in their 5000.2 directive on acquiring acquisitions. It is in the post-award review where I think you are going to start seeing, if it is executed, you start getting insights: Did we get value? Did we get what we paid for? And are there lessons learned? And you loop it back to the pre-award.

So I think, conceptually, those are key factors. But I am not surprised he might be hard-pressed, because we have been saying time and time again that surveillance of contractor performance has been a weakness.

Mr. COOPER. With the Chairman's continued indulgence, this is pretty amazing. It is like quicksand. To find out more about service contracting, we have to have more service contractors. And already the body of knowledge is so great, it is probably difficult for any individual to master.

I am almost wondering, what if we repealed all those regs? What if we paid Mr. Parsons on commission to do a good job? That might completely change the incentive structure. Because today we have an extremely paper-intensive, bureaucratic, where it is difficult to even, after 32 years of experience, to list more than two examples of things that kept you up at night, things that were embarrassing for the government or the taxpayer. Not that it is Mr. Parsons's fault or anyone's fault, but were these Afghan munitions contractor kids, are they still eligible to contract for the Federal Government?

So those are two folks who were banned, okay.

It is just, you know, most people in a business career would have a lengthy list of things they wish they had done differently. And we seldom, if ever, hear about those things. Occasionally we read about them in the newspaper. But there has to be a better system.

We have attempted to reform this 130 times since World War II. We haven't gotten it right. So what is it going to take new to do it right? We haven't even been able to get Ms. Baldwin's information transferred to the other services. You know, it is just like—it is a quagmire. So how do you wiggle your way out of a quagmire? I am not finding good proposals.

Mr. ANDREWS. Well, that is a good place to segue because I was going to ask the panel, both to tell us now and then we will keep the record open for written recommendations, as to what legislative changes you might like to see us enact to address the problems we heard about this morning.

Ms. Baldwin, do you have any ideas for us?

[The information referred to can be found in the Appendix on page 85.]

Ms. BALDWIN. I have ideas. I am not sure how to turn them into legislation in a way that would be most effective.

But I think there are several themes coming out of these discussions. One is the problems with requirements for setting the right kinds of contracts for managing these service acquisitions in the right way.

And I think a key point that hasn't come up in discussion today is the need for the military departments to really understand the nature of the industries that they are dealing with, to have people who understand the services they are buying, who have worked in those industries, for example, who understand how to write requirements; what are the key points that the contractor needs to know? How to write contracts in the best way; what are the typical kinds of contracts that are used? What are the pitfalls associated with different options? And how to evaluate performances of those services in the right way; what do we look for when we are evaluating whether or not a contractor has performed well?

So I think that is a key part of this process that the DOD is still struggling with and needs to be able to move forward with, but I don't know how to write that into legislation.

Mr. ANDREWS. Well, as I say, we would keep the record open for any ideas you would have as to how to pursue that.

Mr. Solis, Mr. Hutton, does the GAO have some legislative recommendations?

Mr. SOLIS. Well, looking at what the Congress has already done, I think there is already quite a bit out there. And I think it is probably a good time maybe to even sit back and say, what has the Department responded to?

And, again, I keep coming back to 807. The Army has begun to provide some of that type of information. The Navy and the Air Force have yet to do that. And I don't know exactly where they are at. But I think that would be a key in following up on a lot of the legislation that is already in existence to make sure that the Department is complying. Because I think then you are going to begin to get some of the answer to your questions, I believe.

And I guess there are other policies that are already out there that the Department has begun to do. And I think following up to making sure that those are executed, I think, are the key.

Mr. ANDREWS. Mr. Hutton.

Mr. HUTTON. The only thing I would add is that oftentimes when we do our work and GAO tries to prepare itself when we go in and look at contracts—and, as I mentioned earlier, the Federal Acquisition Regulations has a lot of practices and guidance as to how things should be done. And what we find is that oftentimes the guidance is there but it is just not done.

And I think that is, again, how do you translate policies and regulations into execution? Is it a matter of sufficiently amount of trained acquisition professionals, for example?

The only way I think—one way you can get to good requirements, particularly in an area of service contracting where it is a little more difficult to define the requirements, you have to make sure you allow yourself some time and you have the right folks together talking about how you write that requirement.

As I mentioned earlier, it is a fact that oftentimes it is the rush to get the contract award, and there is a little less focus on the requirements and the back end on oversight.

Mr. ANDREWS. Thank you.

Mr. Parsons, what do you think?

Mr. PARSONS. Sir, I have to agree with the General Accountability Office here. I don't think there is a real need for additional legislation, because I think the Congress has put a lot of legislation in place having to deal with service contracts that is trying to force discipline in the way we manage those. And I think really the question is, are we following through on those? I think the Army is following through on those legislative initiatives.

The other thing that I would encourage the Congress to do, though, is also keep up the focus on the training of the acquisition workforce and ensuring that the Department sets aside the proper funds to train. I think section 852, which was passed in the National Defense Authorization Act (NDAA), is very critical for our line of business, and we need to keep that focus.

I think a lot of it is just how well are we following through on the initiatives that Congress has already put in place for these things.

Mr. ANDREWS. Well, thank you. I am struck, in concluding this morning's hearing, by two points. One is about enormity; the other is about irony.

The enormity is I come from a state that is a large, expensive state to live in. We will spend in one year in the acquisition of services for the Department of Defense what my state will spend in six years to run the affairs of the state government. This is an enormous, enormous issue. Since we have met this morning, the United States taxpayers have spent about $35 million during this hearing to acquire services. That is the enormity.

The irony is that we have the best military in the world because we have mastered data. Our warfighters know more about the battle space than anybody else does, sooner than anybody else does, so they can make decisions that are far more effective and, when necessary, lethal than anybody else can. It is why we are as powerful as—and, frankly, because the people we empower with data are as well-trained and as courageous and as skilled as they are.

It is supremely ironic to me that we know so little, we have so little data about such an enormous amount of money. And I am not

ascribing blame to anyone sitting here this morning, other than us, frankly. But what I am hearing out of this is that we really don't have the tools to get our arms around the scope of this issue.

The cell phone example is a really interesting one because it is a success story. But Mr. Ellsworth's question is very pointed as to, why such a tardy success? It seems kind of self-evident. I think Mr. Coffman's questions about the distinction between very complex services that we buy and very simple services that we buy is another good one.

So I think one of the projects of the panel is to think about a way to collect in one place and hold one organization accountable for this information.

I mean, I will come back to one question I asked, which I am convinced there is no answer to: Of the $200 billion we will obligate for service acquisition this year, how much value are we getting? Are we getting $200 billion worth of value? Are we getting $170 worth of value? Are we getting $230 billion worth of value?

I am convinced that we just don't know, and that is very troubling. If I were the shareholder of a company whose Chief Financial Officer (CFO) could not answer that question, I would sell my stock. I am not selling my stock in the United States of America, particularly in the Department of Defense. I mean, the success story of the Department of Defense is that it does a great job defending this country. But I think it could do a greater job if we could figure this out.

And, you know, I keep coming back—and we will conclude with this story about the food contract in Iraq. Iraq is, by definition, probably the most hostile environment on the face of the Earth today. A lot had to be done in a hurry. You don't want people to be arguing about contracts when people are hungry; you have to feed them. I understand all that.

And, again, that would explain to me why, you know, vegetarian meals weren't readily available for soldiers that needed them. Or it might explain why certain religious preferences couldn't be honored at first. That explains a lot of that. Or that certain meals had to be Meals, Ready-to-Eat (MREs) for an extended period instead of refrigerated meals. But not to figure out whether you are paying on a per capita basis or fixed price is—wow. I mean, to have a situation where that can happen is very troubling.

So, listen, what is not troubling is your efforts this morning. We appreciate them very, very much.

And we will hold the record open to receive requests from the questions my colleagues have asked.

The panel is going to proceed down this road of trying to develop better metrics. And then our next step will be to look at the hypotheses that have been generated over the years, over the 131 reports, as to what the problems are, both in this service contracting area and the hardware area.

So, ladies and gentlemen, we appreciate your participation this morning. And the panel is adjourned.

[Whereupon, at 9:30 a.m., the panel was adjourned.]

A P P E N D I X

April 23, 2009

PREPARED STATEMENTS SUBMITTED FOR THE RECORD

April 23, 2009

Supplemental Written Statement
Laura H. Baldwin, Ph.D.
Director, Resource Management Program
RAND Project AIR FORCE

Hearing on "Measuring Value and Risk in Services Contracts"
Defense Acquisition Reform Panel of the House Committee on Armed Services

April 23, 2009

Chairman and distinguished members: Thank you for inviting me to testify at this panel on "Measuring Value and Risk in Service Contracts." I am a senior economist at the RAND Corporation and currently serve as the Director of the Resource Management Program within Project AIR FORCE.

For more than a decade, RAND has conducted a broad portfolio of research on implementing best purchasing and supply management practices within the Department of Defense. My testimony today will describe research I co-led (along with my colleague John Ausink who is here today) that examined successful commercial practices for managing services acquisition and that focused on performance metrics to improve contract outcomes. That research was sponsored by the Air Force Deputy Assistant Secretary for Contracting (SAF/AQC) and conducted during fiscal year 2003.

Here I begin by providing some context for the research, followed by a discussion of what we did, what we found, and how it is relevant to the U.S. Air Force.

In terms of context, the Department of Defense purchases many services, including such commercial services as building maintenance, grounds-keeping, and janitorial services for its facilities and installations; such professional services as consulting and engineering support; and such weapon system-oriented services as research and development, test and evaluation, and maintenance and modification activities. Such services totaled nearly $100 billion of DoD's budget at the time of this research.

Through the FY02-04 National Defense Authorization Acts, Congress required the DoD to take steps to change how it purchases services in order to decrease service costs, including broadly implementing performance-based services contracts based on measurable performance standards and a new management structure for services acquisitions.

As a result, the Air Force established a Program Executive Officer (PEO) for Combat and Mission Support (AFPEO/CM) who is responsible for management and oversight of a well-defined portfolio of Air Force services acquisition activities. This office is the single point of contact for Air Force services acquisition inquiries and is also responsible for developing long-range plans for cost-effective acquisition of services, including implementing performance-based contracts.

Turning now to the question of what we did, to monitor compliance with statutory requirements, respond to inquiries about specific acquisitions, and effectively manage Air Force services acquisition activities and organizations, the PEO for services (AFPEO/CM) needs information. RAND Project AIR FORCE was asked to develop a portfolio of "overarching" measures to allow the AFPEO/CM to assess the health of Air Force acquisition activities, diagnose problems, and target improvement efforts.

To help develop this portfolio of metrics, we considered the experience of commercial firms. While we attended private-sector conferences on services acquisition practices and reviewed the business literature to gather data for our research, our findings are primarily based on a series of interviews with commercial-sector purchasing professionals who are respected by their peers for successfully creating and implementing what are widely accepted as best purchasing and supply management practices, focusing on their application to service acquisitions. These were considered to be emerging, state of the art practices in 2003.

The services discussed in our data sources are similar to commercial-like services purchased by the Air Force, including facilities services such as building maintenance, custodial services, and landscaping; telecommunications services such as computing, help desks, and call centers; and other support services such as human resources, consulting, and food services.

As for what we found, our primary finding is that commercial firms are shifting away from uncoordinated purchasing at lower levels of the organization and moving toward a corporate approach to managing their service acquisitions in much the same way as they acquire direct materials. Commercial firms are increasingly using commodity councils (which are centralized cross-functional teams) to develop organization-wide purchasing and supply management strategies for services; moreover, such firms are developing and using performance metrics, similar to those used for goods, to manage their purchased services and their purchasing organizations that support those strategies. I will address each of these in turn.

When developing formal strategies for individual commodity groups, firms consider overarching corporate objectives (for example, increased market share or increased revenue), assessments of internal demands for services (such as the diversity of those demands and whether the service is provided one time only or on a continuing basis), characteristics of the purchased services (such as the consequence of poor performance), and markets for those services (for example, the market concentration). Because purchasing and supply management strategies have so many facets, commodity councils typically include representatives of user groups, experts in the particular service industry, and general experts in purchasing. Because of their importance to services procurement, industry experts, rather than procurement personnel, are often tapped to lead these commodity councils.

Commercial firms find it difficult to choose a portfolio of metrics that can inform decisionmaking, select appropriate performance thresholds, and populate the metrics with reliable data. Our interviewees recommended results-oriented metrics—both forward-looking and retrospective—that focus on how acquisition activities support both short-term and long term-corporate objectives to manage service acquisition activities. The most frequent results-oriented metrics include cost, quality, supplier satisfaction, implementation of new initiatives (such as supplier development), and special interest items (such as small business participation). Cost metrics were typically oriented toward measuring cost savings over time, often adjusting for exogenous market factors. Quality, which is more difficult to quantify for services than for goods, was typically measured in terms of user satisfaction or service reliability. Supplier satisfaction was used as a forward-looking indicator of whether the buying firm will be able to continue doing business with the best providers. This was measured primarily through surveys. Metrics for implementing new initiatives were a mixture of forward-looking process measures and retrospective outcome measures.

In addition to these results-oriented metrics, commercial firms indicated that metrics that track internal customer satisfaction, personnel training and retention, and ethics violations were also important to manage the internal purchasing organization. Internal customer satisfaction can be measured directly through surveys or indirectly through the amount of purchasing that falls outside corporate strategies. Training and retention measure building and retaining the high level of skills required to successfully manage services acquisition.

Developing a baseline for these metrics and then tracking them over time present challenges for many firms. Some have adopted new management information systems to collect and organize the data for their service acquisitions and have implemented surveys to collect additional data such as supplier satisfaction and customer satisfaction with purchased services, the purchasing organization, and its processes. Performance in selected areas such as cost, quality, and supplier satisfaction are regularly reported up to top-level executives.

An integrating theme is that commercial firms are using corporate objectives to align all parts of the purchasing process, from selection of the purchasing strategy, to selection of metrics, performance thresholds, purchasing organizational objectives, and personnel incentives. And like the corporate objectives, these are revisited over time to ensure that they remain relevant and effective.

As for how these findings are applicable to the Air Force, although the Air Force is not a commercial firm, it can learn from commercial firms' experiences in managing its own service acquisitions. Our findings argue for having a balanced portfolio of performance metrics for the services PEO (AFPEO/CM), representing both short- and long-run considerations and internal and external activities. These recommendations are based on the six major categories of metrics discussed earlier: cost, quality, supplier satisfaction, new initiatives, special interest, and internal management.

As with commercial firms, the Air Force will find it challenging to populate these metrics. Some of the required data, such as contract costs, are in Air Force contracting data systems. But other RAND research has raised concerns about how useful these data are in determining what types of services were purchased through those contracts. At the time of this research, the Air Force did not have many of the required data, particularly supplier and customer satisfaction data, and would need to implement new data collection procedures to effectively implement these metrics. Given the cost of populating metrics with accurate data, the choice of metrics should be revisited over time to ensure that they remain useful and aligned with larger objectives.

More broadly, our analyses suggest that good metrics are necessary but not sufficient to extract maximum value from purchased services—that they are most powerful when implemented in a centralized management framework. We recommended the Air Force adopt a centralized, strategic approach linked to Air Force objectives for managing its purchased services. Also, given the diversity of Air Force service users and their requirements, we recommended the Air Force include each of the important user groups in the process of developing strategies for categories of services, as well as industry experts and business advocates. If the Air Force has difficulty hiring such industry experts from the private sector, the industry exchange program can be used to develop this kind of expertise over time. Finally, the Air Force will need to reinforce these efforts with leadership support and incentives that are aligned with Air Force objectives.

In summary, our research indicates that, like the Air Force, commercial firms were just beginning to pursue strategic, centralized management of their purchased services, and they based their approaches for services on their successful approaches for goods. Their experiences suggest that a multifaceted management approach—based on commodity councils, guided by a balanced set of performance metrics that reflect important dimensions of performance, and supported by leadership emphasis and incentives—can lead to improved service outcomes and greater value for Air Force buying organizations.

This concludes my oral remarks. Thank you and I welcome any questions you might have.

DISCLOSURE FORM FOR WITNESSES
CONCERNING FEDERAL CONTRACT AND GRANT INFORMATION

INSTRUCTION TO WITNESSES: Rule 11, clause 2(g)(4), of the Rules of the U.S. House of Representatives for the 111th Congress requires nongovernmental witnesses appearing before House committees to include in their written statements a curriculum vitae and a disclosure of the amount and source of any federal contracts or grants (including subcontracts and subgrants) received during the current and two previous fiscal years either by the witness or by an entity represented by the witness. This form is intended to assist witnesses appearing before the House Armed Services Committee in complying with the House rule.

Witness name: Ms. Laura Baldwin

Capacity in which appearing: (check one)

___Individual

_x_Representative

If appearing in a representative capacity, name of the company, association or other entity being represented:___RAND Corporation_____

FISCAL YEAR 2009

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
Contract	Air Force	25,749,188	FFRDC Research

FISCAL YEAR 2008

federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
Contract	Air Force	44,462,911	FFRDC Research

FISCAL YEAR 2007

Federal grant(s) / contracts	federal agency	dollar value	subject(s) of contract or grant
Contract	Air Force	41,030,160	FFRDC Research

Federal Contract Information: If you or the entity you represent before the Committee on Armed Services has contracts (including subcontracts) with the federal government, please provide the following information:

Number of contracts (including subcontracts) with the federal government:

Current fiscal year (2009):_____1_____;
Fiscal year 2008:_____1_____;
Fiscal year 2007:_____1_____.

Federal agencies with which federal contracts are held:

Current fiscal year (2009):_____Air Force_____;
Fiscal year 2008:_____Air Force_____;
Fiscal year 2007:_____Air Force_____.

List of subjects of federal contract(s) (for example, ship construction, aircraft parts manufacturing, software design, force structure consultant, architecture & engineering services, etc.):

Current fiscal year (2009):_____FFRDC Research_____;
Fiscal year 2008:_____FFRDC Research_____;
Fiscal year 2007:_____FFRDC Research_____.

Aggregate dollar value of federal contracts held:

Current fiscal year (2009):_____25,749,188 _____;
Fiscal year 2008:_____44,462,911 _____;
Fiscal year 2007:_____41,030,160 _____.

Federal Grant Information: If you or the entity you represent before the Committee on Armed Services has grants (including subgrants) with the federal government, please provide the following information:

Number of grants (including subgrants) with the federal government:

Current fiscal year (2009):_____None_____;
Fiscal year 2008:_____None_____;
Fiscal year 2007:_____None_____.

Federal agencies with which federal grants are held:

Current fiscal year (2009):_____N/A_____;
Fiscal year 2008:_____N/A_____;
Fiscal year 2007:_____N/A_____.

List of subjects of federal grants(s) (for example, materials research, sociological study, software design, etc.):

Current fiscal year (2009):_____N/A_____;
Fiscal year 2008:_____N/A_____;
Fiscal year 2007:_____N/A_____.

Aggregate dollar value of federal grants held:

Current fiscal year (2009):_____N/A_____;
Fiscal year 2008:_____N/A_____;
Fiscal year 2007:_____N/A_____.

Bio for Laura H. Baldwin, Ph.D.

Laura Baldwin is a Senior Economist at The RAND Corporation. She joined RAND in 1994 after completing a Ph.D. in Economics from Duke University. In 2007, she was named Director of the Resource Management Program within Project AIR FORCE. Prior to that, she was the Associate Director of the program.

Dr. Baldwin's research has addressed a variety of Air Force logistics and acquisition challenges associated with System Program Office (SPO) staffing, the structure of transfer prices for reparable aircraft components, growth in aircraft heavy maintenance costs as aircraft age, public/private competitions for provision of services, implementation of best commercial purchasing and supply management practices, and provision of combat support activities in a joint contingency environment. She helped evaluate the option of using commercial sources for CONUS aerial refueling as part of the recent Tanker AoA. She has collected and analyzed data on logistics and acquisition activities from Air Force installations around the world, including the CENTCOM AOR. In addition, she has conducted market research with commercial buyers and providers of a wide range of goods and services to learn best practices for outsourcing, performance measurement, contract bundling, and supplier management.

In addition to her program management and research responsibilities, Dr. Baldwin is a co-organizer of RAND's Defense Economics sessions at the annual Western Economic Association International professional meetings.

United States Government Accountability Office

GAO

Testimony

Before the Defense Acquisition Reform Panel, Committee on Armed Services, U.S. House of Representatives

For Release on Delivery
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DEFENSE ACQUISITIONS

Actions Needed to Ensure Value for Service Contracts

Statement of
John Hutton, Director, Acquisition and Sourcing Management and
William Solis, Director, Defense Capabilities and Management

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GAO-09-643T

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Highlights

Highlights of GAO-09-643T, a testimony before the House Committee on Armed Services, Panel on Defense Acquisition Reform

Why GAO Did This Study

In fiscal year 2008, the Department of Defense (DOD) obligated over $200 billion on contracts for services, which accounted for more than half of its total contract obligations. Given the serious budget pressures facing the nation, it is critical that DOD obtain value when buying these services. Yet DOD does not always use sound practices when acquiring services, and the department lacks sufficient people with the right skills to support its acquisitions. Although DOD has ongoing efforts to improve its planning, execution, and oversight of service acquisitions, many concerns that prompted GAO to put DOD contract management on its high-risk list in 1992 remain.

The committee asked GAO to address challenges facing DOD in measuring the value from and risks associated with its contracting for services. This testimony provides an overview of key concerns GAO cited in its previous reports. Specifically it focuses on (1) challenges DOD faces in following sound contract and contracting management practices and (2) recent actions DOD has taken to improve its management of service contracting.

GAO has made numerous recommendations over the past decade aimed at improving DOD's management and oversight of service contracts, but it is not making any new recommendations in this testimony.

View GAO-09-643T or key components. For more information, contact John P. Hutton at (202) 512-4841 or huttonj@gao.gov and William M. Solis at (202) 512-8365 or solisw@gao.go

April 23, 2009

DEFENSE ACQUISITIONS

Actions Needed to Ensure Value for Service Contracts

What GAO Found

DOD continues to face challenges in employing sound practices when contracting for and managing service contracts. The department has obtained services based on poorly defined requirements, used inappropriate business arrangements and types of contracts, and failed to adequately oversee and manage contractor performance. For example:

- DOD sometimes authorized contractors to begin work before reaching a final agreement on the contract terms and conditions, including price. These arrangements, known as undefinitized contract actions, are used to meet urgent need or when the scope of the work is not clearly defined. In July 2007, GAO reported that DOD paid contractors nearly $221 million in questioned costs under one of these arrangements.
- In fiscal year 2005, DOD obligated nearly $10 billion for professional, administrative, management support, and other services under time-and-materials contracts—contracts that are high risk for the government because they provide no profit incentive to the contractor for cost control or labor efficiency. As such, their use is supposed to be limited to cases where no other contract type is suitable and specific approvals are obtained. However, DOD frequently failed to provide such justification, and GAO's findings indicated the contracts were often used for expediency.
- In a 2008 review, GAO found that incomplete contract files at some Army contracting offices hindered incoming contract administration personnel's assessments of contractors to make informed decisions related to award fees, which can run into the millions of dollars.

These challenges expose DOD to unnecessary risk and may impede the department's efforts to manage the outcomes of its service contracts. For example, the absence of well-defined requirements complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes. Use of inappropriate contract types, in addition to other factors, can result in DOD not obtaining the best value for its contract spending. Finally, failure to provide adequate oversight makes it difficult to identify and correct poor contractor performance in a timely manner.

While DOD has taken some actions to respond to GAO's recommendations and congressional legislation, inconsistent implementation has hindered past DOD efforts to address these high-risk areas. To improve outcomes on the whole, DOD must ensure that these policy changes and others are consistently put into practice and reflected in decisions made on individual acquisitions. In addition, DOD needs to develop basic data about its service contracts to help inform how it contracts for services and its reliance on these contractors. GAO continues to assess DOD's efforts to implement a service acquisition management approach and the department's management and oversight of contractors supporting deployed forces.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss challenges the Department of Defense (DOD) faces in ensuring that it gets value for the taxpayers' dollar and obtains quality contractor services in a cost-efficient and effective manner. Many of these challenges are long-standing, but they have become increasingly important as the department's reliance on contractors for services has grown in size and scope to the point that DOD officials have acknowledged their inability to perform their mission without contract support. These contracts provide a wide range of services that touch almost all of the department's activities, including health care, support to intelligence activities, contracting support, and various professional, management and administrative services, such as budget and program management. In addition, service contracts provide a wide range of support to our troops in Afghanistan and Iraq, including base support, weapons and equipment maintenance, communication support, interrogators, security, engineering support, and administrative support.

At issue is not whether the department should contract for services, for it must. The issue rather is to what extent it should and how best to provide oversight when it does. Numbers underscore the magnitude of the oversight challenge. From fiscal years 2001 through 2008, DOD's reported obligations on contracts for services when measured in real terms doubled—from roughly $92 billion to slightly over $200 billion. In fiscal year 2008, this figure included more than $25 billion for services to support Operations Enduring Freedom and Iraqi Freedom.

DOD's increasing use of contractor-provided services results from thousands of individual decisions and not from strategic, comprehensive planning across the department. In other words, the volume and composition of contracted services has not been a measured outcome. In 2006, we reported that DOD's approach to managing services acquisition tended to be reactive and had not fully addressed the key factors for success at either a strategic or transactional level. The strategic level is where the enterprise—DOD—sets a direction for what it needs, captures knowledge to make informed management decisions, ensures that departmentwide goals and objectives are achieved, and assesses the resources it has to achieve desired outcomes. The strategic level sets the context for the transactional level, where the focus is on making sound decisions on individual service acquisitions using valid and well-defined requirements, appropriate business arrangements, and adequate management of contractor performance. Although DOD actions are underway to improve the planning, execution, and oversight of services

acquisitions, remaining concerns with the department's management and use of service contracts are among the reasons why we continue to include DOD's contract management on our high-risk list. To demonstrate longstanding nature of these problems, we first identified DOD contract management as a high-risk issue in 1992.[1]

Earlier this month we testified before this committee that significant improvement in DOD's acquisition of weapons systems is possible and that the ability to measure knowledge, processes, and outcomes is critical to achieving such improvements.[2] DOD's acquisition of services differs from weapon system acquisitions, because contracted services are less homogeneous, more numerous, and harder to measure, thus they pose unique challenges when attempting to define requirements, establish performance-based outcomes, and assess contractor performance.[3] Our statement today will focus on two areas: (1) the challenges DOD faces in consistently following sound contracting and contract management practices and (2) recent actions DOD has taken to improve its management of services contracting. Our statement is based on work we have completed over the past decade, which demonstrates ongoing weaknesses in DOD's management of service contracts. Our work was conducted in accordance with generally accepted government auditing standards.[4] We have made numerous recommendations to DOD to improve its management and use of services contracts.

[1] GAO, *High-Risk Series: An Update*, GAO-09-271 (Washington, D.C.: January 2009).

[2] GAO, *Defense Acquisitions: Measuring the Value of DOD's Weapon Programs Requires Starting with Realistic Baselines*, GAO-09-543T (Washington, D.C.: Apr. 2009).

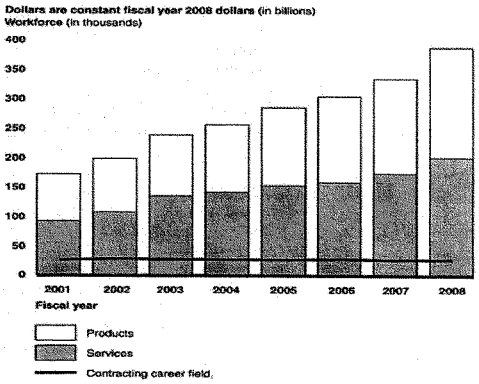
[3] GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, GAO-07-20 (Washington, D.C.: November 2006).

[4] Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

DOD Continues to Face Challenges in Employing Sound Practices When Contracting For and Managing Service Contracts

It is essential that DOD employ sound practices when using contractors to support its missions or operations to ensure the department receives value. This means clearly defining its requirements, using the appropriate contract type, and properly overseeing contract administration. Our work, however, has repeatedly identified problems with the practices DOD uses to acquire services. Further, an overarching issue that impacts DOD's ability to properly manage its growing acquisition of services is having an adequate workforce with the right skills and capabilities.[5] Collectively, these problems expose DOD to unnecessary risk and make it difficult for the department to ensure that it is getting value for the dollars spent. Since fiscal year 2001, DOD obligations for service contracts have doubled while its acquisition workforce has remained relatively unchanged (see fig. 1).

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



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

[5]In March 2009, we recommended DOD improve its management and oversight of its acquisition workforce. See GAO, *Department of Defense: Additional Actions and Data Are Needed to Effectively Manage and Oversee DOD's Acquisition Workforce,* GAO-09-342 (Washington, D.C.: Mar. 25, 2009).

Properly Defined Requirements are Essential to Obtaining Value

Properly defined requirements—whether at the DOD-wide level or the contract level—are a prerequisite to obtaining value for the department. At the DOD-wide level the department should have an understanding of what it needs to contract for and why. However, we have frequently noted that the department continues to be challenged to understand how reliant it is on contractors and has yet to clearly determine what services it should obtain from contracts and what services should be provided by the military or DOD civilian employees. Furthermore, DOD lacks basic data about its service contracts that could help it determine how it contracts for services and how reliant it is on contractors. For example, at this time, the department does not have complete and accurate information on the number of services contracts in use, the services being provided by those contracts, the number of contractors providing those services, and the number and types of contracts awarded.

Once DOD determines what services contractors should provide, both the contractor and the government need to have a clear sense of what the contractor is required to do under the contract. Poorly defined or changing requirements have contributed to increased costs, as well as services that did not meet the department's needs. The absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisition outcomes. For example:

- DOD sometimes authorizes contractors to begin work before reaching a final agreement on the contract terms and conditions, including price. These types of contract actions, known as undefinitized contract actions, are used to meet urgent needs or when the scope of the work is not clearly defined. In July 2007, we reported that, DOD contracting officials were more likely to pay costs questioned by Defense Contract Audit Agency (DCAA) auditors if the contractor had incurred these costs before reaching agreement with DOD on the work's scope and price.[6] In fact, DOD decided to pay the contractor nearly all of the $221 million in questioned costs after making a determination based on additional information. The lack of timely negotiations contributed significantly to DOD's decision—all 10 task orders were negotiated more than 180 days after the work commenced. The negotiation delays were in part caused by

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

changing requirements, funding challenges, and inadequate contractor proposals.

- In both July 2004 and September 2006 we reported that a disagreement between a contractor and DCAA on how to bill for services to feed soldiers in Iraq resulted in at least $171 million in questioned costs that DOD did not pay.[7] The disagreement regarded whether the government should be billed on the camp populations specified in the statement of work or on the actual head count. A clearer statement of work, coupled with better DOD oversight of the contract, could have prevented the disagreement and mitigated the government's risk of paying for more services than needed. Negotiations between the contractor and DOD resulted in a settlement whereby $36 million would not be paid to the contractor.

On the other hand, requirements that provide DOD with a greater level of service or performance than required can undermine the department's efforts to ensure value. For example:

- In December 2008, we issued a report on performance based logistics, which is defined by DOD as the purchase of performance outcomes (such as the availability of functioning weapon systems) through long-term support arrangements rather than the purchase of individual elements of support—such as parts, repairs, and engineering support.[8] In that report, we noted for eight of the performance based logistics arrangements we reviewed, the contractors significantly exceeded some of the contractual performance requirements. We further noted that since the government is paying for this excess performance, the performance based logistics arrangement, as structured, may not provide the best value to the government. For example, since 2002, the average annual operational readiness for the Tube-launched, Optically-tracked, Wire-guided missile – Improved Target Acquisition System has not been below 99 percent, and the system's operational readiness has averaged 100 percent since 2004. According to a program official, the Army's readiness standard for this system is 90 percent. Despite the Army's standard, it continued to include

[7]GAO, *Stabilizing and Rebuilding Iraq: Actions Needed to Address Inadequate Accountability over U.S. Efforts and Investments*, GAO-08-568T (Washington, D.C.: Mar. 11, 2008) and *Iraq Contract Costs and DOD Consideration of Defense Contract Audit Agency's Findings*, GAO-06-1132 (Washington, D.C.: Sept. 25, 2006).

[8]GAO, *Defense Logistics: Improved Analysis and Cost Data Needed to Evaluate the Cost-effectiveness of Performance Based Logistics*, GAO-09-41 (Washington, D.C.: Dec. 19, 2008).

a performance incentive that encouraged higher levels of performance when negotiating a follow-on performance based logistics contract in 2007. The performance incentive includes payment of an award fee that encourages operational readiness rates from 91 to 100 percent, with the highest award fee paid for 100 percent average operational readiness.

Selected Contract Type and Business Arrangements Not Always Appropriate

When contracting for services, DOD has a number of choices regarding the contracting arrangements to use. Selecting the appropriate type is important because cost reimbursable contracts may increase the government's cost risk whereas firm-fixed price arrangements transfer some of that cost risk to the contractor.[9] While use of the appropriate contract type is important, it is not the sole factor in a successful acquisition outcome—as noted in this statement, good requirements and oversight of contractor performance are also important. We have found that DOD did not always use the contracting arrangements that would result in the best value to the government. For example:

- In January 2008, we that reported the cost-plus-fixed fee provisions of a task order issued by the Army to repair equipment for use in Iraq and Afghanistan required the Army to pay the contractor to fix equipment rejected by Army inspectors for failing to meet the quality standard established in the task order.[10] Under the cost-plus-fixed fee maintenance provisions in the task order, the contractor was reimbursed for all maintenance labor hours incurred, including labor hours associated with maintenance performed after the equipment failed to meet the Army's maintenance standards. This resulted in additional cost to the government. Our analysis of Army data between May 2005 and May 2007 showed that the contractor worked about 188,000 hours to repair equipment after the first failed Army inspection at an approximate cost to the government of $4.2 million.

- In June 2007, we found numerous issues with DOD's use of time-and-materials contracts.[11] DOD reported that it obligated nearly $10 billion

[9]Cost reimbursable contracts include cost-plus-fixed-fee, cost-plus-award-fee, and time-and materials contracts.

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

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

under time-and-materials contracts in fiscal year 2005, acquiring, among other services, professional, administrative, and management support services. Some specific examples of the services DOD acquired included subject matter experts in the intelligence field and systems engineering support. These time-and-materials contracts are appropriate when specific circumstances justify the risks, but our findings indicate that they are often used as a default for a variety of reasons—ease, speed, and flexibility when requirements or funding are uncertain. According to DOD, time-and-materials contracts are considered high risk for the government because they provide no positive profit incentive to the contractor for cost control or labor efficiency and their use is supposed to be limited to cases where no other contract type is suitable. We found, however, that DOD underreported its use of time-and-materials contracts, frequently did not justify why such contracts were the only contract type suitable for the procurement, and inconsistently monitored these contracts.

- In 2007, we also reported that DOD needed to improve its management and oversight of undefinitized contract actions (UCAs), under which DOD can authorize contractors to begin work and incur costs before reaching a final agreement on contract terms and conditions, including price.[12] The contractor has little incentive to control costs during this period, creating a potential for wasted taxpayer dollars. DOD's use of some UCAs could have been avoided with better acquisition planning. In addition, DOD frequently did not definitize the UCAs within the required time frames thereby increasing the cost risk to the government. Further, its contracting officers were not documenting the basis for the profit or fee negotiated, as required. As such, we called on DOD to strengthen management controls and oversight of UCAs to reduce the risk of paying unnecessary costs.

- In July 2004, we reported that the Air Force had used the Air Force Contract Augmentation Program contract to supply commodities for its heavy construction squadrons because it did not deploy with enough contracting and finance personnel to buy materials quickly or in large quantities.[13] In many instances, the contractor provided a service for the customer, such as equipment maintenance, in addition to the procurement of the supplies. In other cases, however, the contractor simply bought the

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

[13]GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, GAO-04-854 (Washington, D.C.: July 19, 2004).

supplies and delivered them to the customer. In July 2004 we noted that the contract allowed for an award fee of up to 6 percent for these commodity supply task orders. While contractually permitted, the use of a cost-plus-award-fee contract as a supply contract may not be cost-effective. In these instances, the government reimburses the contractors' costs and pays an award fee that may be higher than warranted given the contractors' low level of risk when performing such tasks. Air Force officials recognized that the use of a cost-plus-award-fee contract to buy commodities may not be cost-effective. Under the current contract, commodities may be obtained using firm-fixed-price task orders, cost-plus award-fee task orders, or cost-plus-fixed-fee task orders.

Inadequate Oversight of Contractor Performance

We reported on numerous occasions that DOD did not adequately manage and assess contractor performance to ensure that its business arrangements were properly executed. Managing and assessing post-award performance entails various activities to ensure that the delivery of services meets the terms of the contract and requires adequate surveillance resources, proper incentives, and a capable workforce for overseeing contracting activities. If surveillance is not conducted, is insufficient, or not well documented, DOD is at risk of being unable to identify and correct poor contractor performance in a timely manner. For example:

- Our 2008 review of six Army services contracts or task orders found that contract oversight was inadequate in three of the contracts we reviewed because of a lack of trained oversight and management personnel.[14] For example, in the contracting office that managed two of the contracts we reviewed, 6 of 18 oversight positions were vacant. One of the vacant positions was the performance evaluation specialist responsible for managing the Army's quality assurance program for two multi-million dollar contracts and training other quality assurance personnel. Other vacant positions included three contract specialists responsible for, among other tasks, reviewing monthly contractor invoices. As a result of these vacancies, the contracting officer's representative was reviewing contractor invoices to ensure that expenses charged by the contractor were valid, a responsibility for which he said he was not trained. We also reported that contract oversight personnel for the Army's linguist contract were unable to judge the performance of the contractor employees

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

because they were generally unable to speak the languages of the contractor employees they were responsible for overseeing.

- DOD has, over the last several years, emphasized the use of performance based logistics arrangements, in part, to reduce the cost of supporting weapon systems. However, in December 2008, we reported that although DOD guidance recommends that cost data be captured for performance based logistics contracts to aid in future negotiations, we found program offices generally did not receive detailed cost data and only knew the overall amounts paid for support.[15] For example, for the 21 fixed-price arrangements in our sample, only two program offices obtained contractor support cost data reports. We also reported that, in seven out of eight programs we reviewed where follow-on, fixed-price performance based logistics contracts had been negotiated, expected cost reductions either did not materialize or could not be determined.

- In our September 2008 review of services contracts supporting contingency operations, we reported the Army's oversight of some of the contracts was inadequate in part because contracting offices were not maintaining complete contract files documenting contract administration and oversight actions taken, in accordance with DOD policy and guidance.[16] As a result, incoming contract administration personnel did not know whether the contractors were meeting their contract requirements effectively and efficiently and therefore were limited in their ability to make informed decisions related to award fees, which can run into the millions of dollars.

- In December 2006, we reported that DOD does not have sufficient numbers of contract oversight personnel at deployed locations, which limits its ability to obtain reasonable assurance that contractors are meeting contract requirements efficiently and effectively.[17] For example, an Army official acknowledged that the Army struggled to find the capacity and expertise to provide the contracting support needed in Iraq. Similarly, an official with the Logistics Civil Augmentation Program (LOGCAP) program office told us that the office did not prepare to hire additional budget analysts and legal personnel in anticipation of an

[15]GAO-09-41.

[16]GAO-08-1087.

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

increased use of LOGCAP services due to Operation Iraqi Freedom. According to the official, had adequate staffing been in place early, the Army could have realized substantial savings through more effective reviews of the increasing volume of LOGCAP requirements. A Defense Contract Management Agency official responsible for overseeing the LOGCAP contractor's performance at 27 locations noted that he was unable to visit all of those locations during his 6-month tour to determine the extent to which the contractor was meeting the contract's requirements.

- In December 2005, we reported that DOD, in using award fee contracts, routinely engaged in practices that did not hold contractors accountable for achieving desired acquisition outcomes.[18] These practices included evaluating contractors on award-fee criteria not directly related to key acquisition outcomes; paying contractors a significant portion of the available fee for what award-fee plans describe as "acceptable, average, expected, good, or satisfactory" performance; and giving contractors at least a second opportunity to earn initially unearned or deferred fees. As a result, DOD had paid an estimated $8 billion in award fees on contracts in our study population, regardless of whether acquisition outcomes fell short, met, or exceeded DOD's expectations. As such, we recommended that DOD improve its use of fees by specifically tying them to acquisition outcomes in all new award- and incentive-fee contracts, maximizing contractors' motivation to perform, and collecting data to evaluate the effectiveness of fees.

- In March 2005, we reported instances of insufficient surveillance on 26 of 90 DOD service contracts we reviewed.[19] In each instance, at least one measure to ensure adequate surveillance did not take place. These measures include (1) training personnel in how to conduct surveillance, (2) assigning personnel at or prior to contract award, (3) holding personnel accountable for their surveillance duties, and (4) performing and documenting surveillance throughout the period of the contract.

[18]GAO, *Defense Acquisitions: DOD Has Paid Billions in Award and Incentive Fees Regardless of Acquisition Outcomes*, GAO-06-66 (Washington D.C.: Dec. 19, 2005).

[19]GAO, *Contract Management: Opportunities to Improve Surveillance on Department of Defense Service Contracts*, GAO-05-274 (Washington, D.C.: Mar. 17, 2005).

DOD has Taken Some Steps to Address Service Contract Management and Oversight Challenges

GAO's body of work on contract management and the use of contractors to support deployed forces have resulted in numerous recommendations over the last several years. In addition, Congress has enacted legislation requiring DOD to take specific actions to improve its management and oversight of contracts. In response, DOD has issued guidance to address contracting weaknesses and promote the use of sound business arrangements. DOD has established a framework for reviewing major services acquisitions, promulgated regulations to better manage its use of contracting arrangements that can pose additional risks for the government, including time-and-materials contracts and undefinitized contracting actions, developed guidance on linking monetary incentives for contractors to acquisition outcomes, and has efforts under way to identify and improve the skills and capabilities of its workforce. These are positive steps, but inconsistent implementation has hindered past DOD efforts to address these high-risk areas. To improve outcomes on the whole, DOD must ensure that these policy changes and others are consistently put into practice and reflected in decisions made on individual acquisitions. We have ongoing work assessing DOD's efforts to implement a service acquisition management approach, including its development of a structure for reviewing its major services acquisitions, as well as its use of different types of contract arrangements.

Section 801 of the National Defense Authorization Act for Fiscal Year 2002 required DOD to establish a management structure for the procurement of services, including developing a structure for reviewing individual service transactions, holding accountable employees responsible for procuring services, and collecting and analyzing service contract data.[20] In addition, section 802 of the National Defense Authorization Act for Fiscal Year 2002 established a goal for DOD to use improved management practices to achieve savings in expenditures for procurement of services. In response to this requirement, DOD and the military departments established a service acquisition management structure, including processes at the headquarters level for reviewing individual, high-dollar acquisitions. The National Defense Authorization Act for Fiscal Year 2006 further developed the requirements for a management structure for the procurement of contract services.[21] Among other things, the National Defense

[20] Pub. L. No. 107-107, §§ 801 (2001) (section 801 added sections 2330 and 2330a to Title 10 of the U.S. Code).

[21] Pub. L. No. 109-163, § 812 (2006).

Authorization Act for Fiscal Year 2006 required DOD's management structure to provide for the Under Secretary of Defense for Acquisition, Technology and Logistics (USDAT&L) to:

- establish contract services acquisition categories, based on dollar thresholds, for the purpose of establishing the level of review, decision authority, and applicable procedures[22]
- identify the critical skills and competencies needed to carry out the procurement of services.

The National Defense Authorization Act for Fiscal Year 2006 also required the USDAT&L and senior acquisition management officials within the military departments to ensure that competitive procedures and performance-based contracting are used to the maximum extent practicable. In 2006, DOD updated its policies aimed at strengthening how it plans, manages, and oversees services acquisition in response to the legislation. Later, in December 2008, DOD incorporated its acquisition review thresholds for major services acquisitions in DOD Instruction 5000.02, Operation of the Defense Acquisition System.

The National Defense Authorization Act for 2008[23] required DOD to take additional actions to improve its visibility over the department's reliance on services contractors as well as its management and oversight of its services acquisitions.

- Section 807 required DOD to provide Congress an annual inventory of contractor-provided services, to include information on the missions and functions of the contractor, the number of full-time contractor employees paid for performing the activity, and the organization whose requirements are being met through contractor performance. In addition, this provision required the military departments to review the inventory to identify activities that should be considered for conversion to performance by DOD civilian employees or to an acquisition approach that would be more advantageous to DOD. The first inventory was to have been reported to Congress not later than June 30, 2008. The Army submitted a partial

[22]The requirements pertaining to establishing contract service acquisition categories were to be phased in over a period of 3 years, with the first categories, for acquisitions with an estimated value of $250 million or more, to be established by October 2006.

[23] P.L. 110-181.

inventory in October 2008. According to DOD officials, the Air Force and Navy will issue their prototype inventories in the third quarter of fiscal year 2009.

- Section 808 required DOD to issue guidance and implementation instructions for performing periodic independent management reviews of contracts for services. In September 2008, DOD issued a policy memorandum to implement these reviews, referred to as peer reviews.[24] Under DOD's plan the Director, Defense Procurement, Acquisition Policy and Strategic Sourcing would be responsible for implementing reviews of acquisitions of services with an estimated maximum value of over $1 billion, while the DOD components would be responsible for reviews of acquisitions under $1 billion. In February 2009, DOD revised its guidance for how the review teams should conduct peer reviews to address pre-and-post-award review elements of the acquisition and the criteria that should be used to conduct these reviews. According to DOD officials, this guidance was developed as part of the agency's response to some of the issues identified in our DOD contact management high risk area. We continue to monitor DOD's implementation of these efforts.

In late 2008, DOD began an effort, directed by the Chairman of the Joint Chiefs of Staff, to examine the department's use of service contracts in Iraq and Afghanistan. The purpose of this effort is to improve DOD's understanding of the range and depth of contractor capabilities necessary to support the Joint Force. The study will address where DOD is most reliant on contractor support, informing longer term force structure issues such as the potential for increasing DOD's military and civilian work force in order to in-source services currently provided by contractors.

We have also made numerous recommendations over the past 10 years aimed at improving DOD's management and oversight of contractors supporting deployed forces, including the need for (1) DOD-wide guidance on how to manage contractors that support deployed forces, (2) improved training for military commanders and contract oversight personnel, and (3) a focal point within DOD dedicated to leading DOD's efforts to improve the management and oversight of contractors supporting deployed forces.

[24]During these reviews, teams of DOD acquisition officials are to review aspects of services acquisitions including: requirements definition and documentation, contractor surveillance, and staffing of contract management and oversight functions. In December 2008, DOD incorporated its peer review requirements for major services acquisitions in DOD Instruction 5000.02, *Operation of the Defense Acquisition System.*

In addition, Section 854 of the National Defense Authorization Act for 2007 directed the Secretary of Defense in consultation with the Chairman of the Joint Chiefs of Staff to develop joint policies for requirements definition, contingency program management, and contingency contracting during combat and post-conflict operations.[25] The National Defense Authorization Act for Fiscal Year 2008 added a new requirement directing that these joint policies provide for training of military personnel outside the acquisition workforce who are expected to have acquisition responsibilities including oversight of contracts or contractors during combat operations, post-conflict operations and contingency operations.[26]

As we reported in November 2008, while DOD has more to do in this area, it is developing, revising, and finalizing new joint policies and guidance on the department's use of contractors to support deployed forces.[27] Examples include:

- In October 2008, DOD finalized Joint Publication 4-10, *Operational Contract Support*, which establishes doctrine for planning, conducting, and assessing operational contract support integration and contractor management functions in support of joint operations. The joint publication provides standardized guidance and information related to integrating operational contract support and contractor management.
- DOD is revising DOD Instruction 3020.41, *Program Management for the Preparation and Execution of Acquisitions for Contingency Operations*, which strengthens the department's joint policies and guidance on program management, including the oversight of contractor personnel supporting a contingency operation.

DOD has also taken steps to improve the training of military commanders and contract oversight personnel. As we reported in November 2008, the Deputy Secretary of Defense issued a policy memorandum in August 2008 directing the appointment of trained contracting officer's representatives prior to the award of contracts.[28] U.S. Joint Forces Command is

[25] Pub. L. No. 109-364, §854(d).

[26] Pub. L. No. 110-181, § 849(a).

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

[28] GAO-09-114R.

developing two training programs for non-acquisition personnel to provide information necessary to operate effectively on contingency contracting matters and work with contractors on the battlefield. In addition, the Army has a number of training programs available that provide information on contract management and oversight to operational field commanders and their staffs. The Army is also providing similar training to units as they prepare to deploy, and DOD, the Army, and the Marine Corps have begun to incorporate contractors and contract operations in mission rehearsal exercises.

In October 2006, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness established the office of the Assistant Deputy Under Secretary of Defense (Program Support) to act as the focal point for DOD's efforts to improve the management and oversight of contractors supporting deployed forces. This office has taken several steps to help formalize and coordinate efforts to address issues related to contractor support to deployed forces. For example, the office took a leading role in establishing a community of practice for operational contract support—comprising subject matter experts from the Office of the Secretary of Defense, the Joint Staff, and the services—that may be called upon to work on a specific task or project. Additionally, the office helped establish a Joint Policy Development General Officer Steering Committee to guide the development of the Office of the Secretary of Defense, Joint Staff, and service policy, doctrine, and procedures to adequately reflect situational and legislative changes as they occur within operational contract support.

In addition, DOD has efforts under way to identify and improve the skills and capabilities of its workforce. For example, in response to recommendations from the Gansler Commission, the Army proposed increasing its acquisition workforce by over 2,000 personnel. However, the Army also acknowledged that this process will take at least 3 to 5 years to complete. In addition, we continue to monitor DOD's planned and completed corrective actions to address our audit report recommendations to improve its acquisition of services.

Concluding Observations

As the largest buyer of services in the federal government, and operating in an environment where the nation's large and growing deficits require difficult resource decisions, DOD must maximize its return on investment and provide the warfighter with needed capabilities at the best value for the taxpayer. DOD has recognized that it faces challenges with contract management and the department has taken steps to address these challenges, including those outlined in this testimony. These challenges

are daunting. While DOD's recent initiatives may improve how the department plans service acquisitions at a strategic level, these efforts will not payoff unless DOD's leadership can translate its vision into changes in frontline practices. At this point, DOD does not know how well its services acquisition processes are working and whether it is obtaining the services it needs while protecting DOD's and the taxpayer's interests. While DOD has generally agreed with our recommendations intended to improve contract management, much remains to be done. For example:

- In the near term, DOD must act forcefully to implement new procedures and processes in a sustained, consistent, and effective manner across the department. Doing so will require continued, sustained commitment by senior DOD leadership to translate policy into practice and to hold decision makers accountable.

- At the same time, while the department and its components have taken or plan to take actions to further address contract management challenges, many of these actions, such as the Army's efforts to increase its acquisition workforce, will not be fully implemented for several years. DOD will need to monitor such efforts to ensure that intended outcomes are achieved.

- At the departmentwide level, DOD has yet to conduct the type of fundamental reexamination of its reliance on contractors that we called for in 2008.[29] Without understanding the depth and breadth of contractor support, the department will be unable to determine if it has the appropriate mix of military personnel, DOD civilians, and contractors. As a result, DOD may not be totally aware of the risks it faces and will therefore be unable to mitigate those risks in the most cost-effective and efficient manner.

The implementation of existing and emerging policy, monitoring of the department's actions, and the comprehensive assessment of what should and should not be contracted for are not easy tasks, but they are essential if DOD is to place itself in a better position to deliver goods and services to the warfighters. Moreover, with an expected increase of forces in Afghanistan, the urgency for action is heightened to help the department

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

avoid the same risks of fraud, waste, and abuse it has experienced using contractors in support of Operation Iraqi Freedom.

Mr. Chairman and members of the committee, this concludes our testimony. We would be happy to answer any questions you might have.

Contacts and Acknowledgments

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Appendix I: Selected GAO Products

High-Risk Series	*High-Risk Series: An Update.* GAO-09-271. Washington, D.C.: January 2009.
Contract Management	*Defense Contracting: Army Case Study Delineates Concerns with Use of Contractors as Contract Specialists.* GAO-08-360. Washington, D.C.: March 26, 2008. *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraq Oil Contract Put Government Interests at Risk.* GAO-07-839. Washington, D.C.: July 31, 2007. *Defense Contracting: Improved Insight and Controls Needed over DOD's Time-and-Materials Contracts.* GAO-07-273. Washington, D.C.: June 29, 2007. *Defense Contracting: Use of Undefinitized Contract Actions Understated and Definitization Time Frames Often Not Met.* GAO-07-559. Washington, D.C.: June 19, 2007. *Defense Acquisitions: Improved Management and Oversight Needed to Better Control DOD's Acquisition of Services.* GAO-07-832T. Washington, D.C.: May 10, 2007. *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes.* GAO-07-20. Washington, D.C.: November 9, 2006.
Operational Contract Support	*Contract Management: DOD Developed Draft Guidance for Operational Contract Support but Has Not Met All Legislative Requirements.* GAO-09-114R. Washington, D.C.: November 20, 2008. *Contingency Contracting: DOD, State, and USAID Contracts and Contractor Personnel in Iraq and Afghanistan.* GAO-09-19. Washington, D.C.: October 1, 2008. *Military Operations: DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations.* GAO-08-1087. Washington, D.C: September 26, 2008. *Defense Management: DOD Needs to Reexamine Its Extensive Reliance on Contractors and Continue to Improve Management and Oversight.* GAO-08-572T. Washington, D.C.: March 11, 2008.

Defense Logistics: The Army Needs to Implement an Effective Management and Oversight Plan for the Equipment Maintenance Contract in Kuwait. GAO-08-316R. Washington, D.C.: January 22, 2008.

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JOHN P. HUTTON

Mr. John Hutton is a Director at the U.S. Government Accountability Office (GAO), working for the Acquisition and Sourcing Management Team. In this capacity, he provides direct support to congressional committees and members on a range of acquisition and sourcing issues aimed at improving federal agencies' ability to buy products and services efficiently and effectively. Throughout his GAO career, he has worked on a wide range of issues. Prior to his appointment to the Senior Executive Service, he led GAO reviews related to such diverse issues as Iraq and Afghanistan reconstruction, U.S.-Mexico border infrastructure, US and international efforts to combat AIDS, and the promotion of U.S. exports. This work led to several dozen reports and testimonies. Mr. Hutton began his GAO career in 1978 and from 1983 to 1987, he served in GAO's former European Office in Frankfurt, Germany, where he focused largely on defense and foreign affairs issues.

Mr. Hutton is a native of Chicopee, Massachusetts and he received a Bachelor of Arts, Public Administration, from American International College in 1977, a Masters Degree in Public Administration from Syracuse University's Maxwell School in 1979, and a Masters in National Security Strategy from the National War College in 2002. He also attended the Senior Executive Fellows Program at Harvard in 2005. Mr. Hutton has received numerous awards at GAO for outstanding performance, including GAO's Meritorious Service Award.

Mr. William M. Solis
Director, Defense Capabilities and Management Team
U.S. Government Accountability Office

Mr. Solis serves as a director in the Defense Capabilities and Management Team at the U.S. Government Accountability Office (GAO). The Comptroller General of the United States appointed him to this senior executive position in July 2002. Prior to this appointment, he worked on a variety of engagements that covered topics such as military readiness, training, weapon system effectiveness, housing, and military doctrine.

As a director, he is responsible for a wide range of GAO program evaluations in the area of defense logistics and warfighter support, involving each of the military services, the Defense Logistics Agency as well as joint and the Office of the Secretary of Defense program offices. His portfolio covers a wide variety of issues including supply chain management, force protection for ground forces, maintenance, transportation, mobility energy, contractors on the battlefield, and equipment reset. In addition to these issues, his work in recent years has focused on issues related to Operation Iraqi Freedom such as DOD's newly established joint improvised explosive device defeat organization.

Much of Mr. Solis' work involves close interaction with Congress and key national security experts. For example, he works with congressional authorization, appropriation, and oversight committees that have jurisdiction over DOD agencies as well as individual congressional members and their principal staffs.

Throughout his over 30 years at GAO, Mr. Solis has served in a wide variety of positions and has been the recipient of numerous honors and awards. Most recently, Mr. Solis was selected to receive the 2008 GAO Award for Distinguished Service.

RECORD VERSION

STATEMENT

BY

MR. JEFFREY P. PARSONS

EXECUTIVE DIRECTOR

U.S. ARMY CONTRACTING COMMAND

U.S. ARMY MATERIEL COMMAND

BEFORE THE

PANEL ON DEFENSE ACQUISITION REFORM

COMMITTEE ON ARMED SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

ON ARMY CONTRACTING

APRIL 23, 2009

NOT FOR PUBLICATION
UNTIL RELEASED
BY THE COMMITTEE
ON ARMED SERVICES

Introduction

Chairman Andrews, Congressman Conaway, and distinguished members of the Defense Acquisition Reform Panel: Thank you for this opportunity to discuss the processes that the U.S. Army uses to measure value and risk in services contracts. We are pleased to report that those processes enable our contracting mission to be agile, expeditionary and responsive to our warfighters while ensuring proper fiscal stewardship of taxpayer dollars. We are pleased to report to you that we have increased the resources devoted to oversight of services contracts and have also developed improved techniques for evaluating and managing those contracts to provide good value to the taxpayer and effective support to deployed warfighters. We believe that our recent improvements in oversight and administration of services contracts comply fully with the recommendations in the Government Accountability Office September 2008 report entitled "DOD Needs to Address Contract Oversight and Quality Assurance Issues for Contracts Used to Support Contingency Operations." The Army has:

- improved its Contracting Officer Representative (COR) program.
- a plan in place to increase the number of personnel in the contract administration area.
- improved its ability to inspect the worldwide contracting offices that execute the Army's acquisition program.

Additionally, the Army has increased the rigor of its acquisition processes to focus on obtaining better values from the service contracts it awards.

The Army Contracting Command stood up in March 2008 and has approximately 70 percent of the contracting personnel within the Army as a whole. It has a mission to continually improve contracting, acquisition, and program management in expeditionary operations. One entire division of the new headquarters staff is dedicated to the improvement of the COR program. Other Army staffs are also making great strides in improving Army doctrine and training related to the oversight of contractors who support Army operations. For instance, there is a new Deployed COR Handbook with memory joggers, practical examples and practical exercises prepared by the Center for Army Lessons Learned that can be used in the field. The handbook is greatly improving the amount of learning retained by the CORs. The training content of other non-COR specific courses has improved as well. There is a new course for selected logistics and other non-acquisition officers/senior Non-Commissioned Officers at the Army Logistics Management College that emphasizes the importance of properly overseeing service contractors that support the force. Also, training exercises conducted before deployments are beginning to include content on COR training and oversight of contractors.

Recent RAND studies and GAO reports state that the Department of Defense needs to become more strategic in the way it buys and manages services. Trends in Army service contracting support the fact that the Army has embraced this concept. Section 2330 of Title 10, United States Code, as amended by section 812 of the National Defense Authorization Act for Fiscal Year 2006 (Pub. L. No. 109-163), requires

the establishment and implementation of a management structure for the acquisition of services in the Department of Defense (DoD). For contracts over $250 million, the Army has instituted a deliberative acquisition planning process for services contracts that includes review and approval of the acquisition strategy at the head of contracting activity level, which in Army Contracting Command, is at my level. Additionally, acquisition strategies for contracts over $500 million must be reviewed and approved at the Deputy Assistant Secretary of the Army (Procurement) level. Senior representatives from the technical areas that are the focus of the acquisition, together with senior experts in contracting, finance, and law form a senior review panel to assess the acquisition strategy. This review is conducted to ensure that the planned contract will provide an efficient and effective solution to the Army's needs and that there are strong metrics that will enable the Army to track the value delivered by the contractor that ultimately receives the contract. The Army has been using this process for approximately five years. One of the interesting side benefits of this senior review is the evolution of a more deliberate strategic sourcing movement that focuses on establishing Army-wide contracts for common use supplies and services. For example, we now have an Army-wide contract for cell phones that has achieved substantial discounts from the GSA contracts prices and provides better controls over who is given a cell phone and what type of calling program they may use. The net effect is a cost avoidance of $79.2 million per year. The Blanket Purchase Agreements provide consistent enterprise terms and conditions, eliminate activation, deactivation and other fees previously charged, and provide aggressive pricing on both cellular devices and service plans. Service plans also include a new flat-rate pricing option not previously

available to Army users. The flat-rate price plan helps minimize the costs of using more than the monthly allotted minutes and using fewer than the total minutes purchased each month by charging the user a low flat-rate per minute only for minutes used each month. Use of this pricing option takes a lot of the guesswork out of matching individual users to the appropriate pricing plan and significantly lowers the total cost of cellular service for most users relative to existing plans.

This approach is not limited to commercially available services. The Army uses suites of multiple-award indefinite quantity contracts to support all types of operations leveraging our service spending. Examples include the Field and Installation Support Readiness Team (FIRST) that provides logistical support requirements including logistics program management, repair and maintenance support, supply chain management, quality assurance support, logistics training support, and transportation support in both CONUS and OCONUS locations. The FIRST program metrics include how well small business and competition requirements are being met as well as goals for reducing logistics burdens, customer satisfaction, timeliness of performance, cost control and reliability. The Global Maintenance and Supply Services (GMASS) program metrics include how well the contractor met the technical requirements of its individual task order(s) (currently at 99.7 percent first time for task order 1) while cost and schedule are evaluated on a program level across all task orders. Two contracts at the U.S. Army Communications-Electronics Life Cycle Management Command (C-E LCMC) provide centralized management of requirements for logistics and service support (the so-called R2 and S3 suites of contracts). These contracts are used across the Army.

Finally, the U.S. Army Aviation and Missile Life Cycle Management Command (AMCOM LCMC) EXPRESS contracts provide professional engineering and support services - once again for all Army customers - at a savings to the prices on the related GSA schedules.

We continue to seek out even more opportunities to better leverage Army purchasing power. For example, we are reviewing alternative ways to support the Army's installation maintenance support contracts. $438.2 million of work is performed by 37 contractors under 41 contracts. Under the AMC Materiel Enterprise approach, there may well be a way to eliminate redundancies in contracts and capabilities and thereby gain efficiencies across the Army. This is an example of how we strive every day to improve the value Army and the taxpayer receive from Army contracts.

Many of our actions are based on the recommendations contained in the report, *Urgent Reform Required: Army Expeditionary Contracting* dated October 31, 2007, by Dr. Jacques Gansler and members of the Commission on Army Acquisition and Program Management in Expeditionary Operations. The Army has expanded its expeditionary contracting structure to include planning cells within our Contracting Support Brigades to coordinate contract requirements with operational commanders. There is also increased educational and leadership focus for Army commanders, staff, and other non-contracting professionals to value the role of the COR. The COR's role is key to ensuring that the government is getting what it is paying for with appropriate oversight. This recommendation directly relates the GAO's recommended

improvements in contract oversight by providing contracting advisors that are directly linked to operational commanders. Those personnel can help ensure that commanders understand the need to provide people with the proper technical skills to oversee contractor performance as CORs. Additionally, Section 503(a) of the National Defense Authorization Act (NDAA) for Fiscal Year 2009 (FY09) authorized five additional general officer billets in the Active Component designated for acquisition. The general officer billets are critical because the supported military commanders are general officers and many support requirement issues must be worked within the military chain of command. General officers are afforded access that simply does not exist for civilian equivalents.

The Commission recommended increasing the number of military and civilian personnel in the Army contracting workforce by roughly 25 percent. The Army has been working to ensure contracting or contracting related needs are identified and codified through the Army's concept plan process which serves to document organizational force structure. We refined contracting workforce requirements resulting in a new estimate of 617 military and 1,635 civilian personnel required to provide adequate contract administration and oversight worldwide. This estimate of additional personnel required is slightly different than the numbers suggested by the Gansler Commission. Additionally, a Force Design Update has been tentatively approved to increase the Contracting Support Brigades and subordinate battalions and teams with 295 military personnel in FY09-13. These plans are currently being staffed as part of the resourcing process.

In other actions, the Army is developing a comprehensive strategy to systematically integrate the collection, analysis, and dissemination of observations and insights about expeditionary contracting into its lessons learned processes. This will enable us to capture lessons learned from three different perspectives: the requiring activity, the contracting officer, and the contractor. The intent is to analyze the information to determine gaps or changes needed in our doctrine, organization, training, materiel, leader development, personnel, and facilities assessments to ensure that the Army obtains full value from contractors on the battlefield and that contractors are only used when they provide a clear savings without negatively impacting the ability of the Army to execute its warfighting mission.

Furthermore, the Army is working closely with the Defense Acquisition University (DAU) and other educational venues to increase the number of contracting and COR training courses for certification that will be delivered starting in FY09 and to review and update training plans based on lessons learned. Specifically, DAU has added more than 100 contracting course offerings and additional seating capacity for Army personnel and has improved on-line course content for CORs. The training content for program management personnel has been upgraded over the last several years to emphasize performance measurement tools such as Earned Value Management, Total Cost of Ownership and other techniques that focus on the concepts of establishing goals for cost, schedule, and performance on a acquisition and program basis and regular reassessment of progress to date toward those goals.

The Army has made great progress in providing training and tools for overall contracting activities in expeditionary operations as set forth in the Gansler Report. This includes improvements in contractor oversight and tracking value realized under contracts. We are addressing this recommendation in two broad areas: first, train as we fight; and secondly, develop and field contract tools needed for expeditionary forces. In the first area, we are adapting our training exercises to stress rapid acquisition, logistics, and contracting in expeditionary operations and are beginning to include contracting operations and planning requirements in some military exercises; thereby, ensuring the need to provide good oversight through CORs is a "take away" for all commanders participating in the training exercises.

Sixteen different officer and non-commissioned officer professional military education courses have been added or modified to include information on Operational Contract Support to increase the awareness of contracting and contractor management by our operational Army. To improve knowledge gaps in training venues, the U.S. Army Training and Doctrine Command has an approved concept plan to add acquisition personnel to its Combat Training Centers. This new, collective training capability is designed to stimulate commanders and their staffs to solve expeditionary tactical problems; apply emerging doctrine to these tactical situations; and to promote a better appreciation of the challenge of integrating contractor support into military operations and the need to provide qualified technical personnel as CORs.

The Army also worked with OSD and the other Services on the publication of a pocket-sized, Joint Contingency Contracting handbook to equip contingency contracting officers with the necessary tools for joint service operations. The handbook is being incorporated into new training material for the expeditionary/contingency contracting force structure. The Army is also working to field the Virtual Contracting Enterprise (VCE) and other information technology tools to aid Army commanders and staff in contract operations. The VCE will enable us to move existing contracting tools to a web-based environment allowing for the sharing of contract information and enhanced oversight in a paperless environment which includes tracking contract performance information. Furthermore, the U.S. Army Acquisition Support Center is sponsoring a scenario-based contracting laboratory for both the officer and non-commissioned officer training course to provide them with the tools and understanding of how to prepare and execute contracts prior to their first contracting assignment. This course is in addition to the current Basic Acquisition and Intermediate Contracting courses offered through the Army Logistics Management College at its Huntsville, Alabama, campus.

Conclusion

As stewards of the taxpayers' dollars, the Army is committed to excellence in managing and documenting contractor performance and the overall discipline of contract administrative services. With service and construction contracts, whether in Iraq, Afghanistan, the United States, or elsewhere in the world, representing an ever increasing percentage of our overall contract dollars, greater emphasis is rightfully being

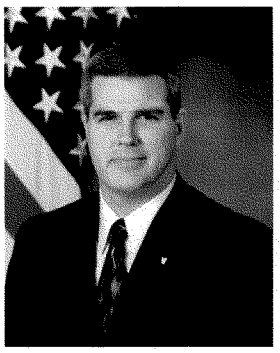
placed on their management and oversight. This includes documenting the contractor's performance in accordance with policy and developing key metrics related to cost, schedule and performance during acquisition planning that focus on value delivered to the Army and tracking those metrics as part of contract administration and oversight. Those metrics are key early warning signals to program officials. They are the first indicators that a program is in trouble whether it be it from technical difficulties beyond the contractor's control due to changes in the operating environment due to war related issues or problems directly related to contractor performance. We believe this will allow us to react earlier and take corrective actions at the most cost effective point which will help reduce delays in fielding systems and improve services delivery.

The amount of contract workload within the Army has increased over 500 percent while at the same time the number of staff assigned decreased by 50 percent. As Steven Schooner stated in his 1 October 2007 testimony to the Senate Committee on Homeland Security and Government Affairs, "this has led to a triage-type focus on buying with insufficient resources available for contract administration, management and oversight." Despite exceptionally hard circumstances, the Army contracting and acquisition staff has made improvements in the strategic management of Army requirements and specifically has better insight into the values being delivered under key service contracts. We believe this trend will greatly improve with improved staff levels in contract administration and better training being delivered by DAU and others to the contracting workforce. The Army is dedicated toward executing its warfighting

mission while simultaneously protecting the taxpayer's interest. It is my honor to lead the contracting team as we persevere to achieve those goals.

This concludes my statement and I welcome any questions you may have.

MR. JEFFREY P. PARSONS
Executive Director
U.S. Army Contracting Command
Fort Belvoir, Virginia



Mr. Jeffrey P. Parsons is the Executive Director of the U.S. Army Contracting Command, a new major subordinate command of the U.S. Army Materiel Command (AMC). The Army Contracting Command provides global contracting support to the operational Army across the full spectrum of military operations and in garrison. Mr. Parsons commands over 5,500 military and civilian personnel worldwide, who award and manage over 270,000 contractual actions valued at more than $80 billion per fiscal year. He exercises command and procurement authority over two subordinate commands, the Installation Contracting Command and the Expeditionary Contracting Command, and also leads the AMC Acquisition Centers which support AMC's other major subordinate commands and Life Cycle Management Commands. Mr. Parsons was appointed to the Senior Executive Service on December 15, 2003.

Prior to assuming his current position, Mr. Parsons served as the Director of Contracting, Office of Command Contracting, Headquarters, AMC, Fort Belvoir, Virginia. Responsibilities from the Office of Command Contracting transitioned into the Army Contracting Command. Mr. Parsons continues to serve as the Principal Advisor to the Commanding General of AMC and his staff on all contracting matters and as the AMC Career Program Manager for the Contracting and Acquisition Career Program, with responsibility for the recruitment, training, education, and professional development of the civilian and military contracting professionals who are part of the acquisition workforce.

Prior to his appointment to the Senior Executive Service, Mr. Parsons was the Director of Contracting, Headquarters, U.S. Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio, where he retired from active duty as an Air Force Colonel after 26 years of service. He was responsible for developing and implementing contracting policies and processes to annually acquire $34 billion in research and development, production, test, and logistics support for Air Force weapon systems. He was directly responsible for the training, organizing, and equipping of more than 3,000 contracting professionals.

Mr. Parsons' contracting career began in 1977 as a base procurement officer supporting the 90th Strategic Missile Wing at F. E. Warren Air Force Base, Wyoming. He held a variety of positions as a contracting officer with a wide range of experience touching on all aspects of systems, logistics, and operational contracting. He was the Director of Contracting for a multi-billion dollar classified satellite program operated by the National Reconnaissance Office and served twice as a plant commander in the Defense Contract Management Agency. Mr. Parsons also held several key staff positions at Headquarters, U.S. Air Force, the Air Force Secretariat, and with the Office of the Secretary of Defense, in which he was responsible for the development, implementation, and management of integrated, coordinated, and uniform policies and programs to govern DoD procurement worldwide.

Mr. Parsons received his bachelor's degree in Psychology from St. Joseph's University, Philadelphia, Pennsylvania, and holds two masters degrees – one in Administration with a concentration in Procurement and Contracting from George Washington University, Washington, D.C., and the other in National Resource Strategy from the National Defense University. He is a graduate of the Industrial College of the Armed Forces and the Defense Systems Management College Executive Program Management Course. Mr. Parsons holds the Acquisition Professional Development Program's highest certifications in contracting and program management. He also is a Certified Professional Contracts Manager, National Contract Management Association.

WITNESS RESPONSES TO QUESTIONS ASKED DURING THE HEARING

April 23, 2009

RESPONSES TO QUESTIONS SUBMITTED BY MR. ANDREWS

Ms. BALDWIN. No recommendations for legislative changes. [See page 25.]

Mr. PARSONS. Chairman Andrews, let me say that as far as I am concerned, almost everything that we've asked from Congress has in fact been enacted in some form of legislation to support us. At the present time I think what we need to do is utilize the flexibilities and capabilities that Congress has given us to move forward. [See page 27.]

QUESTIONS SUBMITTED BY MEMBERS POST HEARING

April 23, 2009

QUESTIONS SUBMITTED BY MR. ANDREWS

Mr. ANDREWS. RAND was asked by the Air Force to help develop measures that would allow the newly established Air Force services contracting office to assess the health of its acquisition efforts and analyze problems and make corrections.

To your knowledge has the Air Force undertaken the recommendations made in your report? Could your recommendations apply to all the services?

Ms. BALDWIN. I have not worked with the Air Force's Program Executive Officer (PEO) for services in several years, and as a result am not aware of whether, or to what degree, the Air Force has implemented our recommendations. I believe our recommendations could apply to all of the military Services.

Mr. ANDREWS. GAO has found that the Department lacks a strategic approach to managing services, and needs to develop methods to assess risk when acquiring services.

Do you have any comments on this?

Ms. BALDWIN. I have no comment beyond the recommendations found in my official written statement.

Mr. ANDREWS. It has been suggested that the Department of Defense (DOD) establish centers of excellence for services contracting, and some moves have already been made in this direction, such as the Air Force's services contracting office.

In your opinion, would DOD benefit from centralizing the contracting of services to a greater degree in order to capitalize on best practices and the Department's buying power?

Or, would the establishment of separate services contracting offices lead to great bureaucracy and restrict communication between those monitoring performance and those awarding new contracts?

Ms. BALDWIN. I have not studied the costs and benefits of further centralization of services contracting at the DOD level, and so have no comment on the development of DOD centers of excellence.

Mr. ANDREWS. GAO has found that DOD has made few efforts to collect information and share lessons learned regarding oversight and management of contractors supporting deployed forces. But that is just a microcosm of the larger universe of services contracting.

In your opinion, would greater visibility on all contracted services help agencies better measure the value of those contracts?

If so, what suggestions do you have on how to provide that visibility?

Ms. BALDWIN. I agree that greater visibility of all contracted services would help agencies better track expenditures on services contracts to determine if the taxpayer is getting good value for money. Some of our recent research has highlighted the importance of standardized collection and reporting of contracting data to do this (see Analyzing Contracting Purchases for Operation Iraqi Freedom, Laura H. Baldwin, et al., MG–559/1–AF, The RAND Corporation, Santa Monica, CA, 2008). Some important steps have already been taken in this direction. For example, the Joint Contracting Command Iraq/Afghanistan (JCC–I/A) maintains a data system called the Joint Contingency Contracting System (JCCS), which contains information on what is purchased, by whom, from whom, and for whom in Iraq and Afghanistan.

Mr. ANDREWS. One of the most important challenges facing agencies today has been the move toward more performance-based contracts to meet mission and program needs.

Has RAND conducted any reviews of performance based contracts within DOD? If so, has RAND assessed whether DOD has been able to adequately determine whether the value or risks associated with this type of contracting can be measured accurately? Also, has RAND assessed whether DOD has adequate systems in place to compare alternative options?

Ms. BALDWIN. In 2001 RAND conducted a study of Air Force performance-based contracting (Performance-Based Contracting in the Air Force: A Report on Experiences in the Field, DB–342–AF, John Ausink and Frank Camm, The RAND Corporation, Santa Monica, CA, 2001). This work examined the experiences of 15 Air Force bases that were responsible for the successful implementation of 22 performance-based contracts awarded between FY 1998 and FY 2000. The study found that

Air Force personnel were generally pleased with the results of performance-based services acquisition as well as with many of the practices it encourages, including teamwork, market research, and the use of past-performance data in evaluating offerors. However, the study also found that no effort had yet been made to compare the performance of current contractors hired using PBSA practices with that of their predecessors hired through other practices, pointing to a need for more assiduous data collection on the efficacy of the PBSA approach to acquiring services. This work did not assess the adequacy of Air Force or DOD systems to compare alternative contracting options.

Mr. ANDREWS. In Performance based logistics contracts, in your opinion what types of cost metrics should be included to ensure that costs are being reduced as intended?

Ms. BALDWIN. While I have not studied performance-based logistics contracts specifically, our research on services contracting (Air Force Service Procurement: Approaches for Measurement and Management, Laura H. Baldwin, et al., MG–299, The RAND Corporation, Santa Monica, CA, 2005) indicates that commercial firms use at least three basic types of metrics to track cost savings. The first is to examine internal costs by, for example, comparing current spending to that of a previous period (adjusting for inflation), or comparing costs for a particular service across divisions within the firm to determine if there are opportunities to reduce costs. A second approach is to compare the firm's change in costs for a particular service to the change in the relevant market cost index. For example, if the firm's costs increased by 3% while the market index increased by 5%, the firm has essentially achieved a net savings of 2%. A third basic cost metric is the return on investment of a new approach: dividing the reduction in expenditures by the cost of the new procurement activities that led to the realized savings.

Mr. ANDREWS. Under a Performance Based Logistics contract, what steps should DOD take to ensure that the right balance is struck between giving the contractor sufficient autonomy to manage the resources to achieve the performance objectives and ensuring that an adequate level of competition is maintained to incentivize performance?

Ms. BALDWIN. I have not addressed performance-based logistics contracts in my research to date.

Mr. ANDREWS. Service contracting is often viewed as being less complex than purchases for products. However, service contracting now makes up approximately 60 percent of the Department's budget and includes weapon systems and support and IT systems.

Do you believe the Department has the tools to measure value on services contracting to support the warfighter in terms of ensuring that contractor supported services are provided on a timely basis and in an economical and efficient manner?

Mr. HUTTON and Mr. SOLIS. To ensure the Department receives value when using contractors to support its mission or operations, it is essential that DOD employ sound practices—clearly defining its requirements, using the appropriate contract type, and properly overseeing contract administration. Our work, however, has repeatedly identified problems with the practices DOD uses to acquire services. Further, an overarching issue that impacts DOD's ability to properly manage its growing acquisition of services is having an adequate workforce with the right skills and capabilities. Collectively, these problems expose DOD to unnecessary risk and make it difficult for the Department to ensure that it is getting value for the dollars spent. Although DOD has taken steps to improve the planning, execution, and oversight of services acquisitions, remaining concerns with the Department's management and use of service contracts are among the reasons why we continue to include DOD's contract management on our high-risk list.

Mr. ANDREWS. GAO has found that the Department lacks a strategic approach to managing services and needs to develop methods to assess risks when acquiring services. Would you detail what actions DOD needs to take to develop such an approach?

Mr. HUTTON and Mr. SOLIS. In November 2006, we made six recommendations to put DOD in a position to proactively manage service acquisition outcomes and to assist DOD in identifying specific solutions at the strategic and transactional levels.[1] In this regard, we recommended that the Secretary of Defense

- establish a normative position of how and where service acquisition dollars were currently and will be spent (including volume, type, and trends);

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

- determine areas of specific risk that were inherent in acquiring services and that should be managed with greater attention (including those areas considered sensitive or undesirable in terms of quantity or performance);
- on the basis of the above, clearly identify and communicate what service acquisition management improvements were necessary and the goals and timelines for completion;
- ensure that decisions on individual transactions were consistent with DOD's strategic goals and objectives;
- ensure that requirements for individual service transactions were based on input from key stakeholders; and
- provide a capability to determine whether service acquisitions were meeting their cost, schedule, and performance objectives.

DOD concurred with our recommendations and agreed that a more coordinated, integrated, and strategic approach for acquiring services is needed. We currently have ongoing work to assess DOD's management, oversight, and execution of its service contracts. We plan to issue a report later this year.

Mr. ANDREWS. It has been suggested that the Department of Defense establish centers of excellence for services contracting and some moves have already been made in this direction, such as the Air Force's services contracting office.

In your opinion, would DOD benefit from centralizing the contracting of services to a greater degree in order to capitalize on best practices and the Department's buying power?

Or would the establishment of separate services contracting offices lead to greater bureaucracy and restrict communication between those monitoring performance and those awarding new contracts?

Mr. HUTTON and Mr. SOLIS. We have not specifically assessed the merits of establishing centers of excellence for service contracts on a departmentwide basis or the Air Force's specific approach as a means to improve service acquisition outcomes. It is important to note, however, that DOD's size, the range and complexity of the services it acquires, the multiple sources of risk, and the wide variety of organizations that are involved in individual acquisitions are among the factors that may preclude DOD from developing an ideal, "one-size-fits-all" departmentwide review process or organizational structure. Further, these challenges may require DOD to pursue a number of different approaches depending on its needs and requirements. For example, we have recommended that DOD conduct additional analysis of its spending on service contracts to identify opportunities to leverage its buying power and identify opportunities to achieve other procurement efficiencies, consider whether cross-functional teams would improve the coordination and management of service acquisitions, and assess whether it would be beneficial to establish full-time dedicated commodity/service managers to provide more effective management of key services. DOD has generally agreed with these recommendations and has taken steps to address our concerns.

Mr. ANDREWS. GAO has found that DOD has made few efforts to collect information and share lessons learned regarding oversight and management of contractors supporting deployed forces. But that is just a microcosm of the larger universe of services contracting.

Would greater visibility on all contracted services help agencies better measure value of these contracts?

What suggestions do any of you have on how to provide that visibility?

Mr. HUTTON and Mr. SOLIS. We do believe that DOD would benefit from having greater visibility on its services contracts. As we reported in November 2006, DOD lacked good information on the volume and composition of service acquisitions, perpetuating the circumstance in which the acquisition of services tended to happen to DOD, rather than being proactively managed.[2] We made six recommendations to put DOD in a position to proactively manage service acquisition outcomes, beginning with improving its knowledge on how and where service acquisition dollars were being spent and the desired volume of spending by type of service in the future. While DOD agreed with these recommendations, DOD still lacks basic data about its service contracts that could help it determine how it contracts for services and how reliant it is on contractors. For example, at this time, the Department does not have complete and accurate information on the number of service contracts in use, the services being provided under those contracts, and the number of contractors providing those services, and the number and types of contracts awarded. Section 807 of the National Defense Authorization Act for 2008 required DOD to pro-

[2] GAO–07–20.

vide Congress an annual inventory of contractor-provided services, to include information on the missions and functions of the contractor, the number of full-time contractor employees paid for performing the activity, and the organization whose requirements are being met through contractor performance.[3] In addition, this provision required the military departments to review the inventory to identify activities that should be considered for conversion to performance by DOD civilian employees or to an acquisition approach that would be more advantageous to DOD. The first inventory was to have been reported to Congress not later than June 30, 2008. As we noted during the testimony, only the Army had begun the process to comply with this requirement. According to DOD officials, the Air Force and Navy will issue their prototype inventories in the third quarter of fiscal year 2009. Collectively, these inventories, if successfully completed, could provide DOD with the enhanced visibility on its spending on contractor-provided services and allow for more strategic decision making.

With regard to contractors supporting deployed forces, we would add that in late 2008, DOD began an effort, directed by the Chairman of the Joint Chiefs of Staff, to examine the Department's use of service contracts in Iraq and Afghanistan. The purpose of this effort is to improve DOD's understanding of the range and depth of contractor capabilities necessary to support the Joint Force. The study is to address where DOD is most reliant on contractor support and may help inform longer term force structure issues such as the potential for increasing DOD's military and civilian work force in order to in-source services currently provided by contractors. At the departmentwide level, however, DOD had yet to conduct the type of fundamental reexamination of its reliance on contractors that we called for in 2008.[4]

Mr. ANDREWS. What is the difference between Advisory and Assistance Services and consulting services?

What recommendations do you have for improving acquisition outcomes for these types of services?

Mr. HUTTON and Mr. SOLIS. Advisory and assistance services (A&AS) and consulting services may be thought of, for all practical purposes, as being one and the same; indeed, advisory and assistance services were previously referred to as consultant services. A&AS are services intended to be used by federal agencies to acquire three broad areas of services: management and professional support; studies, analyses, and evaluations; and engineering and technical services.[5]

With regard to improving acquisition outcomes for these types of services, we have noted that factors contributing to promoting successful outcomes on individual service contracts include having clearly defined and valid requirements, the use of sound business arrangements, and effective contractor management and oversight. These factors apply to all service contracts, including those for A&AS.

Mr. ANDREWS. One of the most important challenges facing agencies today has been the move toward more performance-based contracts to meet mission and program needs.

Has GAO assessed whether DOD has been able to adequately determine whether the value or risks associated with this type of contracting can be measured accurately?

Mr. HUTTON and Mr. SOLIS. We have not recently assessed DOD's overall use of performance-based contracting approaches[6] and therefore cannot comment on a broader level. We have, however, assessed DOD's use of performance-based logistics (PBL) arrangements, a specific type of a performance-based approach, which illustrates some of the challenges agencies face when implementing performance-based approaches.[7] PBL is defined by DOD as the purchase of performance outcomes (such as the availability of functioning weapon systems) through long-term support ar-

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[3] P.L 110–181, January 28, 2008.

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

[5] For additional information on the challenges with accurately reporting on the amount agencies obligate on A&AS contracts in the President's Budget, see GAO, Federal Contracting: Congressional Action Needed to Address Long-standing Problems with Reporting of Advisory and Assistance Services, GAO–08–319 (Washington, D.C.: March 31, 2008).

[6] To help improve service acquisition outcomes, federal procurement policy calls for agencies to use a performance-based approach to the maximum extent practicable. This approach includes a performance work statement that describes outcome oriented requirements, measurable performance standards, and quality assurance surveillance.

[7] For additional information on the challenges an agency may face when attempting to employ performance-based approaches, see GAO, Department of Homeland Security: Better Planning and Assessment Needed to Improve Outcomes for Complex Service Acquisitions, GAO–08–263 (Washington, D.C.: April 22, 2008).

rangements, rather the purchase of individual elements of support, such as parts, repairs, and engineering support.

DOD has not been able to adequately determine the value and risks associated with PBL arrangements. Two key limiting factors are (1) deficiencies in DOD's use of business case analysis and (2) insufficient cost data from existing arrangements. Although DOD's guidance recommends that business case analyses[8] be used to guide decision making regarding the implementation of PBL to provide weapon system support, and that the analyses be updated at key decision points both to validate the approach taken and to support future plans, we found that the services are not consistent in their use of such analyses.[9] About half of the DOD program offices responsible for the 29 PBL arrangements we reviewed either did not use a business case analysis (or economic analysis) or could not provide documentation for significant parts of their analyses. Even when business cases were prepared, we found that program offices often did not update them in accordance with DOD's guidance and service policies. Additionally, most of the analyses we reviewed did not identify and quantify the benefits that could be expected from contractor incentives to increase reliability or improve processes to reduce support costs, nor recognize or quantify the costs associated with the transfer of risk that occurs under a performance-based support arrangement.[10] The lack of detailed and standardized cost data maintained by program offices further limits DOD's evaluation of PBL costs, as many factors influence the overall costs of weapon system support. Despite DOD guidance issued in 2004 stating that PBL contracts shall include cost reporting requirements to support contract management and future cost estimating and price analysis,[11] we found that program offices generally did not receive detailed cost data and only knew the overall amounts paid for support.

Mr. ANDREWS. Has GAO assessed whether DOD has adequate systems in place to compare alternative options, especially when a performance based logistics contract is being considered?

Mr. HUTTON and Mr. SOLIS. DOD does not have adequate systems in place to compare alternative support options when considering performance based logistics arrangements. Although DOD's guidance recommends that business case analyses be used to guide decision making regarding the implementation of PBL to provide weapon system support, we found that the use of these analyses was not consistent among the services because DOD did not require that the analyses be conducted and updated and did not provide specific criteria to guide their development.[12] In addition, we noted that DOD, in updating its Defense Acquisition Guidebook,[13] no longer specifically recommends a business case analysis as a best practice; rather, it recommends the development of a "support strategy analysis" as part of the PBL implementation process. According to the guidebook, the support strategy analysis can be a business case analysis, economic analysis, decision-tree analysis, or other best-value-type assessment. Most of the services eventually issued some policies and guidance for business case analyses. However, with the exception of the Army, the services have not established the internal controls, including a review and approval process, necessary to ensure that business case analyses are conducted prior to PBL implementation and updated after implementation. DOD fully concurred with our recommendations to require the development of a business case analysis to support the decision-making process regarding weapon system support alternatives, including PBL, and to require that each service revise guidance to implement internal controls to ensure that program offices prepare and update business case analyses. DOD stated that the Department will take steps to require the use of business case analyses in the next iteration of DOD's acquisition regulations. DOD also stated that the Army's internal controls will be reviewed by its Life Cycle Product Support

[8] A business case analysis is an analytical tool for assessing the projected costs, benefits, and risks of a PBL arrangement compared with other alternative weapon system support options.

[9] GAO, Defense Logistics: Improved Analysis and Cost Data Needed to Evaluate the Cost-effectiveness of Performance Based Logistics, GAO–09–41 (Washington, D.C.: Dec. 19, 2008).

[10] These arrangements transfer responsibility for making support decisions—and corresponding risk—to the support provider, and risk is one of the major cost drivers for contractors. Therefore, the use of performance metrics could introduce a large element of risk for the contractor that may be built into the costs of such an arrangement.

[11] Under Secretary of Defense (Acquisition, Technology and Logistics), Memorandum, Performance Based Logistics: Purchasing Using Performance Based Criteria (Aug. 16, 2004).

[12] DOD had previously issued guidance for using economic analysis in the Department's decision making (DOD Instruction 7041.3, Economic Analysis for Decisionmaking, November 7, 1995), and this guidance recommends the analysis of both quantitative and qualitative factors. However, when DOD in 2001 recommended the development of a business case analysis prior to implementing a PBL arrangement, it provided little criteria for conducting such an analysis.

[13] The Defense Acquisition Guidebook provides an interactive, online reference to policy and discretionary best practices. The guidebook is available at https://akss.dau.mil/dag/.

Assessment Team, which will make recommendations for expansion of DOD-wide policy as part of the team's overall recommendations. DOD partially concurred with our recommendation to revise PBL business case analysis guidance to clearly define what should be included in a business case analysis and to establish specific criteria and methods for evaluating PBL support arrangements, stating that the Life Cycle Product Support Assessment Team will review existing business case analysis policy. The Department will evaluate the team's recommendations on providing specific criteria and methods for evaluating support arrangements and determine how best to incorporate these recommendations into mandatory policy.

Mr. ANDREWS. In PBL contracts, what types of cost metrics should be included to ensure that costs are being reduced as intended?

Mr. HUTTON and Mr. SOLIS. While it is the agency's role to determine what type of cost metrics should be used, GAO has recommended DOD collect detailed, standardized cost data to support effective program management. While DOD has identified performance-based metrics for PBL arrangements, it has not specified metrics for ensuring that costs are being reduced as intended. DOD guidance issued in 2004 directed PBL arrangements to be constructed to purchase performance, which is defined using criteria such as cost per unit usage, operational availability, operational reliability, logistics footprint, and logistics response time. The guidance recommended that PBL metrics be tailored to reflect the unique circumstance of the arrangement, but still support these desired outcomes and that performance measures be tailored by the Military Departments to reflect the unique circumstances of the PBL arrangement. Many of the 29 PBL arrangements we reviewed did not contain cost metrics. Some of the aviation PBL arrangements we reviewed were negotiated on a cost per flight hour basis, but none of the non-aviation PBL arrangements included a similar cost per unit of usage metric. As previously mentioned, the lack of detailed and standardized cost data maintained by the program offices also limited the evaluation of PBL costs, as many factors influence the overall costs of weapon system support. Based on our work, we recommended that DOD require program offices to collect and report support cost data for PBL arrangements in a consistent, standardized format with sufficient detail to support traditional cost analysis and effective program management. DOD partially concurred and stated that a provision for tailored cost reporting for major acquisition programs designed to facilitate future cost estimating and price analysis has been included in the draft DOD Instruction 5000.2.[14] Additionally, the Life Cycle Product Support Assessment Team is reviewing support cost reporting and cost analysis as a part of its ongoing study. According to DOD's response, the ultimate goal is standardized support cost reporting for all life cycle product support efforts, to include support provided by government activities.

Mr. ANDREWS. Under a performance based logistics contract, what steps should DOD take to ensure that the right balance is struck between giving the contractor sufficient autonomy to manage the resources to achieve the performance objectives and ensure that an adequate level of competition is maintained to incentivize performance?

Mr. HUTTON and Mr. SOLIS. While our PBL work has not directly addressed this question, in 2004 we compared industry practices for activities using complex and costly equipment with life-cycle management issues similar to those of military systems to identify lessons learned that could be useful to DOD.[15] In general, company officials said that performance-based contracts are a tool most often used selectively in a noncompetitive environment in an effort to control cost and reduce risk. Our review found that while 7 of the 14 companies interviewed used some type of performance-based contracting, it was used at the subsystem or component level—for commodities such as engines, wheels, and brakes—and it was generally used for older systems. Company officials said that performance-based contracting works better for subsystems and components where available cost and performance data are sufficient to establish a good business case analysis, noting that this is more difficult to accomplish for new systems, where performance data are uncertain. In general, company officials said they relied more widely on other contracting vehicles, such as time and material contracts, particularly for newer systems that don't have a performance history. We also found no private-sector performance-based contracts being used at the platform level. Instead, company representatives preferred to retain the program integration function that they considered a core function essential to the success of their business operations. Additionally, they preferred to (1) take

[14] DOD Instruction 5000.02, Operation of the Defense Acquisition System, was issued on December 8, 2008.

[15] GAO, Defense Management: Opportunities to Enhance the Implementation of Performance-Based Logistics, GAO–04–715 (Washington, D.C.: Aug. 16, 2004).

advantage of competition when it is available for subsystems or components, (2) gain purchasing power from volume discounts on subsystems or components across their entire fleet, and (3) avoid the administrative costs that would be charged by a prime integrator for managing subcontractors.

Mr. ANDREWS. Service contracting is often viewed as being less complex than purchases for products. However, service contracting now makes up approximately 60% of the Department's budget and includes weapons systems and support and IT systems. Do you believe the Army has the tools to measure value on services contracting to support the warfighter in terms of ensuring that contractor supported services are provided on a timely basis and in an economical and efficient manner?

Mr. PARSONS. The Army's primary tool for evaluating how well a given service contractor performs its contract requirements is the Contracting Officer Representative (COR) Program. The CORs are the "eyes and ears" of the contracting officer and track technical performance to validate the contractor is performing the work that was ordered under a contract. We combine this process with performance based work statements (PWSs) that specify the results that are to be delivered and how the Army will measure those results. We use techniques such as the DOD's Seven Steps method, http://www.acquisition.gov/comp/seven__steps/index.html, to develop PWS's that are tailored to reflect the specific requirements of the work to be performed and the performance environment. The metrics that we use to evaluate performance include cost, schedule, and various aspects of technical performance that are focused on outcomes.

Mr. ANDREWS. GAO has found that the Department lacks a strategic approach to managing services, and needs to develop methods to assess risk when acquiring services. Would you detail what actions the Army has taken to develop such an approach?

Mr. PARSONS. The Army is building upon its functional organizational and command structure to facilitate and further the initiatives of commodity management and strategic sourcing. Medical products, services, and research are exclusively managed and sourced through the Army Medical Command. Major weapon systems and equipment, material, and related logistics support are primarily managed and sourced through the Army Materiel Command. Garrison and Base operations support for Army installations is managed by the Army Installation Command with procurement support provided by the Army Contracting Command. Major construction is managed and sourced by the Army Corps of Engineers. Strategic transportation services are managed and procured by the Army Surface Deployment and Distribution Command.

The Army's established strategic sourcing goals are to:

- Establish enterprise-wide cross-functional acquisition strategies
- Reduce Total Cost of Ownership for acquired goods and services
- Improve ability to meet socio-economic goals
- Standardize acquisition business processes
- Improve the skills of acquisition community

We are evolving a deliberate strategic sourcing movement that focuses on establishing Army-wide contracts for common use supplies and services. For example, we now have an Army-wide contract for cell phones that has achieved substantial discounts from the GSA contracts prices and support better controls over who is given a cell phone and what type of calling program they may use. Net effect is a cost avoidance of $79.2 million per year. The Blanket Purchase Agreements provide consistent enterprise terms and conditions, eliminate activation, deactivation and other fees previously charged, and provide aggressive pricing on both cellular devices and service plans. Service plans also include a new flat rate pricing option not previously available to Army users. The flat rate price plan helps minimize the costs of using more than monthly allotted minutes and using fewer than the total minutes purchased each month by charging the user a low flat rate per minute only for minutes used each month. Use of this pricing option takes a lot of the guesswork out of matching individual users to the appropriate pricing plan and significantly lowers the total cost of cellular service for most users relative to existing plans.

The Army uses suites of multiple-award indefinite quantity contracts to support all types of operations leveraging our service spending. Examples include the Field and Installation Support Readiness Team (FIRST) that provides logistical support requirements including logistics program management, repair and maintenance support, supply chain management, quality assurance support, logistics training support, and transportation support in worldwide locations.

Other examples of our strategic sourcing initiatives: The Computer Hardware, Enterprise, Software and Solutions (CHESS) program and the Information Technology,

E–Commerce and Commercial Contracting Center (ITEC–4) developed negotiated bulk purchase pricing for commercial desktops and notebooks. We consolidate most of the Army requirements for desktops and notebooks into semiannual buys to maximize cost savings through volume discounts. Two contracts at CECOM provide centralized management of requirements for logistics and service support (the so-called R2 and S3 suites of contracts). These contracts are used across the Army. Finally, the AMCOM EXPRESS contracts provide professional engineering and support services—once again for all Army customers—at a savings to the prices on the related GSA schedules.

Mr. ANDREWS. Does the Army or the Department maintain a common database of past performance data for services? In particular, for commercial services that fill similar needs across various agencies? If so, how widespread is its use and what could be done to improve its use? If not, would such a database be a useful tool for finding good contractors, similar to a Better Business Bureau?

Mr. PARSONS. The Army uses the Contractor Performance Assessment Reporting System to feed data on how well a contractor performed on a given contract into the central federal Past Performance Information Retrieval System (PPIPRS), which is similar to the Better Business Bureau concept. The National Institutes of Health, NASA and DOD operate systems to track contractor performance. These systems all feed into PPIRS. Contracting officers must collect past performance information on any Services or Information Technology contract for more than $1,000,000 and transmit that information to the central database. We have been collecting this type of information since 1999. Contracting Officers can access data within PPIRS from across the Federal Government and use that data as part of the evaluation of past performance that is part of most source selections.

Mr. ANDREWS. What is the difference between Advisory and Assistance Services and Consulting Services? Generally, these types of contracts have broad statements of work, so how does the Army measure value? What steps does the Army take, and what additional steps, if any, should the Army take to minimize conflicts of interest that may develop with the acquisition of Advisory and Assistance Services, given that contractor personnel work in the same office environment as the Army customer? What challenges are created in objectively measuring performance of contractor personnel who seem to be an indistinguishable part of the government team?

Mr. PARSONS. Advisory and Assistance Services, according to FAR Part 2.101 means "those services provided under contract by nongovernmental sources to support or improve: organizational policy development; decision-making; management and administration; program and/or project management and administration; or R&D activities. It can also mean the furnishing of professional advice or assistance rendered to improve the effectiveness of Federal management processes or procedures (including those of an engineering and technical nature). In rendering the foregoing services, outputs may take the form of information, advice, opinions, alternatives, analyses, evaluations, recommendations, training and the day-to-day aid of support personnel needed for the successful performance of ongoing Federal operations." These services are obtained to improve the efficiency of the agency. They do not include routine information technology support services. The acquisition of advisory and assistance services is a legitimate way to improve Government services and operations. Advisory and assistance services may be used at all organizational levels to help managers achieve maximum effectiveness or economy in their operations.

Consulting Services are a possible subset of Advisory and Assistance Services—if advice is being provided that will improve agency efficiency.

Mr. ANDREWS. What unique issues, if any, does the Army face in obtaining services via fixed price contracts?

Mr. PARSONS. Services may be obtained under a fixed price contract if the statement of work is well defined and there are clear end products that will be delivered. If you are in a "tear down and quote" or other repair situation where the contractor cannot tell what the exact work required will be, a fixed price contract is not the right arrangement. Professor Steve Schooner, Co-Director of the Government Procurement Law Program at the George Washington University, uses the analogy of obtaining plumbing service to repair a broken toilet to illustrate this problem. Plumbing is normally obtained under a time and materials arrangement. If you ask a plumber to pre-price a job before he is able to examine the broken fixture, he will set a price that would cover the worst-case scenario—$400, or the price to completely replace the entire toilet. If you priced it on a time and material basis, it could be just $50 for his time to snake the drain.

Mr. ANDREWS. We often hear of "contractors managing other contractors". In your experience, how prevalent is this practice? Does the Army have contractors whose

responsibility it is to supervise or evaluate the work of other contractors? If so, how does the Army ensure that best value is being obtained for the warfighter?

Mr. PARSONS. The Army uses contractors to advise government personnel about technical issues. Government personnel make decisions about what supplies or services are to be acquired by the Government, take actions based on evaluations of contractor performance, and accept or reject contractor products or services. As part of the acquisition planning process, senior Army officials must certify that the contractor will not perform inherently governmental services. If the services are closely related to inherently governmental, there must be controls in place (as part of the contract execution/oversight process) to prevent contractors from performing prohibited services. This policy has been in place for about two years. Requiring officials must provide the contracting officer a written determination that none of the functions required are inherently governmental as part of the acquisition package provided to contracting. Disagreements regarding the determination must be resolved by the Contracting Officer prior to issuance of the solicitation. The DOD guidance that addresses how to evaluate the contractor services is DOD Instruction 1100.22, Guidance for Determining Workforce Mix.

QUESTION SUBMITTED BY MR. COOPER

Mr. COOPER. Please describe, in detail, acquisition "horror stories" you have seen in your career. And how many incidents occur that are squashed internally?

Mr. PARSONS. The chart provided with this QFR appears to be a summary of the POGO on-line database of contractor misconduct data. However, we have not been able to duplicate the number of cases indicated for the Army on the QFR chart using the on-line search capabilities of the POGO database which indicates 19 cases of misconduct where Army is the contracting agency. We offer the following information regarding some of the most recent cases that have been investigated and adjudicated:

- Stephen Seamans—Convicted of fraud relating to a subcontract with a Kuwaiti cleaning company. Mr. Seamans has been convicted and debarred. He served 8 months of a year and a day prison term; released September 2007.
- Jeff Mazon—Indicted for fraud for a subcontract related to La Nouvelle. Mr. Mazon was accused of inflating Nouvelle's bid to eight times over the estimated cost for providing fuel tankers before awarding the resulting contract. Mazon was indicted in March 2005 and pled guilty in March 2009 to making a false statement. He has not been sentenced. This matter has been turned over to DoJ, Criminal and Civil Divisions for recovery/remedy. Mr. Mazon and La Nouvelle have been suspended indefinitely, pending completion of investigation, court proceedings, etc., effective 18 May 2005. A former managing partner of La Nouvelle, Mr. Alhijazi, has also been suspended in connection with this case. He is a fugitive in Kuwait. Company and personal suspension remain in place until DoJ dismisses the indictment or closes its investigation.
- Glenn Powell—Admitted to accepting $110,000 in kickbacks from an Iraqi subcontractor. Mr Powell has been debarred effective 16 February 2006 until 14 September 2009. Additionally, Mr. Powell is prohibited from serving in any capacity with the authority to influence, advise, or control decisions on any DOD Contracts or first tier subcontracts effective 18 November 2005 until 17 November 2010. Powell will repay $91,000 IAW court ruling. He was sentenced to 15 months confinement.
- Anthony Martin—Admitted to taking kickbacks from First Kuwaiti General Trading & Contracting Company in exchange for the award of subcontracts. Martin pled guilty in July 2007 to violating the Anti-Kickback Act. He was sentenced to 12 months and a day and supervised release for 2 years. He must repay approximately $200,000. This matter has been turned over to DoJ, Criminal and Civil Divisions for recovery/remedy. Martin was proposed for debarment indefinitely on 29 September 2008. Mr. Martin is prohibited from serving in any capacity with the authority to influence, advise, or control decisions on any DOD Contracts or first tier subcontracts effective, 06 June 2008 until 05 June 2013. The Army suspension/debarment official has agreed to delay any action against First Kuwaiti until DoJ has completed its investigation if the company does not enter into new government contracts. Agreement date is 11 December

2008. A one-time exception granted on 3 February 2009 to compete for 3 Corps of Engineers contracts.