



GAO

Accountability • Integrity • Reliability

United States Government Accountability Office
Washington, DC 20548

January 29, 2010

Congressional Committees

Subject: *Defense Acquisitions: Observations on the Department of Defense Service Contract Inventories for Fiscal Year 2008*

The Department of Defense (DOD) is the federal government's largest purchaser of contractor-provided services and relies on contractors to support its varied missions. DOD's contractors provide a range of services, such as consulting and administrative support, information technology services, and weapon system and base operations support. However, DOD contract management has been on our high-risk list since 1992,¹ and our recent work continues to identify weaknesses in DOD's management and oversight of services contracts. In particular, we have reported on the need for reliable data on how service acquisition dollars are spent to make informed contract management decisions and achieve positive acquisition outcomes.² Congress has enacted legislation in recent years to increase the availability of information on services acquisitions to improve DOD's ability to manage these purchases. As part of those efforts, the National Defense Authorization Act for Fiscal Year 2008 amended 10 U.S.C. § 2330a to require DOD to submit an annual inventory of the activities performed pursuant to contracts for services for or on behalf of DOD during the preceding fiscal year.³ These inventories are to contain a number of different elements for the service contracts listed, including information on the functions and missions performed by the contractor, the funding source for the contract, and the number of contractor full-time equivalents (FTE) working under the contract. Once compiled, the inventories are to be reviewed by senior DOD officials and used to inform a variety of acquisition and workforce decisions.

House Armed Services Committee Report 111-116, which accompanied the National Defense Authorization Act for Fiscal Year 2010, directed us to assess the methodology used by the Departments of the Army, Navy,⁴ and Air Force to compile the service contract inventories for fiscal year 2008. In December 2009, we provided your staff with a briefing on the results of our assessment of the methodologies used. This letter summarizes that briefing, which is contained in enclosure I.

To assess the methodologies used by each of the military departments in compiling their fiscal year 2008 inventories, we obtained and reviewed each of the inventories

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

² GAO, *Defense Acquisitions: Tailored Approach Needed to Improve Service Acquisition Outcomes*, [GAO-07-20](#) (Washington, D.C.: Nov. 9, 2006).

³ 10 U.S.C. § 2330a (c).

⁴ Throughout this letter and the enclosed briefing, we use the term Navy to refer to the Department of the Navy, which includes both the Navy and the United States Marine Corps.

Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE 29 JAN 2010		2. REPORT TYPE		3. DATES COVERED 00-00-2010 to 00-00-2010	
4. TITLE AND SUBTITLE Defense Acquisitions: Observations on the Department of Defense Service Contract Inventories for Fiscal Year 2008				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) U.S. Government Accountability Office, 441 G Street NW, Washington, DC, 20548				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 Approved for public release; distribution unlimited					
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 unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified			

and descriptions of the methodologies used. In addition, we interviewed officials from the Office of Acquisition, Technology and Logistics, Defense Procurement and Acquisition Policy, and the Army, Navy, and Air Force to identify the data sources used and discuss the compilation methodologies. We also analyzed data from the Federal Procurement Data System-Next Generation (FPDS-NG)⁵ on service contracts active in fiscal year 2008 for each military department to assess the methodologies used and the completeness of the data contained in the inventories. We have previously reported on issues with the reliability of data contained in FPDS-NG; however, for the purposes of this review, we used FPDS-NG data to identify potential inconsistencies in the military departments' methodologies and their implementation, rather than to assess the completeness or accuracy of FPDS-NG data. Additional information regarding our scope and methodology appears in appendix I of the briefing.

We conducted this performance audit from October 2009 to November 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Summary

In July 2009, DOD transmitted a report to Congress containing the inventories for fiscal year 2008, in which the Departments of the Army, Navy, and Air Force identified \$96 billion spent to acquire contractor services and 596,219 contractor FTEs providing services.⁶ In compiling their respective inventories, the military departments used different methodologies, relying on a mixture of existing data systems, contractor-entered data, manual compilation of some data elements, or estimates. Key differences between the departments' methodologies include how they identified service contracts, the categories of services included in each inventory, and how they determined the number of contractor FTEs. Furthermore, the data reported in each of the inventories were not complete. DOD has acknowledged limitations associated with the methodologies used and currently has an effort under way to develop a new, more consistent approach for compiling future inventories.

⁵ FPDS-NG is the primary governmentwide contracting database, providing information on government contracting actions, procurement trends, and achievement of socioeconomic goals, such as small business participation.

⁶ According to FPDS-NG, DOD obligated approximately \$200 billion on service contracts in fiscal year 2008. DOD has since indicated that the fiscal year 2008 total was overstated by \$13.9 billion and has corrected this administrative error in its fiscal year 2009 data. The difference between the obligations identified in FPDS-NG and the amount identified in the military departments' inventories is attributable, in part, to service contracting activities by defense agencies other than the military departments, which were not included in our review, and the fact that the Army inventory dollar total was based on invoiced contract costs rather than obligations.

Methodologies Used by the Army, Navy, and Air Force Differed in Key Ways

One key difference in the methodologies relates to how the Army, Navy, and Air Force identified contracts for services. Specifically, the Army's methodology included services purchased under contracts for both goods and services, while the Navy and Air Force methodologies did not. This occurred because the Army inventory was based in part on information entered by contractors into its Contractor Manpower Reporting Application (CMRA) system, which was set up to obtain better visibility of the contractor service workforce. According to Army policy, Army contracts must contain a clause requiring contractors to enter data, including the invoiced amount and the direct labor hours for services purchased, regardless of whether the contract is primarily for services or goods. In contrast, the Navy and Air Force identified service contracts based on whether the contracts were coded for services in FPDS-NG. However, since services can also be purchased under contracts coded for goods in FPDS-NG, services purchased under such contracts were not included in the Navy and Air Force inventories.⁷

Another key difference among the methodologies is that each military department defined what constituted a service differently and excluded different categories of services and contract actions from each inventory based on their interpretations of the requirements. In some instances, the effect of these exclusions was significant. Most notably, the Air Force excluded contracts categorized as providing research and development services whereas the Navy and Army inventories contain such contracts. The effect of this exclusion reduced the obligations reported in the Air Force's inventory by about \$13 billion. Additionally, the Navy excluded contract actions below \$100,000, which totaled \$1.8 billion, and contract actions with de-obligations, which totaled \$1.2 billion.

The military departments also differed in how they determined the number of contractor FTEs performing services. The Army used data entered into CMRA by contractors regarding the number of direct labor hours worked for contract services during fiscal year 2008, which were then converted to FTEs.⁸ Army officials explained that contractor data should but may not always be validated by government personnel overseeing the contractors. However, Army officials indicated that because the reported data are consistent with other data obtained through internal reviews, they are confident in the reported data's accuracy. Army officials also stated that on a limited basis, when the alternative would have been receiving no labor hour data, contractors have been given permission to enter estimates in lieu of actual labor hours. In contrast, the Navy and Air Force both used the amount obligated for a particular type of service divided by the estimated cost of a contractor employee to perform that type of service to estimate the number of contractor FTEs. However, the Navy and Air Force differed in how they identified the cost of a contractor performing each type of service. The Navy reviewed a sample of 510 Navy contracts and based on this sample calculated the average hourly labor rate for each type of

⁷ Guidance for entering data into FPDS-NG indicates that only one product service code is to be used for each contract action, and this code should reflect the predominant good or service purchased, even if other types of goods or services are also being purchased under the same contract.

⁸ One FTE equals 2087 labor hours performed in a year.

service. The Air Force, for the majority of its contracts, adjusted the average annual cost of a contractor FTE identified in DOD's *Performance of Commercial Activities Report*⁹ and used this adjusted number as its estimated contractor cost. For example, using its methodology, the Navy determined the cost of a contractor providing professional services to be \$179,252 per year, whereas the Air Force determined the cost for the same type of service to be \$160,000 per year. When using an estimate to calculate FTEs, the results can be highly sensitive to the numbers that are used for the cost of a contractor FTE. For instance, when the Air Force adjusted the factor contained in the DOD commercial activities report, its FTE calculation was reduced by almost half.

Inventory Data Were Not Complete

The data reported in each of the military departments' inventories are not complete. For example, the military departments noted challenges in their ability to obtain and report data on services purchased through interagency contracting. Using FPDS-NG, we identified \$1.4 billion in obligations where the military departments provided funding to non-DOD agencies to contract for services on DOD's behalf, which indicates a large scope of service contracting activities not fully reflected in the inventories. In addition, for those contracts that were included in the inventories, the Army, Navy, and Air Force were missing some data they were required to report. For example, the Navy inadvertently omitted \$4 billion in service contracting activity because of an error made in manually compiling its inventory. Additionally, all three military departments did not identify the funding source for a significant portion of the contracts in their inventories—in the case of the Air Force, the funding source was provided for less than 1 percent of the contracts. In the case of the Army, our analysis showed that for 88 percent of the contracts in the Army's inventory, data were not provided on the number of contractor FTEs or the function performed by the contractor. Army officials told us that this occurred because contractors did not enter data into the CMRA system for all contracts that the Army listed in its inventory. We found that the Army had more complete data for a small subset of contracts for which contractors entered labor hour data into CMRA. For this subset, the number of contractor FTEs and the function performed by the contractor were provided for close to 100 percent of these contracts.¹⁰ The Navy and Air Force were able to provide more complete data on the number of contractor FTEs and the function performed for almost all contracts listed in their inventories because each populated the contractor FTE field with estimates using a formula and took the function performed by the contractor from existing data systems.

Plans for Fiscal Year 2009 Inventories and Future GAO Reviews

DOD has acknowledged the presence of inconsistencies across the military departments' fiscal year 2008 inventories. The Office of Acquisition, Technology, and Logistics, Defense Procurement and Acquisition Policy is developing a new, more

⁹ DOD submits this report to Congress pursuant to requirements contained in 10 U.S.C. § 2462(b).

¹⁰ According to the Army, this small subset of contracts provides the sole basis for the 213,133 contractor FTEs and the \$34 billion spent to acquire services that the Army identified in the July 2009 report to Congress.

consistent methodology for compiling the fiscal year 2009 inventories to address these inconsistencies, which includes consideration of options for standardizing the calculation of contractor FTEs. In addition, section 803 of the National Defense Authorization Act for Fiscal Year 2010 directs GAO to continue to report on DOD's inventories in 2010, 2011, and 2012.¹¹

Concluding Observations

The service contract inventories are to be used to inform a variety of acquisition and workforce decisions within DOD. The limitations that both we and DOD have identified in the methodologies used to compile the inventories for fiscal year 2008 indicate a need to exercise caution when using them as a basis for such decisions. First, the differences inherent in each of the methodologies, in particular the differences in the categories of services excluded and in the way in which the number of contractor FTEs was identified, make comparisons across the military departments difficult. Furthermore, all three methodologies had limitations in the extent to which each captured the universe of service contracting activity, and for those contracts that were included, the extent to which complete data were reported. DOD efforts to develop a new, more consistent approach for compiling the inventories may address such limitations and better meet the varying information needs of those responsible for making acquisition and workforce decisions.

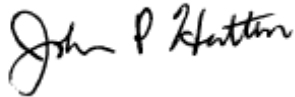
Agency Comments

We provided a draft of this report to DOD for its review and comment. DOD provided oral comments in which Mr. Shay Assad, Director, Defense Procurement and Acquisition Policy, stated that DOD concurs with the GAO's concluding observations and will continue working with the military departments and other defense agencies to establish a unified methodology for completion of all data required by 10 U.S.C. § 2330a.

¹¹ Pub. L. No. 111-84 § 803, 123 Stat. 2190 (2009).

We are sending a copy of this report to the Secretary of Defense. In addition, this document will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions, please contact us at (202) 512-4841 or huttonj@gao.gov or (202) 512-8365 or solisw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made contributions to this correspondence are listed in enclosure II.



John P. Hutton
Director, Acquisition and Sourcing Management



William Solis
Director, Defense Capabilities and Management

Enclosures - 2


List of Committees

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

The Honorable Daniel Inouye
Chairman
The Honorable Thad Cochran
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Howard P. McKeon
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable John Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives



**Observations on the Department
of Defense Service Contract
Inventories for Fiscal Year 2008**

**Briefing for Congressional Staff
December 10, 2009**

Contents

- Introduction
 - Objective, Scope, and Methodology
 - Results in Brief
 - Background
 - Methodologies Used by Military Departments Differed
 - Inventory Data Are Not Complete
 - Concluding Observations
 - Plans for Fiscal Year 2009 Inventories and Future GAO Reviews
 - Agency Views
 - Appendix I: Scope and Methodology
 - Points of Contact
-



Introduction: DOD's Use of Service Contracts and Requirement for Inventories

- The Department of Defense (DOD) reported obligating roughly \$200 billion on service contracts in fiscal year 2008.
- Contractors provided a range of services for DOD, such as:
 - food services;
 - management support;
 - analytical support for budget formulation;
 - weapon system repair; and
 - security guard services.
- 10 USC § 2330a requires DOD to collect data on the purchase of services, compile an inventory of those services, and submit the inventory to Congress annually. The inventory is to be made available to the public. Further, within 90 days of submission of the annual inventory to Congress, DOD must review the inventory to ensure that it complies with the requirements of 10 USC 2330a (e).



Objective, Scope, and Methodology

- The House Armed Services Committee Report 111-166 accompanying H.R. 2647, the *National Defense Authorization Act for Fiscal Year 2010*, directed GAO to assess the methodology used by the Departments of the Air Force, Navy,¹ and Army to compile the inventories for fiscal year 2008.
- To conduct our work we:
 - obtained and reviewed the military departments' inventories for fiscal year 2008 and descriptions of the methodologies used to compile them;
 - interviewed officials to identify the data sources used to compile the inventories and discuss the compilation methodologies; and
 - compared inventory data to data extracted from the Federal Procurement Data System-Next Generation (FPDS-NG) for fiscal year 2008 to assess the completeness of the data contained in the inventories.
- See Appendix I for our complete scope and methodology.

¹ For the remainder of this briefing, we use the term Navy to refer to the Department of the Navy, which includes both the Navy and the United States Marine Corps.

Results in Brief

The military departments each used different approaches and data sources to compile their service contract inventories for fiscal year 2008, excluded different categories of data, and calculated the number of contractor full time equivalents differently. Further, the data reported in each of the inventories are not complete.

The military departments have acknowledged some of the limitations associated with their methodologies. Furthermore, there is a DOD-wide effort underway to develop a new, more consistent approach for compiling future inventories.



Background: Statutory Requirements

- 10 USC § 2330a (a) requires the Secretary of Defense to establish a data collection system to provide management information about the purchase of services. This system is to capture data on the following elements:
 - the service purchased;
 - total dollar amount of the purchase;
 - form of contracting;
 - whether the purchase was made through a performance-based or non-performance based contracting arrangement;
 - if the purchase was made by a non-DOD agency, the name of that agency;
 - the extent of competition provided in making the purchase, and whether there was more than one offer;
 - whether the purchase was made from a small business, small disadvantaged businesses, or women-owned small businesses.
-

Background: Statutory Requirements (cont.)

- 10 USC 2330a (c) also requires the Secretary of Defense to submit to Congress, not later than the third quarter of each fiscal year, an annual inventory of the activities performed during the preceding fiscal year pursuant to contracts for services for or on behalf of DOD. The inventory shall include the following data elements for each activity:
 - functions and missions performed by the contractor;
 - contracting organization, administering component, and requiring organization;
 - funding source for the contract by appropriation and operating agency;
 - fiscal year the activity was first reported on an inventory;
 - number of full-time contractor employees (or equivalent);
 - a determination of whether the contract is for personal services; and
 - a summary of the data already required in 10 USC 2330a (b).
-

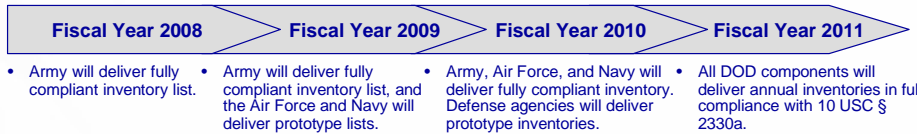
Background: Statutory Requirements (cont.)

- 10 USC § 2330a (e) also requires that the secretary of the military department or head of the defense agency shall review contracts on the list for which they are responsible to:
 - ensure that personal services contracts are being entered into and performed according to applicable statutory and regulatory requirements;
 - ensure that the activities on the list do not include any inherently governmental functions;
 - ensure that to the maximum extent practicable that activities on the list do not include any functions closely associated with inherently governmental functions; and
 - identify activities that should be considered for conversion to
 - performance by DOD civilian employees pursuant to 10 USC 2463, or
 - to an acquisition approach more advantageous to DOD.
-

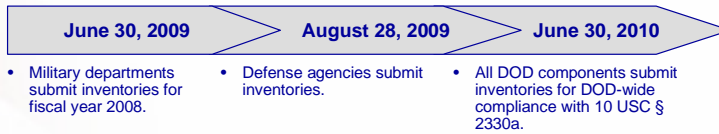


Background: Schedule for Submitting Fiscal Year 2008 Inventories

- In May 2008, DOD's Office of Acquisition, Technology & Logistics (AT&L) issued a memorandum that established a phased approach for implementing the inventory requirement.



- In May 2009, AT&L issued a revised implementation schedule.



Background: Inventories for Fiscal Year 2008 Service Contracts

The fiscal year 2008 military departments' inventories identified \$96 billion in service contracting activity and 596,219 contractor full-time equivalents (FTEs).²

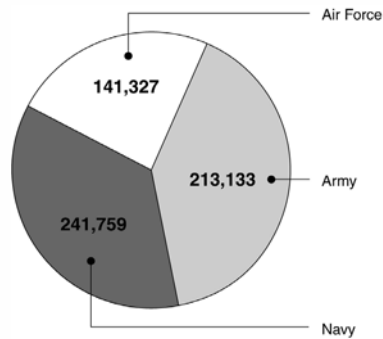
Table 1: Dollars contracted for services in fiscal year 2008 inventories

Military Department	Dollars Contracted for Services in Fiscal Year 2008 ^a
Air Force	\$20,964,572,022
Navy	\$41,135,363,819
Army	\$34,052,055,961
Total	\$96,151,991,802

Source: GAO analysis of military department fiscal year 2008 inventories.

^aThe Air Force and Navy reported dollar values as fiscal year 2008 obligations while the Army reported total invoiced contract costs for fiscal year 2008.

Figure 1: Total FTEs in fiscal year 2008 inventories



Source: GAO analysis of military department fiscal year 2008 inventories and report to Congress.

² One FTE equals 2087 labor hours performed in a year.

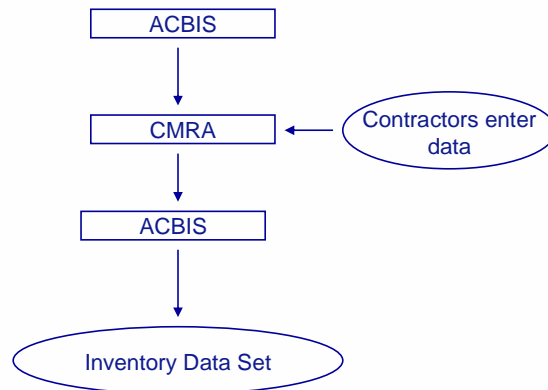


Methodologies Used by the Military Departments Differed

- Key differences exist in how the military departments compiled their service contract inventories for fiscal year 2008.
 - The military departments' methodologies relied on a mixture of existing data systems, manual compilation of some data elements, and estimates.
 - Each military department excluded different categories of contract services and actions.
 - Each military department chose a different technique for calculating the number of contractor FTEs.

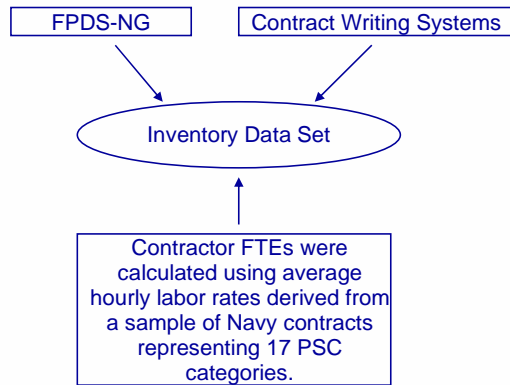
Methodologies Used: Overview of Army

To compile its inventory, the Army used the Army Contract Business Intelligence System (ACBIS) to identify service contracts and populate the Contractor Manpower Reporting Application (CMRA). Contractors then entered additional data, including data on labor hours, into CMRA. The Army then used ACBIS to populate any remaining data elements.



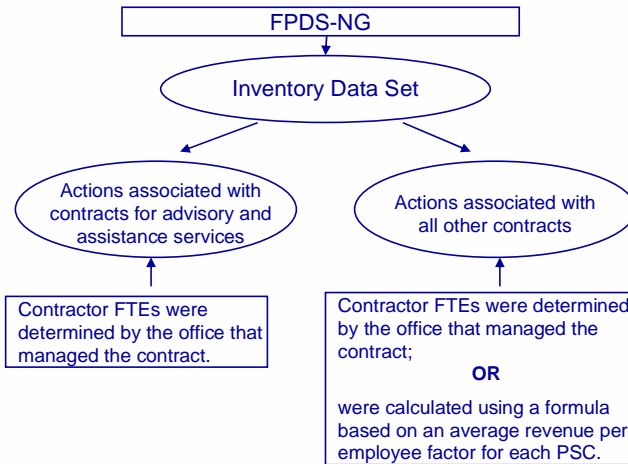
Methodologies Used: Overview of Navy

To compile its inventory, the Navy had individual contracting offices query FPDS-NG and contracting writing systems using the product service code (PSC) to identify services contracts.



Methodologies Used: Overview of Air Force

To compile its inventory, the Air Force queried FPDS-NG using the PSC to identify service contracts. The Air Force then used multiple methodologies depending on the nature of the contract action to identify the number of contractor FTEs.





Methodologies Used: Some Services and Contract Actions Excluded

- Because the Air Force and Navy identified contracts included in their inventories based on whether they were coded as a service in FPDS-NG, their inventories do not include contracts that may have been coded under a PSC for goods but that also have services being performed.
 - This occurs because those entering data into FPDS-NG are to report only one PSC for each action and are to use the PSC that describes the predominant product or service procured.
- According to Army guidance on reporting in CMRA, contractors are required to report data on services purchased under a contract used to purchase both goods and services, even if the product service code associated with the contract is for goods. We identified contracts included in the Army's inventory that are coded under a PSC for goods in FPDS-NG.



Methodologies Used: Some Services and Contract Actions Excluded

Each military department excluded some categories of services and/or contract actions from their inventories.

Table 2: Activities excluded from fiscal year 2008 inventories

	Air Force	Navy	Army
Category of service	<ul style="list-style-type: none"> • Research and development • Construction • Maintenance of real property • Lease or rental of equipment and facilities • Additional services^a 	<ul style="list-style-type: none"> • Construction • Lease or rental of equipment, and facilities 	<ul style="list-style-type: none"> • Construction • Utility services • Foreign military sales
Contract actions		<ul style="list-style-type: none"> • Actions below \$100,000^b • Deobligations 	

Source: GAO analysis of military department fiscal year 2008 inventories.

^aThe Air Force chose to exclude 43 additional PSCs that the Air Force felt were not likely to have an FTE closely associated with the service provided, such as motor passenger services.

^bA Navy official explained that contract actions below \$100,000 were excluded based on the Navy's interpretation of 10 U.S.C. 2330a.



Methodologies Used: Example of the Effect of Navy Exclusions

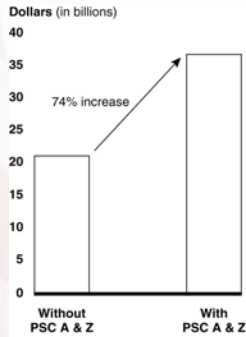
- Based on its interpretation of 10 U.S.C. 2330a, a Navy official stated that the Navy did not include actions below \$100,000. Using FPDS-NG, we identified the total dollar value of these actions as about \$1.8 billion.
- The Navy also did not include contract actions with de-obligations in its inventory. Using FPDS-NG, we identified the total dollar value of de-obligations as about \$1.2 billion.³

³ For our analysis of the Navy's exclusions, we removed contract actions from the FPDS-NG data we compiled that were associated with the PSCs for lease or rental of equipment and construction to maintain consistency with the Navy's original PSC inclusions.

Methodologies Used: Example of the Effect of Air Force Exclusions

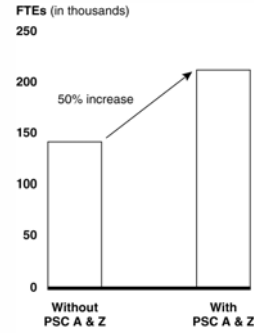
While the Army and Navy inventories included product service codes for research and development (PSC A) and maintenance, repair or alteration of real property (PSC Z), the Air Force inventory did not. If PSC A and PSC Z were included in the Air Force inventory, both total obligations and the FTE estimate would increase significantly.

Figure 2: Potential change in Air Force inventory obligations for fiscal year 2008



Source: GAO analysis of Air Force data.

Figure 3: Potential change in Air Force inventory FTE estimate for fiscal year 2008



Source: GAO analysis of Air Force data.



Methodologies Used: Army's Calculation of Contractor FTEs

- Contractors with a reporting requirement in their performance work statement are to enter data in CMRA for direct labor hours, which is the total number of hours performed by the contractor on the contract in the prior fiscal year.
 - According to Army officials, contractors can enter labor hour estimates on a limited exception basis because in some cases, the alternative would have been receiving no labor hour data. They stated these estimates are regarded as reasonable since CMRA has automated checks of whether the labor hours are consistent with other data being reported.
 - Army officials said that while contracting officer's representatives are to validate the labor hours entered by contractors in CMRA, this validation may not always occur. However, officials expressed confidence in the reported FTEs' accuracy because the numbers are consistent with data obtained through internal reviews.

Methodologies Used: Army's Calculation of Contractor FTEs (cont.)

To calculate the number of contractor FTEs, the Army used the following formula based on the data from CMRA:

$$\boxed{\text{Number of FTEs}} = \frac{\boxed{\text{Direct labor hours}}}{\boxed{2087 \text{ annual labor hours}}} \left. \vphantom{\frac{\boxed{\text{Direct labor hours}}}{\boxed{2087 \text{ annual labor hours}}}} \right\} \text{Taken from CMRA}$$



Methodologies Used: Navy's Calculation of Contractor FTEs

- To calculate contractor FTE's, the Navy used the following process:
 - Grouped PSCs into 17 categories based on similarities in descriptions and functions.
 - Selected a sample of Navy contracts for each category of services.
 - Reviewed 510 contracts to identify the average hourly labor rate on each contract, then calculated the average hourly labor rate for each of the 17 categories. For example, using this method the Navy calculated that a contractor working under a contract coded as program management services earned an average labor rate of \$85.75 per hour.



Methodologies Used: Navy's Calculation of Contractor FTEs (cont.)

Once the Navy identified the average hourly labor rate for each service category, the Navy used the following formula to calculate FTEs:

$$\text{Number of FTEs} = \frac{\text{Dollars obligated for each contract line item}}{\text{Average hourly labor rate}} \times 2087$$

Taken from contract writing systems

The average hourly labor rate was calculated based on sample of Navy contracts and then multiplied by 2087 annual labor hours to convert to an annual dollar amount.



Methodologies Used: Air Force's Calculation of Contractor FTEs

- For the 1,154 contract actions in the Air Force inventory that the Air Force identified as being associated with contracts for advisory and assistance services, the Air Force used FTE numbers that were generated through their annual budget documentation process. To do so, the offices that manage each contract are to provide their best estimate of the number of contractor FTEs based on the techniques identified in Air Force Instruction 38-201, *Determining Manpower Requirements*.
 - These estimating methods were used for actions associated with advisory and assistance services contracts regardless of the amount obligated.



Methodologies Used: Air Force's Calculation of Contractor FTEs (cont.)

- For the non-advisory and assistance service contract actions in the Air Force inventory that were \$10 million and above, the responsible contracting offices were asked to provide their best estimate of the number of FTEs and could do so based on any logical approach they chose, including counting the number of contractor badges or common access cards issued under the contract, asking the contractor how many people were working under the contract, or asking the quality assurance personnel to provide an estimate. Using these approaches, the responsible contracting offices provided either a head count or an FTE estimate for 86 of these actions.
- For the remaining 196 actions that were \$10 million and above, the responsible contracting office did not provide an FTE estimate. As a result, the Air Force applied its formula for calculating FTEs to these as well as the 44,917 actions below \$10 million.

Methodologies Used: Air Force's Calculation of Contractor FTEs (cont.)

To estimate contractor FTEs in its inventory, the Air Force used the following formula:

$$\text{Number of FTEs} = \frac{\text{Dollars obligated for the action}}{\text{Average annual cost of FTE for the PSC associated with the action}}$$

} Taken from FPDS-NG

Based on an Air Force adjustment to the average FTE costs in the *DOD Performance of Commercial Activities Report*.⁴

⁴DOD submits this report to Congress pursuant to requirements contained in 10 U.S.C. § 2462(b).



Methodologies Used: Air Force's Calculation of Contractor FTEs (cont.)

- The Air Force did not agree with the methodology used to calculate the average annual cost of an FTE in the DOD *Performance of Commercial Activities Report*, citing concerns that the costs identified were too low.
- Based on a survey of its professional services contracts, the Air Force proportionally increased the average annual cost of an FTE for all service contract categories.
- Using the adjusted average FTE cost, the Air Force estimated it had 122,764 contractor FTEs for those actions where it used its formula. Using the averages from DOD's commercial activities report, the estimate would have been 238,107 FTEs for these same actions.

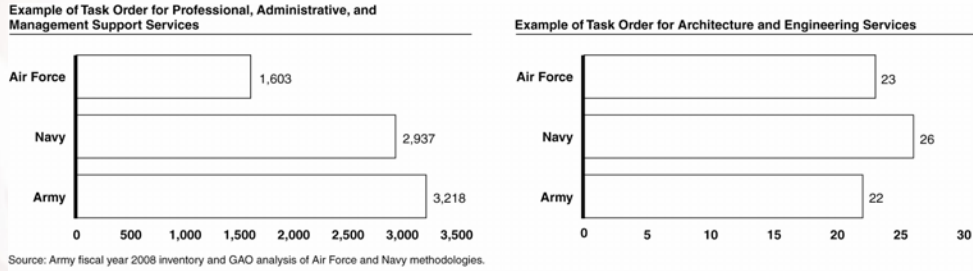


Methodologies Used: Comparison of FTE Calculations

- Using two Army task orders as examples, we identified the dollars obligated under each task order in FPDS-NG for fiscal year 2008 and then applied both the Navy and Air Force FTE formulas and their respective labor rates to the same task order to compare the resulting number of FTEs. Because the Army methodology for determining FTEs relies on contractor reported data, we could not apply that methodology to Navy or Air Force contracts or orders.
- As illustrated on the following slide, applying the different methodologies, specifically the labor rates, to the same task order results in a different number of contractor FTEs.

Methodologies Used: Comparison of FTE Calculations (cont.)

Figure 4: Comparison of FTE results for the Army, Navy, and Air Force





Inventory Data Are Not Complete

- The military departments' inventories are not complete.
 - Each military department reported that interagency contracts for which DOD provided funds to other agencies to purchase services on its behalf were not fully reflected in their inventories.
 - The Army inventory was missing data for some required data elements because contractors did not enter data for a significant number of contracts.
 - The Navy inventory inadvertently omitted almost \$4 billion in service contracting activity.
 - The Air Force inventory did not identify the funding source for a large number of contracts and attributed this to resource constraints. The Air Force also excluded a small number of contractor FTEs from the total.



Completeness: Incomplete Reporting of Interagency Contracting Activities

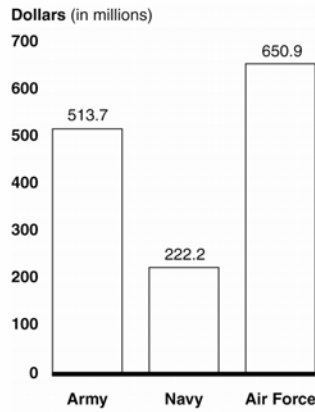
- In submitting their inventories, the Army and Air Force noted challenges in their ability to obtain and report data on interagency service contracts. As a result, the Army stated that its inventory contained limited data on services purchased through another agency, while the Air Force stated that its inventory did not include contracts where it was the funding agency but not the contracting agency. Similarly, Navy officials informed us that their inventory did not include instances in which another agency procured services on the Navy's behalf.
- All three military departments indicated that they are looking at options on how to improve their collection of data on services obtained through interagency contracts.



Completeness: Incomplete Reporting of Interagency Contracting Activities (cont.)

Using FPDS-NG, we identified obligations totaling almost \$1.4 billion in service contracting activities done on behalf of the Army, Navy, and Air Force by non-DOD agencies. While the interagency contracting data in FPDS-NG may not be complete, these activities represent a large scope of service contracting activity not fully reflected in the inventories.⁵

Figure 5: Fiscal year 2008 obligations on non-DOD interagency service contracts



Source: GAO analysis of FPDS-NG data.

⁵ For example, see GAO, *Interagency Contracting: Need for Improved Information and Policy Implementation at the Department of State*, [GAO-08-578](#) (Washington D.C.: May 8, 2008).



Completeness: Army Missing Data

- When we analyzed the Army’s inventory, we identified a significant number of contracts for which data were missing, as shown in table 3. For example, for 87.9 percent of the contracts in the inventory, no data were provided on the function performed by the contractor.
- Army officials told us that the missing data in its inventory are attributable to contractors not entering data in CMRA for all contracts. However, they noted that when contractors entered labor hour data into CMRA, the remaining data elements for those contracts were more likely to be populated. For the subset of contracts with labor hour data, we found considerably fewer instances where the data were missing.

Table 3: Percentage of contracts with missing data for selected data elements

	Number of contracts	Invoiced dollar amount	Contractor FTEs	Funding source	Function performed
All contracts in inventory	47,191	83.6%	87.9%	46.7%	87.9%
Subset of contracts in inventory with direct labor hour data	5,735	0.1%	0.0%	38.9% ^a	0.0%

Source: GAO analysis of the Army fiscal year 2008 inventories.

^aAccording to the Army, the contracts without funding source data represent 15.6 percent of the invoiced amounts for which the funding source was reported.



Completeness: Navy Missing Data

- When we replicated the Navy’s methodology for identifying service contracts in FPDS-NG, we identified 1,837 contracts with obligations of almost \$4 billion that were not included in the Navy’s inventory. A Navy official noted that these contracts were not included due to an inadvertent error in manually compiling the full data set and that the Navy will take steps to ensure this does not occur in future inventories.
- Additionally, in submitting its inventory, the Navy noted that there were missing data for the contracts included in the inventory due to information not being available from the data sources used.

Table 4: Percentage of Navy contracts missing data for selected data elements

Obligations	Contractor FTEs	Funding source	Function performed
0.0%	1.6%	44.6% ^a	12.8%

Source: GAO analysis of the Navy fiscal year 2008 inventory.

^aThe records without funding source data represent 36.4 percent of the Navy’s reported obligations.



Completeness: Air Force Missing Data

- In submitting its inventory, the Air Force acknowledged that some data were missing, particularly the funding source for actions below \$10 million. The Air Force attributed this to limited resources available to find the information and manually enter it.

Table 5: Percentage of Air Force contracts missing data for selected data elements

Obligations	Contractor FTEs	Funding source	Function performed
0.0%	0.0%	99.1% ^a	0.0%

Source: GAO analysis of the Air Force fiscal year 2008 inventory.

^aThe records without funding source data represent 70.8 percent of the Air Force's reported obligations.

- In analyzing the Air Force's inventory data, we identified 2,459 FTEs not included in their FTE total. This difference occurred because of the Air Force's decision to record FTE values between -1 and 1 as 0 for 26,117 actions where the Air Force used its formula for estimating FTEs.⁶

⁶ As noted by the Air Force, because its inventory included individual contract actions with de-obligations, the FTE calculation can result in a negative number.



Concluding Observations

- Because the inventories of service contracts for fiscal year 2008 were compiled in different ways, comparisons across the military departments may be difficult. This is particularly the case for the contractor FTEs given the substantial differences in how each military department compiled those numbers. As our analysis demonstrated, the numbers of FTEs vary based on the factors used to estimate the cost of contractors performing particular categories of services.
 - Further, the inventories do not reflect the full universe of service contracts and for contracts that were included, did not always provide all of the required information.
 - As a result, the inventories do not provide comparable or comprehensive information on DOD's service contracts that could be used to inform acquisition and workforce decisions.
-



Plans for Fiscal Year 2009 Inventories and Future GAO Reviews

- In its submission of the fiscal year 2008 inventories, DOD acknowledged the inconsistencies in the inventories. AT&L has an effort underway to develop a new, more consistent approach for compiling the fiscal year 2009 inventories and is currently considering options for calculating the number of contractor FTEs. According to DOD officials, guidance regarding this approach is forthcoming.
- Section 803 of the *National Defense Authorization Act for Fiscal Year 2010*⁷ directs GAO to report on DOD's inventory in 2010, 2011, and 2012.

⁷ Pub. L. No. 111-84 § 803, 123 Stat. 2190 (2009)



Agency Views

In providing oral comments on a draft of this briefing, a senior AT&L official stated that the briefing provides a fair assessment of the methodologies used by the military departments in compiling their fiscal year 2008 service contract inventories. This official further commented that the military departments made a good faith effort to comply with the inventory requirements. He noted that developing and implementing the methodologies required considerable time and effort, given the current lack of a DOD-wide source for all of the information required for the inventories.



Appendix I: Scope and Methodology

- Our objective was to assess the methodology used by the departments of the Air Force, Navy, and Army to compile the fiscal year 2008 service contract inventories required by 10 USC § 2330a. To conduct our work, we:
 - obtained and reviewed the military departments' inventories for fiscal year 2008 and documents describing the methodologies used to compile them;
 - interviewed officials from the following DOD offices to identify the data sources used to compile the inventories and discuss the compilation methodologies:
 - Office of Acquisition, Technology, and Logistics, Defense Procurement and Acquisition Policy
 - Department of the Air Force, Office of Air Force Contracting and Office of Acquisition Integration
 - Department of the Army, Office of the Assistant Secretary for Manpower and Reserve Affairs
 - Department of the Navy, Office of the Deputy Assistant Secretary of the Navy for Acquisition and Logistics Management
-



Appendix I: Scope and Methodology (cont.)

- To assess the methodologies used and the completeness of the data contained in the inventories, we extracted data from FPDS-NG on service contracts active in fiscal year 2008. Using the FPDS-NG data, we conducted the following analyses.
 - For the Air Force, Navy, and Army, we determined obligations under contracts for services in which the military departments were identified as the funding agency and a non-DOD agency was identified as the contracting agency.
 - For the Navy, we determined:
 - total obligations associated with service contract actions below \$100,000 and actions with de-obligations and
 - total obligations under and number of contracts for services that were not included in the Navy's inventory.
 - For the Army:
 - We determined total obligations for selected task orders contained in the Army's inventory which we then used to compare FTE calculations using the Air Force and Navy methodologies.
 - We identified service contracts included in the Army's inventory that were coded under PSCs for goods.
-



Appendix I: Scope and Methodology (cont.)

- FPDS-NG is the primary federal government system for tracking information on contracts. Our past work has found that FPDS-NG contains inaccurate data and is not always complete.⁸ In addressing the inventory requirement, the military departments relied to different extents upon information contained in FPDS-NG. In assessing the military departments' methodologies, we used data from FPDS-NG and the inventories to help quantify the effects of decisions made by the military departments to exclude certain categories of services and contract actions and to replicate the methodologies used to identify service contracts. We did not attempt to assess the accuracy or completeness of FPDS-NG data, but rather have used the data to identify potential inconsistencies in the military departments' methodologies and their implementation.

⁸ GAO, *Federal Contracting: Observations on the Government's Contracting Data Systems*, [GAO-09-1032T](#) (Washington D.C.: Sept. 29, 2009).



Appendix I: Scope and Methodology (cont.)

- In conducting our assessment of the methodologies and the resulting inventories, we did not attempt to determine the accuracy of the data contained in each inventory. We also did not evaluate whether any one of the methodologies resulted in more accurate or reliable inventories than the others.
 - We conducted this performance audit from October to November 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
-



Points of Contact

For more information, contact John Hutton at 202-512-4841 or huttonj@gao.gov or William Solis at 202-512-8365 or solisw@gao.gov.

(120865)

42

Enclosure II: GAO Contacts and Staff Acknowledgments

GAO Contacts

John P. Hutton (202) 512-4841 or huttonj@gao.gov

William Solis (202) 512-8365 or solisw@gao.gov

Acknowledgments

In addition to the contacts named above, Johana R. Ayers, Assistant Director; Brent Corby; Morgan Delaney Ramaker; Kathryn Edelman; Julia Kennon; and John Krump made key contributions to this correspondence.

(120889)

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday afternoon, GAO posts on its Web site newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's Web site, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548