

**GAO**

Testimony

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

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For Release on Delivery  
Expected at 9:30 a.m. EDT  
Thursday, September 24, 2009

# DEFENSE ACQUISITIONS

## Sound Practices Critical to Ensuring Value for the Defense Logistics Agency's Acquisitions

Statement of William M. Solis, Director  
Defense Capabilities and Management



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# Report Documentation Page

Form Approved  
OMB No. 0704-0188

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1. REPORT DATE <b>24 SEP 2009</b>		2. REPORT TYPE		3. DATES COVERED <b>00-00-2009 to 00-00-2009</b>	
4. TITLE AND SUBTITLE <b>Defense Acquisitions. Sound Practices Critical to Ensuring Value for the Defense Logistics Agency's Acquisitions</b>				5a. CONTRACT NUMBER	
				5b. GRANT NUMBER	
				5c. PROGRAM ELEMENT NUMBER	
6. AUTHOR(S)				5d. PROJECT NUMBER	
				5e. TASK NUMBER	
				5f. WORK UNIT NUMBER	
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>U.S. Government Accountability Office, 441 G Street NW, Washington, DC, 20548</b>				8. PERFORMING ORGANIZATION REPORT NUMBER	
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)				10. SPONSOR/MONITOR'S ACRONYM(S)	
				11. SPONSOR/MONITOR'S REPORT NUMBER(S)	
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>					
13. SUPPLEMENTARY NOTES					
14. ABSTRACT					
15. SUBJECT TERMS					
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT	18. NUMBER OF PAGES	19a. NAME OF RESPONSIBLE PERSON
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>			



Highlights of [GAO-09-1040T](#), a testimony before the Defense Acquisition Reform Panel, Committee on Armed Services, House of Representatives

## Why GAO Did This Study

The nation's ability to project and sustain military power depends on effective logistics. As the Department of Defense's (DOD) largest combat support agency, providing worldwide logistics support in both peacetime and wartime, the Defense Logistics Agency (DLA) supplies almost every consumable item the military services need to operate, from Meals Ready-to Eat to jet fuel. Given current budgetary pressures and the crucial role DLA plays in supporting the military service in the United States and overseas, it is vital that DOD ensure DLA is getting value for the commodities and services it acquires.

The committee asked GAO to identify the challenges DOD faces in ensuring DLA gets value for the taxpayer's dollar and obtains quality commodities in a cost-efficient and effective manner. This testimony focuses on sound practices GAO has identified regarding obtaining value when contracting and how they can also apply to DLA's acquisition of commodities.

GAO has made numerous recommendations aimed at improving DOD's management and oversight of contractors, and DOD has concurred with many of them. GAO is not making any new recommendations in this testimony.

[View GAO-09-1040T or key components.](#)  
For more information, contact William M. Solis at (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov).

## DEFENSE ACQUISITIONS

### Sound Practices Critical to Ensuring Value for the Defense Logistics Agency's Acquisitions

#### What GAO Found

DOD faces challenges ensuring DLA gets value for the taxpayer's dollar and obtains quality commodities in a cost-efficient and effective manner. GAO's previous testimonies before this committee on weapons system acquisition and service contracts highlighted how essential it is that DOD employ sound practices when using contractors to support its missions or operations to ensure the department receives value regardless of the type of product or service involved. These practices include clearly defining its requirements, using the appropriate contract type, and effectively overseeing contractors. With regard to DLA, GAO's prior work has identified the following challenge areas:

- **Accurate Requirements Definition** – Without a good understanding of customers' projected needs, DLA is not assured it is buying the right items in the right quantities at the right time. GAO's prior work has identified instances where problems in properly defining requirements can lead to ineffective or inefficient management of commodities. For example, GAO reported in 2005 that while DLA had a model to forecast supply requirements for contingencies, this model did not produce an accurate demand forecast for all items, including Meals Ready-to-Eat. As a result, the demand for these items was underestimated and some combat support units came within a day or two of exhausting their Meals Ready-to-Eat rations.
- **Sound Business Arrangements** – Selecting the appropriate type is important because certain contracting arrangements may increase the government's cost risk where others transfer some of that cost risk to the contractor. For example, GAO noted in 2007 that DLA's Defense Energy Support Center was able to purchase fuel and supply products for the forces in Iraq more cheaply than an Army Corps of Engineers contractor because DLA was able to sign long-term contracts with the fuel suppliers.
- **Proper Contract Oversight and Management** – Failure to provide adequate contract oversight and management hinders DOD's ability to address poor contractor performance and avoid negative financial and operation impacts. For example, in June 2006, GAO found that DLA officials were not conducting required price reviews for the prime vendor contracts for food service equipment and construction and equipment commodities. Agency officials acknowledged that these problems occurred because management at the agency and supply center level were not providing adequate oversight to ensure that contracting personnel were monitoring prices.

DLA has taken some actions to address these challenges. For example, DLA has begun adjusting acquisition strategies to reassign programs to a best procurement approach. DLA has also established contracting officer's representative training requirements to ensure these individuals are properly trained to carry out their responsibilities.

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Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss challenges the Department of Defense (DOD) faces to ensure the Defense Logistics Agency (DLA) gets value for the taxpayer's dollar and obtains quality commodities in a cost-efficient and effective manner. The nation's ability to project and sustain military power depends on effective logistics. As the department's largest combat support agency, providing worldwide logistics support in both peacetime and wartime, DLA supplies almost every consumable item the military services need to operate, from Meals-Ready-to-Eat to jet fuel. In fiscal year 2008, DLA provided more than \$42 billion in goods and services to all military services worldwide, including significant support to both Operation Enduring Freedom and Operation Iraqi Freedom. The Secretary of Defense has noted that with two major ongoing campaigns, the economic crisis and resulting budget pressures will force hard choices on DOD, including hard choices regarding defense acquisitions. He further identified defense acquisition as the chief institutional challenge facing the department. Given these budgetary pressures and the crucial role DLA plays in supporting the military service in the United States and overseas, it is vital that DOD ensure DLA is getting value for the commodities and services it acquires.

Earlier this year 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.<sup>1</sup> We also testified that DOD continues to face challenges in employing sound practices when contracting for and managing service contracts.<sup>2</sup> While DOD's acquisition of commodities differs from weapons system and service contract acquisitions, our body of work demonstrates how essential it is that DOD employ sound practices when using contractors to support its missions or operations to ensure the department receives value regardless of the type of product or service involved. The practices include clearly defining its requirements, using the appropriate contract type, and effectively overseeing contractors. We have made recommendations on all of these practices, and DOD has concurred with many of them. My statement today will focus on these sound

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<sup>1</sup> GAO, *Defense Acquisitions: Measuring the Value of DOD's Weapon Programs Requires Starting with Realistic Baselines*, [GAO-09-543T](#) (Washington, D.C.: Apr. 1, 2009).

<sup>2</sup> GAO, *Defense Acquisitions: Actions Needed to Ensure Value for Service Contracts*, [GAO-09-643T](#) (Washington, D.C.: Apr. 23, 2009).

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practices and how they can also apply to DLA's acquisition of commodities. Our statement is based on work we have completed over the past decade, which demonstrates ongoing weaknesses in DOD's management of contracts. Our work was conducted in accordance with generally accepted government auditing standards.<sup>3</sup>

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## Background

DOD operates a worldwide supply system to buy, store, and distribute inventory items. Through this system, DOD manages several million types of consumable items, most of which are managed by DLA. DLA is DOD's largest combat support agency, providing worldwide logistics support in both peacetime and wartime to the military services as well as civilian agencies and foreign countries. DLA supplies almost every consumable item the military services need to operate. To do this, DLA operates three supply centers, including the Defense Supply Center in Philadelphia, Pennsylvania which is responsible for procuring nearly all the food, clothing, and medical supplies used by the military. In addition, DLA has supply centers in Richmond, Virginia and Columbus, Ohio. The Defense Distribution Center operates a worldwide network of 25 distribution depots that receive, store, and issue supplies. In addition, DLA's Defense Energy Support Center has the mission of purchasing fuel for the military service and other defense agencies. DLA also helps dispose of excess or unusable materiel and equipment through its Defense Reutilization and Marketing Service.

To meet its mission, DLA relies on contractors as suppliers of the commodities and as providers of services including the acquisition and distribution of certain commodities. Traditionally, DLA buys consumable items in large quantities, stores them in distribution depots until they are requested by the military services, and then ships them to a service facility where they are used. For example, DLA procures military uniforms through competitive contracts. Defense Supply Center-Philadelphia's Clothing and Textile Directorate procures commodities such as battle dress uniforms, footwear, and body armor directly from contractors and stores them until they are needed by the services.

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<sup>3</sup> 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.

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DLA also relies on service contractors to help with the acquisition, management, and distribution of commodities. For example, DLA has a prime vendor arrangement in which a distributor of a commercial product line provides those products and related services to all of DLA's customers in an assigned region within a specified period of time after order placement. Under the prime vendor process, a single vendor buys items from a variety of manufacturers and the inventory is stored in commercial warehouses. A customer orders the items from the prime vendor. Once the Defense Supply Center-Philadelphia approves the order, the prime vendor fills, ships, and tracks the order through final acceptance. The prime vendor then submits an invoice to Defense Supply Center-Philadelphia, which authorizes payment to the prime vendor and bills the customer. According to DLA, the benefits of prime vendor contracts include improved access to a wide range of high-quality products, rapid and predictable delivery, and reduced overhead charges. Other benefits of prime vendor contracts include significant reductions in the manpower needed to manage and warehouse these items at DLA and reduced transportation costs. In addition, prime vendor contracts provide for surge and broader mobilization capabilities, and worldwide customer support.

DLA also uses service contractors to provide services other than the acquisition of commodities. For example, the Defense Reutilization and Marketing Service uses contractors to support the disposal of government equipment and supplies considered surplus or unnecessary to DOD's mission. Similarly, DLA uses service contractors to provide oversight, audit, and verification procedures for the destruction of DOD scrap property; operate Defense Reutilization and Marketing Office locations around the world including sites in Kuwait, Iraq, and Afghanistan; and run the Defense Distribution Center, Kuwait, Southwest Asia which provides distribution services and surge capability to all four service components to support the warfighters operating in the region. Current commodities distributed by the center are repair parts, barrier/construction materiel, clothing, textiles, and tents. The center also provides consolidated shipment and containerization services, as well as, routine logistic support to the military community in the U.S. Central Command's theater of operations.

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## Sound Practices Vital to Ensuring DLA Receives Value When Acquiring Commodities

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### Proper Requirements Definition Is Essential to Obtaining Value

DLA determines what and how many items it buys based on requirements from its military service customers. Without a good understanding of customers' projected needs, DLA is not assured it is buying the right items in the right quantities at the right time. Properly defined requirements are therefore fundamental to obtaining good value for contracts administered through DLA. As with any contracting decision, a prerequisite to good outcomes is a match between well-defined requirements and available resources. Our previous testimonies before this committee on weapons system acquisition and service contracts have highlighted several cases where poorly defined and changing requirements have contributed to increased costs, as well as services that did not meet the department's needs.<sup>4</sup> We also noted that the absence of well-defined requirements and clearly understood objectives complicates efforts to hold DOD and contractors accountable for poor acquisitions outcomes. In addition, requirements which are based on unrealistic assumptions make it impossible to execute programs that are within established cost, schedule, and performance targets. Our prior work has identified instances where problems in properly defining requirements can lead to ineffective or inefficient management of commodities.

- Inaccurate demand forecasting may result in inventory that does not match demand. The military services and DLA manage the acquisition and distribution of spare parts for defense weapon systems. Whereas the military services manage their own repairable spare parts, DLA provides the services with most of their consumable parts—that is, items of supply that are normally expended or intended to be used up beyond recovery. In prior work, we have reported that the Air Force, the Navy, and the Army had acquired billions of dollars of spare parts

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<sup>4</sup> [GAO-09-543T](#) and [GAO-09-643T](#).

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in excess to their current requirements.<sup>5</sup> For example, for fiscal years 2004 to 2007, the Army had on average about \$3.6 billion of spare parts inventory that exceeded current requirements, while also having inventory deficits that averaged about \$3.5 billion. During that same time period, the Navy had secondary inventory that exceeded current requirements by an average of \$7.5 billion dollars, or 40 percent of total inventory. Mismatches between inventory levels and current requirements were caused in part by inaccurate demand forecasting. In our Navy work, for example, we noted that requirements frequently changed after purchase decisions had been made and that the Navy had not adjusted certain inventory management practices to account for the unpredictability in demand. The military services' difficulty in forecasting demand for spare parts is among the reasons we have placed DOD's supply chain management on our high-risk series since 1990.<sup>6</sup> In addition, we are currently reviewing DLA's management of consumable spare parts for its service customers. We are evaluating (1) the extent that DLA's spare parts inventory reflects the amounts needed to support current requirements and (2) the factors that have contributed to DLA having any excesses or deficits in secondary inventory. As part of our review, we expect to report on how demand forecasting may affect inventory levels compared with requirements and what actions DLA is taking to understand and mitigate problems with demand forecasting.

- Inaccurate requirements and supply forecasts can affect the availability of critical supplies and inventory for the military, which, in turn, can result in a diminished operational capability and increased risk to troops. For example, as we reported in 2005, the Army's failure to conduct an annual update of its war reserve requirements for spare parts since 1999, as well the Army's continued decisions to not fully fund war reserve spare parts, resulted in the inventory for some critical items being insufficient to meet initial wartime demand during Operation Iraqi Freedom.<sup>7</sup> These items included lithium batteries,

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<sup>5</sup> GAO, *Defense Inventory: Army Needs to Evaluate Impact of Recent Actions to Improve Demand Forecasts for Spare Parts*, [GAO-09-199](#) (Washington, D.C.: Jan. 12, 2009); GAO, *Defense Inventory: Management Actions Needed to Improve the Cost Efficiency of the Navy's Spare Parts Inventory*, [GAO-09-103](#) (Washington, D.C.: Dec. 12, 2008); and GAO, *Defense Inventory: Opportunities Exist to Save Billions by Reducing Air Force's Unneeded Spare Parts Inventory*, [GAO-07-232](#) (Washington, D.C.: Apr. 27, 2007).

<sup>6</sup> GAO, *High-Risk Series: An Update*, [GAO-09-271](#) (Washington, D.C.: January 2009).

<sup>7</sup> GAO, *Defense Logistics: Actions Needed to Improve the Availability of Critical Items during Current and Future Operations*, [GAO-05-275](#) (Washington, D.C.: Apr. 8, 2005).

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armored vehicle track shoes, and tires for 5-ton trucks, where demand exceeded supply by over 18 times the amount on hand. Similarly, while DLA had a model to forecast supply requirements for contingencies, this model did not produce an accurate demand forecast for all items, including Meals Ready-to-Eat.<sup>8</sup> Therefore, Army officials had to manually develop forecasts for Operation Iraqi Freedom, but did not always have sufficient or timely information needed to forecast accurate supply requirements. As a result, they underestimated the demand for some items. For example, demand for Meals Ready-to-Eat exceeded supply in February, March, and April 2003, when monthly demand peaked at 1.8 million cases, while the inventory was only 500,000 cases. Some combat support units came within a day or two of exhausting their Meals Ready-to-Eat rations, putting Army and Marine Corps units at risk of running out of food if the supply distribution chain was interrupted.

- Unrealistic time frames for acquisition and delivery of commodities can also have negative impacts on obtaining value. We previously testified that the Army's decision to issue black berets to all of its forces in just 8 months placed enormous demands on DOD's procurement system.<sup>9</sup> Due to the extremely short time frame for delivery of the berets to the Army, DLA contracting officials took a number of actions to expedite award of the contracts, including undertaking contract actions without providing for "full and open" competition as required by the Competition in Contracting Act of 1984. According to contract documents, the contract actions were not competed because of an "unusual and compelling urgency," one of the circumstances permitting other than full and open competition. Despite these actions, DLA was unable to meet its deadline due to quality and delivery problems and had to terminate several contracts because the contractors could not meet delivery requirements.

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## Sound Business Arrangements Are Essential to Reducing the Government's Risks

When contracting for commodities or services, DLA has a number of choices regarding the contracting arrangements to use. Selecting the appropriate type is important because certain contracting arrangements may increase the government's cost risk whereas others transfer some of that cost risk to the contractor. We have previously testified before this

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<sup>8</sup> DLA is the item and supply manager for Meals Ready-to-Eat.

<sup>9</sup> GAO, *Contract Management: Purchase of Army Black Berets*, [GAO-01-695T](#) (Washington, D.C.: May 2, 2001).

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committee that once the decision has been made to use contractors to support DOD's missions or operations, it is essential that DOD clearly defines its requirements and employs sound business practices, such as using appropriate contracting vehicles.<sup>10</sup> For example, we testified that we had found numerous issues with DOD's use of time-and-materials contracts that increased the government's risks. These contracts are appropriate when specific circumstances justify the risks, but our findings indicate that they are often used as a default for a variety of reasons—ease, speed, and flexibility when requirements or funding are uncertain. Time-and-materials contracts are considered high risk for the government because they provide no positive profit incentive to the contractor for cost control or labor efficiency and their use is supposed to be limited to cases where no other contract type is suitable.

With regard to commodities, it is equally important that DLA use the appropriate contracting arrangements to result in the best value and lowest risk to the government. Our prior work over the past 10 years and the work of others has identified instances where using the wrong contracting arrangement led to the ineffective or inefficient acquisition of commodities. For example, as discussed above, when DLA was tasked to purchase black berets for the Army, the extremely short time frame placed DOD in a high-risk contracting situation. In their eagerness to serve the customer, DLA contracting officials shortcut normal contracting procedures to expedite awarding the contracts, allowing little time to plan for the purchase of the berets and little room to respond to production problems. In awarding a contract to one foreign firm, using other than full and open competition, the DLA contracting officer was confronted with a price that was 14 percent higher than the price of the domestic supplier. However, the contracting officer performed a price analysis and determined the price was fair and reasonable, explaining that given the deadline, there was no time to obtain detailed cost or pricing data, analyze those data, develop a negotiation position, negotiate with a firm, and then finally make the award. When competition was introduced into the process at a later date, prices declined. As another example of higher costs resulting from using a particular contract type to acquire commodities, we reported in July 2004 that the Air Force had used the Air Force Contract Augmentation Program contract to supply commodities for its heavy

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<sup>10</sup> [GAO-09-643T](#).

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construction squadrons.<sup>11</sup> While contractually permitted, the use of a cost-plus-award-fee contract as a supply contract may not be cost-effective. Under such contracts, 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 and under the current contract commodities may be obtained using a variety of contracting arrangements. Similarly we noted in a 2007 report on the Army Corps of Engineers Restore Iraqi Oil Contract that DLA's Defense Energy Support Center was able to purchase fuel and supply products for the forces in Iraq more cheaply than the contractor because the Defense Energy Support Center was able to sign long-term contracts with the fuel suppliers, an acquisition strategy the contractor did not pursue because of the incremental funding provided by the Army.<sup>12</sup> In addition, in 2008, the DOD Inspector General found that DLA was unable to effectively negotiate prices or obtain best value for noncompetitive spare parts when it contracted with an exclusive distributor—a company that represents parts suppliers to the U.S. government.<sup>13</sup> Furthermore, the DOD Inspector General concluded that the exclusive distributor model was not a viable procurement alternative for DOD in part because of excessive pass-through charges, increased lead times to DOD, and an unnecessary layer of redundancy and cost.

Our prior work reported that DLA has taken some steps to determine if the appropriate contracting arrangement is being used or if contractors should be used at all. As we reported in 2006, DLA has recognized that the prime vendor concept may not be suitable for all commodities and has begun adjusting acquisition strategies to reassign programs to a best procurement approach.<sup>14</sup> For example, DLA evaluated the acquisition of food service equipment and determined not to continue acquiring food

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<sup>11</sup> GAO, *Military Operations: DOD's Extensive Use of Logistics Support Contracts Requires Strengthened Oversight*, [GAO-04-854](#) (Washington, D.C.: July 19, 2004).

<sup>12</sup> GAO, *Defense Contract Management: DOD's Lack of Adherence to Key Contracting Principles on Iraqi Oil Contract Put Government Interests at Risk*, [GAO-07-839](#) (Washington, D.C.: July 31, 2007).

<sup>13</sup> Department of Defense Inspector General, *Procuring Noncompetitive Spare Parts Through an Exclusive Distributor*, Report Number D-2008-048 (Arlington, VA: February 6, 2008).

<sup>14</sup> GAO, *Defense Management: Attention Is Needed to Improve Oversight of DLA Prime Vendor Program*, [GAO-06-739R](#) (Washington, D.C.: June 19, 2006).

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service equipment through a prime vendor. Instead, DLA decided to develop a new acquisition strategy that will require the development of a contractual relationship primarily with manufacturers or their representatives for equipment and incidental services. DLA has also initiated several actions aimed at strengthening oversight, such as modifying contracts to change the price verification process and establishing additional training for contracting officers and managers. In addition, DLA has taken some steps to determine whether contractors are the most efficient means to meet certain requirements. For example, in 2005, DLA conducted a public-private competition for warehousing functions at 68 sites used for disposing of surplus or unnecessary government equipment and supplies. DLA ultimately determined that it was more cost effective to retain the government employees at these sites than convert to contractor performance.

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### Proper Contract Oversight and Management Key to Obtaining Value

In addition to ensuring requirements for contracts awarded through DLA have been properly defined and the appropriate type of contract has been put in place, proper contract oversight and management is essential to ensure DOD gets value for taxpayers' dollars and obtains quality commodities or services in a cost-efficient and effective manner. Failure to provide adequate oversight hinders the department's ability to address poor contractor performance and avoid negative financial and operational impacts. In previous testimony before this committee, we noted that we have reported on numerous occasions that DOD did not adequately manage and assess contractor performance to ensure that its business arrangements were properly executed.<sup>15</sup> 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.

As an agency responsible for billions of dollars of contracts for commodities and services, it is important that DLA ensure effective contract oversight and management and thereby obtain those commodities and services in an economic and efficient manner. However, we have identified several long-standing challenges that hinder DOD's effective

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<sup>15</sup> [GAO-09-643T](#).

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management of contractors, including the need to ensure adequate personnel are in place to oversee and manage contractors, the importance of training, and the need to collect and share lessons learned. Our prior work has found while these challenges have affected DLA's ability to obtain value, in some cases DLA has also taken actions to address these challenges.

First, having the right people with the right skills to oversee contractor performance is critical to ensuring the best value for the billions of dollars spent each year on contractor support. DOD's difficulty in ensuring appropriate oversight of contractors exists is among the reasons DOD contract management has been on GAO's high-risk series since 1992.<sup>16</sup> While much of our work on contract management has been focused on weapons system acquisition and service contractors, we have found similar challenges with DOD's acquisition of commodities.

- In June 2006, we found that DLA officials were not conducting required price reviews for the prime vendor contracts for food service equipment and construction and equipment commodities.<sup>17</sup> For example, the contracts for food service equipment required verification of price increases, but officials from the supply center were unable to provide documentation on why the price of an aircraft refrigerator increased from \$13,825 in March 2002 to \$32,642 in September 2004. Both logistics agency and supply center officials acknowledged that these problems occurred because management at the agency and supply center level were not providing adequate oversight to ensure that contracting personnel were monitoring prices.
- We also found poor contract management can cause lapses in contract support and can lead to operational challenges, safety hazards and waste. For example, in 2007 DLA was given the responsibility to contract for services to de-gas, store, and refill gas cylinders in Kuwait. Warfighters use gas cylinders for a variety of purposes including, but not limited to, caring for those who are hospitalized, equipment maintenance, and construction. However, as of July 2009, DLA has yet to compete and execute this contract. As a result, instead of receiving refilled cylinders from Kuwait, warfighters are continually buying full gas cylinders from local markets in the Middle East. This may lead to

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<sup>16</sup> [GAO-09-271](#).

<sup>17</sup> [GAO-06-739R](#).

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operational challenges and waste as warfighters must make efforts to purchase gases in Iraq while cylinders that could be refilled remain idle in Kuwait.

A second long-term challenge for DOD's contract oversight and management is training. We have made multiple recommendations over the last decade that DOD improve the training of contract oversight personnel. We have found that DLA has recognized the need to improve training.

- As discussed above, our June 2006 report found that DLA officials were not conducting required price reviews for some prime vendor contracts.<sup>18</sup> Senior DLA officials acknowledged that weaknesses in oversight led to pricing problems and stated that they were instituting corrective actions. Among the weaknesses were the lack of knowledge or skills of contracting personnel and a disregard for the contracting rules and regulations. To address this weakness, DLA has established additional training for contracting officers and managers. In addition, DOD concurred with our recommendation that the Director, DLA provide continual management oversight of the corrective actions taken to address pricing problems.
- DLA has also taken some actions to help ensure that contracting officer's representatives are properly trained. For example, DLA's Defense Reutilization and Marketing Service has recognized that performance-based contracts will only be effective if contracting officer's representatives accurately report contractor performance and contracting officers take appropriate actions. DLA has established contracting officer's representative training requirements to ensure these individuals are properly trained to carry out their responsibilities. These requirements increase for contracts that are more complex or present higher risks to the government. While we have not evaluated the performance of DLA contracting officer's representatives, our previous work shows that when contracting officer's representatives are properly trained, they can better ensure that contractors provide services and supplies more efficiently and effectively.<sup>19</sup> In addition, a working group from DOD's panel on contracting integrity in September 2008 recognized the importance of

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<sup>18</sup> [GAO-06-739R](#).

<sup>19</sup> [GAO-07-145](#).

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more in-depth contracting officer's representative training for more complex contracts or contracts that pose a greater risk to DOD.

- In February 2009, we reported that businesses and individuals that had been excluded from receiving federal contracts for egregious offenses continued to be awarded contracts.<sup>20</sup> Our work demonstrated that most of the improper contracts and payments identified can be attributed to ineffective management of the governmentwide database which tracks excluded contractor information or to control weaknesses at both the agency which excluded the contractor and the contracting agency. Specifically, our work showed that excluded businesses continued to receive federal contracts from a number of agencies, including DLA, because officials (including contracting officers) at some agencies failed to enter complete information in the database in a timely manner or failed to check the database prior to making contract awards. In addition, some agencies like DLA used automated purchasing systems which did not interface with the database. In commenting on our report agency officials stated that most of the issues we identified could be solved through improved training.

A third long-term challenge for DOD's contract oversight and management is the need to collect and share institutional knowledge on the use of contractors, including lessons learned and best practices. Our prior work has found that DLA has taken some actions to improve the collection as well as the application of lessons learned. For example, in January 2000, we identified DLA's prime vendor program as an example of DLA adopting a best commercial practice for inventory management.<sup>21</sup> Our work found that DLA was developing a policy to establish the basis for lessons learned from the reviews of prime vendor programs.<sup>22</sup> Key points of the policy include specific requirements for management oversight such as pricing and compliance audits; requiring all prime vendor contracts to comply with an established prime vendor pricing model; annual procurement management reviews for all prime vendor contracts; and requiring

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<sup>20</sup> GAO, *Excluded Parties List System: Suspended and Debarred Businesses and Individuals*

*Improperly Receive Federal Funds*, [GAO-09-174](#) (Washington, D.C.: Feb. 25, 2009).

<sup>21</sup> GAO, *Defense Inventory: Opportunities Exist to Expand the Use of Defense Logistics Agency Best Practices*, [GAO/NSIAD-00-30](#) (Washington, D.C.: Jan. 26, 2000).

<sup>22</sup> [GAO-06-739R](#).

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advance approval by headquarters for all prime vendor contracts, regardless of dollar value. However, because this policy was still in draft form at the time of our review, we did not evaluate it.

In closing, Mr. Chairman, DLA has a key role in supporting the warfighter by providing a vast array of logistics support. In providing this support, DLA depends on contractors and as such must ensure that it is obtaining good value for the billions of dollars it spends every year. Regardless of whether DLA is buying commodities or services, well-defined requirements, appropriate contract types, and proper contract oversight and management are critical to ensuring that DLA gets what it pays for.

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

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## Contributors and Acknowledgements

For further information about this testimony, please contact William Solis, Director, Defense Capabilities and Management, on (202) 512-8365 or [solisw@gao.gov](mailto:solisw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Other key contributors to this testimony include Carole Coffey, Lionel Cooper, Laurier Fish, Thomas Gosling, Melissa Hermes, James A. Reynolds, Cary Russell, Michael Shaughnessy, and Marilyn Wasleski.

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