



INSPECTOR GENERAL

U.S. Department of Defense

APRIL 15, 2015



Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2013

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Results in Brief

Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2013

April 15, 2015

Objective

Our objective was to assess DoD's compliance with Federal and DoD requirements when Components compiled and certified the FY 2013 inventory of contracts for services (ICS). We observed the methods that the Components used to compile the ICS and the completeness of information in Component certification letters. In addition, we followed up on recommendations from our report on DoD's FY 2012 ICS.

Results

DoD compiled and submitted an FY 2013 ICS to Congress, as required. DoD's FY 2013 ICS reported on two additional Components that were not part of the FY 2012 ICS and did not include information on eight Components. In addition, fewer Components submitted complete information for inclusion into the FY 2013 ICS than in FY 2012.

DoD Components used different sources and methods to compile their FY 2013 ICS and to calculate contractor full-time equivalents. DoD continues to face limitations to fully capture and consistently report on service contracts.

Of the 33 Components that submitted an ICS, 31 submitted a certification letter for the FY 2013 reporting period. Fourteen Components submitted late certifications, and only 10 of the 31 Components included all eight required elements in their certification letters. In addition, Components varied in the level of information they provided in

Results (cont'd)

the certifications to address the required certification letter elements. Further, DoD did not provide Components with specific guidance on how to address mandated funding reductions in the certification letters.

Recommendations

DoD officials should:

- clarify the extent Components should address the requirement to identify contracted services to be realigned to Government performance; and
- issue clarifying guidance to Components on how to report funding reductions in the certification letter.

Management Comments and Our Response

Comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); and the Under Secretary of Defense for Personnel and Readiness addressed the specifics of the recommendations, and no further comments are required. We will follow up on the status of these actions during our review of DoD's FY 2014 inventory of contracts for services. Please see the Recommendations Table on the back of this page.

Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense for Acquisition, Technology, and Logistics	None	1.a, 1.b, and 2
Under Secretary of Defense (Comptroller)	None	2
Under Secretary of Defense for Personnel and Readiness	None	1.a, 1.b, and 2



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
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April 15, 2015

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY,
AND LOGISTICS
UNDER SECRETARY OF DEFENSE (COMPTROLLER)
UNDER SECRETARY OF DEFENSE FOR PERSONNEL AND READINESS

SUBJECT: Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With
Service Contract Inventory Compilation and Certification Requirements for FY 2013
(Report No. DODIG-2015-106)

We are providing this report for your information and use. We performed the procedures described in the report, which were agreed to by House Armed Services Committee staff, to assess DoD's compliance with Federal and DoD requirements when Components compiled and certified the FY 2013 inventory of contracts for services. Compared to FY 2012, fewer Components had complete information in their FY 2013 inventory of contracts for services submissions. Components did not include all the required elements and varied in the level of information they provided in the certification letter to signify completion of their FY 2013 review of contracts for services. In addition, Components provided limited information in the certification letters to discuss mandated funding reductions for certain types of contracts. We conducted this attestation engagement in accordance with agreed-upon procedures standards established by the American Institute of Certified Public Accountants and with generally accepted government auditing standards.

In preparing the final report, we considered comments the Office of the Secretary of Defense provided on a draft of this report. We also received informal comments from two DoD Components, which we considered and made changes, as appropriate. Comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); and the Under Secretary of Defense for Personnel and Readiness conformed to the requirements of DoD Directive 7650.3; therefore, we do not require additional comments.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9187 (DSN 664-9187).

A handwritten signature in black ink, appearing to read "MR", is positioned above the typed name of the Assistant Inspector General.

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

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Introduction

Objectives

To perform our agreed-upon procedures, we assessed DoD's compliance with Federal and DoD requirements when Components¹ compiled and certified the FY 2013 inventory of contracts for services (ICS). Specifically, we:

- assessed whether Components submitted a FY 2013 ICS and made observations on the methods Components used to compile the ICS and on the completeness of information in the inventory;
- assessed whether Components certified the review of the ICS and made observations on the completeness of information in Component certification letters; and
- followed up on recommendations from our report on DoD's FY 2012 ICS.²

This report is the second in a series on DoD's ICS compilation and certification process. See Appendix A for a discussion of the scope and methodology related to the engagement objective.

Background

In 2008, Congress required DoD to compile and review an annual ICS. Section 2330a, title 10, United States Code (10 U.S.C. § 2330a [2012]) establishes the minimum ICS content and reporting requirements, and requires the Secretary of Defense to submit the inventory to Congress by June 30 each year. Within 90 days after the inventory is submitted to Congress, 10 U.S.C. § 2330a (2012) requires Military Department Secretaries and the Defense agency heads to review the contracts to ensure:

- contracts for personal services are in accordance with statutory and regulatory requirements;
- activities do not include inherently governmental functions; and
- to the maximum extent possible, the activities do not include any functions closely associated with inherently governmental (CAIG) functions.

¹ According to DoD Directive 5100.01, "Functions of the Department of Defense and Its Major Components," December 21, 2010, DoD Components include the Office of the Secretary of Defense, the Military Departments, the Joint Chiefs of Staff, the Combatant Commands, DoD Office of Inspector General, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense.

² DoD Inspector General Report No. DODIG-2014-114, "Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2012," September 17, 2014.

These Secretaries and agency heads are also required to identify activities that should be considered for conversion to performance by civilian employees or conversion to an acquisition approach that would be more advantageous to the DoD. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[AT&L]) and the Office of the Under Secretary of Defense for Personnel and Readiness (OUSD[P&R]), supported by the Office of the Under Secretary of Defense (Comptroller) are tasked to provide ICS oversight and guidance.

On March 18, 2014, OUSD(AT&L) and OUSD(P&R) issued “Guidance for the Submission and Review of the FY 2013 Inventory of Contracts for Services” (OSD [Office of the Secretary of Defense] Guidance). This guidance required Components to submit their FY 2013 ICS to OUSD(AT&L) and OUSD(P&R) by May 2, 2014, with a transmittal memorandum describing the method used to calculate the number of contractor full-time equivalents (CFTEs)³. OUSD(AT&L) then compiled and included Component submissions in DoD’s FY 2013 ICS Report to Congress. Following the inventory submission, Components were required to review their ICS in accordance with 10 U.S.C. § 2330a (2012), subsection (e), and the OSD Guidance, and submit a certification letter to OUSD(P&R) to signify completion of their review. OSD issued separate guidance to the Components for the FY 2014 ICS period.

Public Law 113-66⁴ tasks the DoD Office of Inspector General to review DoD’s efforts to compile the ICS, the subsequent Component review, and the actions taken to resolve the findings of the reviews in accordance with 10 U.S.C. § 2463 (2012)⁵. In July 2014, we discussed the scope of our agreed-upon procedures engagement in response to this requirement with the staff from the House Armed Services Committee. The Government Accountability Office was required to report to Congress on DoD’s ICS process starting with the FY 2008 inventory. Public Law 113-66 also tasks the Government Accountability Office to continue its review of DoD’s ICS processes—specifically, the 90-day review and DoD’s use of the ICS data.

³ A CFTE is a standard measure of labor that equates to 1 year of full-time work.

⁴ Public Law 113-66, “National Defense Authorization Act for Fiscal Year 2014,” Subtitle E, “Total Force Management,” Section 951, “Reviews of Appropriate Manpower Performance,” December 26, 2013.

⁵ This section outlines requirements to ensure that consideration is given to having DoD civilians perform functions currently performed by contractors.

Results

Agreed-Upon Procedures Performed and Results

This section contains agreed-upon procedures related to ICS requirements established by 10 U.S.C. § 2330a (2012) and the results of completing those procedures.

Overall Procedures

To perform our agreed-upon procedures, we assessed DoD Components' compliance with Federal and DoD requirements to compile and certify the FY 2013 ICS. Specifically, we:

- assessed whether Components submitted a FY 2013 ICS;
- observed the methods Components used to compile the ICS and the completeness of information in the inventory;
- assessed whether Components certified the review of the ICS; and
- observed the completeness of information in Component certification letters.

In addition, we followed up on recommendations from our report on DoD's FY 2012 ICS.

Procedure 1: Confirm DoD's Inventory of Contracts for Services Submission

To assess whether DoD Components submitted a FY 2013 ICS, we interviewed OUSD(P&R) and OUSD(AT&L) officials and obtained DoD's Report to Congress on the FY 2013 ICS. We also compared DoD's FY 2013 ICS to the required elements in 10 U.S.C. § 2330a (2012).

Results 1a: Compilation and Submittal of the Inventory of Contracts for Services

DoD compiled and submitted an ICS to Congress as required by 10 U.S.C. § 2330a (2012). OUSD(AT&L) submitted DoD's FY 2013 ICS on July 2, 2014. Officials stated that the report was submitted 2 days late because the signing official was out of the office. OUSD(AT&L) officials posted updated ICS spreadsheets to the Defense Procurement and Acquisition Policy website in July 2014 and November 2014 to correct mathematical errors and include Components who provided late ICS submissions.

DoD's FY 2013 ICS reported information for 32 Components,⁶ which included two Components⁷ that were not part of the FY 2012 ICS. The 32 Components reported a total of \$123 billion in service contracts, which supported an estimated 620,721 CFTEs. Table 1 shows that 98 percent of the total CFTEs were accounted for by 10 Components, with the three Military Services accounting for 86 percent of the CFTEs. The remaining 22 Components each reported fewer than 5,000 CFTEs, with 14 of those Components each reporting fewer than 500 CFTEs.

Table 1. Top Ten Components by Total CFTEs

Component Name	Total CFTEs	Percent of DoD CFTEs
Army	199,661	32
Navy	197,093	32
Air Force	136,168	22
Defense Information Systems Agency	13,778	2
Missile Defense Agency	13,078	2
Defense Logistics Agency	12,969	2
TRICARE Management Activity	12,032	2
United States Special Operations Command	8,742	1
Defense Commissary Agency	6,490	1
Office of the Deputy Chief Management Officer*	5,497	1
Total Percentage of all DoD ICS CFTEs		98[†]

* The ICS submission for the Office of the Deputy Chief Management Officer included 24 individual organizations.

† Numbers do not equal the actual sum because of rounding.

Components reported the elements required by 10 U.S.C. § 2330a (2012) in DoD's FY 2013 ICS Report to Congress by providing information outlined in the March 2014 OSD Guidance. However, DoD's reporting template did not provide a column for Components to address one required ICS element: whether the purchase was made through a performance-based arrangement. Personnel from OUSD(AT&L) and OUSD(P&R) did not know why this field was not included in the template. After we notified OSD officials about the missing field, they modified the reporting template for the FY 2014 ICS to include this field.

⁶ In addition to the 32 Components reported, DoD's ICS noted that the submissions for the United States Central Command and the United States Pacific Command were classified. DoD's ICS also mentioned classified submissions for two intelligence agencies (National Geospatial-Intelligence Agency and Defense Intelligence Agency), which we did not include in our review.

⁷ The two Components are the Defense Legal Services Agency and the DoD Office of Inspector General.

For the 31 Component unclassified ICS submissions,⁸ 12 Components submitted complete information for the 12 required elements, whereas the remaining 19 Components either submitted incomplete information for one or more required elements or did not include a required element. However, 26 of the 31 Components submitted complete information for 10 or more of the required elements. Table 2 shows the number of Components that submitted complete information, submitted incomplete information, or did not include information for each of the 12 elements.

Table 2. Completeness of FY 2013 ICS Elements

Elements Required by 10 U.S.C. § 2330a (2012)	Not Included	Complete	Incomplete
Functions and missions performed by the contractor	0	27	4
Contracting, administering, and requiring organization	3	24	4
Funding source	0	25	6
Fiscal year the activity first appeared in inventory	0	30	1
CFTEs	0	28	3
Personal services determination	3	20	8
Services purchased	0	30	1
Total dollar amount of the purchase	0	30	1
Form of contracting action used to make the purchase	0	25	6
Purchases made through an agency other than DoD	0	29	2
Extent of competition	0	25	6
Purchases made from small business concerns	0	26	5

Compared to FY 2012, fewer Components had complete information in their FY 2013 ICS submissions. In FY 2012, 18 of 29 Components (62 percent) had complete information for the six elements we reviewed.⁹ In FY 2013, 15 of the 31 Components (48 percent) included complete information to address these six elements.

⁸ The United States Central Command and the United States Pacific Command each submitted a classified ICS. We did not review the classified ICS submissions. In addition, for independence purposes, we did not review the ICS submission from the DoD Office of Inspector General.

⁹ During our FY 2012 ICS review, we did not review Component ICS submissions for the six elements outlined in (c)2(G) from 10 U.S.C. § 2330a (2012) because the elements were related to a reporting application that was not fully functional. For our FY 2013 ICS review, we included these six elements in our review because DoD's ICS reporting template included columns to capture this information.

Results 1b: Non-reporting Components

Eight Components did not submit a FY 2013 ICS. In response to our previous report, OUSD(P&R) officials identified Components that were required to report and certify input for DoD's ICS. The following Components did not submit a FY 2013 ICS.

- National Reconnaissance Office
- National Security Agency/Central Security Service
- Defense Prisoner of War/Missing Personnel Office
- Defense Technical Information Center
- Defense Technology Security Administration
- Office of Economic Adjustment
- National Defense University
- Defense Acquisition University

We contacted these Components and requested information on why they did not submit an ICS. As of January 30, 2015, the National Reconnaissance Office and the Office of Economic Adjustment had not responded. Personnel from the National Security Agency/Central Security Service stated that they did not report based on previous guidance from OUSD(AT&L). The other five responding Components confirmed that they did not submit an ICS. In addition, personnel from:

- four of the five Components stated that they used contractor personnel to perform services for their benefit in FY 2013, while personnel from the remaining Component stated that they did not use contracted services.
- two of the five Components stated that they were not aware of the service contract reporting requirements while one Component official stated that they were aware. One Component official stated that he did not know whether the responsible party within the organization was aware of the FY 2013 reporting requirement because of personnel turnover. An official from the remaining Component stated that the organization was aware of the requirement but not aware of the FY 2013 OSD data call.
- all five Components stated they plan to submit an ICS in the future.

Procedure 2: Observations on Inventory of Contracts for Services Compilation Methods

To make observations on the sources and methods to compile the ICS, we reviewed Component transmittal letters and contacted representatives from select Components, as necessary.

Results 2a: Various Data Sources and Methods to Compile the Inventory of Contracts for Services

DoD Components used different sources and methods to obtain information to compile their FY 2013 ICS. The majority of the Components used the Federal Procurement Data System–Next Generation, a computer-based system Government contracting officers use to collect and report procurement data. This system is the central repository of Federal contracting information. However, 22 Components, including the Army and Air Force, indicated they supplemented the Federal Procurement Data System–Next Generation data with other sources, such as data from the Contractor Manpower Reporting Application (CMRA)¹⁰ or their financial or contracting systems. For example, the Defense Contract Management Agency used a contract list from its service contract review board, and the Test Resource Management Center used contractor billing information.

Results 2b: Calculation of Contractor Full-Time Equivalent

DoD Components generally used one or more of the five methods established in the OSD Guidance to calculate and report CFTEs in the ICS. There were 25 Components that used factors provided by the Army's CMRA for each product service code (PSC) and multiplied these factors by the total dollar amount obligated. However, while 12 of the 25 Components solely relied on the PSC factors, 13 Components made adjustments to this information or used additional data sources or methods, such as direct-labor hours reported by the contracting officer's representatives or information collected from contract invoices.

We determined that the CFTE totals reported in the ICS for seven Components included data from CMRA. These Components indicated the extent to which the CMRA data supported their ICS submission, which ranged from 10 percent of CFTEs for the Defense Threat Reduction Agency to 100 percent of CFTEs for the Army. In addition, some of the Components that did not rely on CFTE data from CMRA in the ICS still reported some information from CMRA or discussed the extent of its use. For example:

- Navy personnel stated that they planned to use contractor-provided data in CMRA, but less than 1 percent of the calculated CFTEs were reported.
- United States Transportation Command personnel stated that approximately 23 percent of their contracts were reported in CMRA.
- Twelve Components:
 - cited problems accessing CMRA;

¹⁰ In 2005, the Army implemented its CMRA to collect information on labor-hour expenditures by function, funding source, and mission supported on contracted efforts. In August 2012, DoD deployed three similar reporting applications for the Navy, Air Force, and DoD organizations.

- could not locate their contracts in the system; or
- stated that information was incomplete.

Officials from OUSD(P&R) and some Components stated that they expect the use of CMRA to increase for the FY 2014 ICS reporting period. Officials noted that while CMRA was only operational for part of FY 2013, it was available for the entire FY 2014 reporting period.

Results 2c: Inconsistencies and Limitations to Capturing DoD's Inventory of Contracts for Services Universe

We identified various inconsistencies and limitations regarding DoD's ability to fully capture all service contracts for the FY 2013 ICS universe. For example:

- Components were inconsistent with the PSCs they included in their ICS submission. According to the OSD Guidance, Components should exclude certain PSCs related to the lease or rental of equipment, lease or rental of facilities, and construction of structures and facilities; however, we identified nine Components who included these PSCs.
- Some Components reported both positive and negative obligations, while other Components only reported positive values.
- Three Component ICS submissions were limited to contracts awarded by a particular contracting office.
- We identified 50 instances where the ICS for two Components included the same contract action, which resulted in the double counting of 874 CFTEs.

We reported on similar inconsistencies and limitations in our previous report. OSD planned to address many of these limitations with the implementation of CMRA and the establishment of the Total Force Management Support Office to oversee the system and assist with DoD's ICS efforts. OSD officials stated that CMRA was fully operational beginning with the FY 2014 reporting period and anticipated that the Total Force Management Support Office would be established no later than September 30, 2015.

Procedure 3: Assess Certification Status of Review

To assess whether DoD Components certified their review of the FY 2013 ICS, we reviewed certification letters and contacted representatives from select Components, as necessary.

Results: Review and Certification of the Inventory of Contracts for Services

Of the 33 Components¹¹ that submitted an ICS, 31 submitted a certification letter for the FY 2013 reporting period.¹² As of January 30, 2015, the Air Force¹³ and the DoD Test Resource Management Center had not submitted a certification letter.

In accordance with 10 U.S.C. § 2330a (2012), subsection (e), and as directed by OSD Guidance, the Components were required to review their ICS within 90 days of OSD's July 2, 2014 inventory submission and submit a letter to OUSD(P&R) certifying completion of the review.¹⁴ Twelve of the Components provided OUSD(P&R) with updated certifications, addendums, or other information after their initial certification letter submission to address some of the OSD required elements.

We generally used the initial certification letter submission date to determine whether the Component's submission was timely. Fourteen of the 31 Components submitted certifications after the 90-day deadline. Some Component officials cited the certification letter coordination and review process, lack of manpower, or competing workload priorities as causes of the late certification submissions. Of the 14 Components that submitted late certification letters, 5 were less than 30 days late, 3 were between 30 and 60 days late, and 6 were more than 60 days late.

Procedure 4: Observations on Certification Letters

To make observations on the completeness of information in Component certification letters, we reviewed the certification letters and contacted representatives from select Components, as necessary.

Results 4a: Inventory of Contracts for Services Review Results

Section 2330a, title 10, United States Code (2012) requires Components to review their ICS listings and ensure that:

- any personal services contracts are entered into and performed in accordance with applicable statutory and regulatory requirements;
- ICS activities do not include any inherently governmental functions; and
- to the maximum extent practicable, the ICS did not include CAIG functions.

¹¹ The 33 Components include the United States Central Command and the United States Pacific Command, that submitted a classified ICS. For independence purposes, we did not review the certification letter for the DoD Office of Inspector General.

¹² This includes a December 10, 2014 interim letter for the Army, which stated that they expected to have their review finalized in mid-January 2015. However, Army officials informed us in January 2015 that the December 10, 2014 letter may serve as their final certification.

¹³ The Air Force also did not submit a certification for the FY 2012 ICS reporting period.

¹⁴ The 10 U.S.C. § 2330a (2012) required DoD to report on its ICS no later than June 30, 2014; however, DoD submitted its ICS 2 days late to Congress. As a result, Components had until October 2, 2014, to certify the review of their ICS, instead of September 30, 2014.

The Army was the only Component to identify inherently governmental functions and unauthorized personal services. The Army identified 68 CFTEs that supported inherently governmental functions and 80 CFTEs that supported unauthorized personal services contracts. The Army indicated that it would modify the contracts associated with these CFTEs. In addition, 22 Components identified CAIG functions. These Components reported \$8.96 billion for 54,045 CFTEs that supported CAIG functions.¹⁵ The Army accounted for 86 percent of the CFTEs that were associated with CAIG functions, and the Navy accounted for 7 percent.

An OUSD(P&R) official stated that the inherently governmental functions, unauthorized personal services, and CAIG functions identified in the Army's inventory were likely the result of the Army's advanced methods to identify these types of functions rather than an absence of these functions in the other Components' inventories.

Results 4b: Certification Letters Did Not Address Required Elements

Of the 31 Components that submitted a certification letter, only 10 Components included all eight elements required by the OSD Guidance in their certifications. However, this is an improvement from the FY 2012 reporting period when only one Component fully reported on all eight OSD required elements.

Table 3 shows how many Components fully addressed, partially addressed, or did not address each required element in their FY 2013 certification. See Appendix B for a breakout of Component-specific information and for additional details about the required elements and our methodology.

Table 3. FY 2013 Certification Letter Elements

Element	Fully Addressed	Partially Addressed	Not Addressed
Criteria and methodology	26	4	1
Delineation of results	30	1	0
Inherently governmental functions or unauthorized personal services contracts	31	0	0
CAIG functions	30	1	0
Exempt from private-sector performance, require special consideration, or being considered for realignment for cost reasons	24	4	3
Program and budget reviews	27	0	4
Table delineating results	29	1	1
Funding	13	9	9

¹⁵ Of the 21 Components that identified CAIG functions, 3 did not report the number of CFTEs, and 2 did not report the associated dollars.

Results 4c: Certification Letters Provided Varying Amount of Detail

Components varied in the level of information they provided in the 31 certification letters to address the OSD required elements. For example:

Methodology and Criteria Descriptions. DoD Components varied in the amount of information provided in the certification letters to describe the methodology used to conduct the reviews and the criteria to select contracts for review. Component discussions ranged from summaries of OSD requirements without further explanation to describing the specific steps personnel performed during the review. For example:

- Defense Legal Services Agency personnel stated in the certification that functional experts conducted the ICS review in a standardized manner and in accordance with the review criteria from the March 2014 OSD Guidance.
- Office of the Deputy Chief Management Officer¹⁶ personnel stated in the certification that component and directorate personnel reviewed their service contracts in accordance with the published guidance. Senior leaders in each component or directorate reviewed the results and signed a memorandum to certify the findings. The Office of the Deputy Chief Management Officer ICS team analyzed and consolidated the results.
- Defense Information Systems Agency personnel stated in the certification that directorates and program executive offices examined service contracts, to include interviews with the program or project managers and a review of performance work statements, task orders, and the requirements package checklist, which was submitted with the request for proposal package. Upon completion, the Component Acquisition Executive submitted a signed memorandum to the Office of the Chief of Staff to certify completion of the review.
- United States Strategic Command personnel stated in the certification that they relied on an existing financial plan review process, which analyzed each component or directorate's overall civilian, military, and contractor workforce mix to ensure funding is aligned with Commander priorities and to eliminate any requested inherently governmental, closely related inherently governmental or personal service requirements. In addition, personnel performed a separate comparison of PSCs to military and civilian function codes to assess economies of scale, potential areas of risk or over-reliance on contracted services, and opportunities for efficiencies.

¹⁶ The ICS submission for the Office of the Deputy Chief Management Officer included 24 individual organizations.

The FY 2013 OSD Guidance directed Components to review all contracts listed in the ICS, regardless of dollar amount or security classification. This was a change from the FY 2012 OSD Guidance, which required Components to review 80 percent of the functions listed in the inventory.

Of the 31 Components that submitted certification letters, 27 indicated that they reviewed 100 percent of their ICS. The Army submitted an interim letter, covering 85 percent of their contracted functions, because they had not received input from three organizations. Navy personnel explained that some Commands could not review 100 percent of their actions, so they focused on high-risk actions and those not previously reviewed. Defense Security Service personnel stated in their certification letter that of the 135 contracts on their ICS, they reviewed 22 contracts that accounted for 80 percent of the CFTEs and 84 percent of the total dollars in the FY 2013 ICS. Defense Security Service personnel explained that it was an oversight that they did not review all of their FY 2013 ICS contracts and they will thoroughly review the guidance for the FY 2014 ICS reporting period. United States Central Command personnel did not state in their certification letter whether they reviewed all contracts on their ICS.

Compliance with Applicable Regulations and Guidance. To address the OSD Guidance requirement to include in the certification the “delineation of the results in accordance with all applicable title 10 provisions and this guidance,” Component certification letters included statements such as:

- The activities on the ICS are being performed in accordance with applicable statutory and regulatory requirements.
- The ICS review was completed in accordance with 10 U.S.C. § 2330a (2012).
- Contracts were awarded and administered in accordance with all applicable title 10 provisions and the OSD Guidance.

Components generally included some variation of the above statements in their certification letters to address the OSD requirement. However, despite such statements, 21 of the 31 Components that submitted certification letters did not comply with this requirement because their certification letters did not address all eight elements required by the OSD Guidance.

Functions Closely Associated With Inherently Governmental Functions.

Component personnel identified CAIG functions in 22 of the 31 Component certification letters. OSD Guidance required Components to provide an explanation of the steps taken to ensure appropriate Government control and oversight of these functions, or if necessary, a plan to either divest or realign such functions to Government performance.

Twenty-one of the 22 Components provided information on the steps taken to ensure appropriate Government control and oversight; however, they varied in the amount of detail that they provided in the certification letters. For example, personnel explained in the certification letters that:

- The Army had taken action to mitigate the risk associated with contracting CAIG functions.
- Defense Information Systems Agency included organizational conflict of interest clauses in Agency contracts and had contractor personnel sign nondisclosure agreements.
- Defense Security Service personnel conducted preaward reviews on statements of work and appointed and trained contracting officer's representatives. In addition, contracting officers provided oversight to ensure appropriate Government control.
- The North American Aerospace Defense Command and United States Northern Command relied on quality assurance surveillance plans and mandatory contracting officer's representative training to provide Government oversight of contractor performance.

Identification of Contracted Services to be Realigned. Component statements varied in the certification letters to address the OSD Guidance requirement to identify contracted services to be realigned to Government performance that are exempt from private-sector performance in accordance with DoD Instruction 1100.22¹⁷; require special consideration under 10 U.S.C. § 2463 (2012); or can be more cost effectively performed by Government civilians consistent with DoD Instruction 7041.04¹⁸. Five Components identified functions to be in-sourced in their certification letters.

While the majority of the Components addressed this OSD requirement in their FY 2013 certifications, DoD personnel interpreted the requirement differently across the Components, and it was not always clear what types of functions Components assessed for realignment in the certification letters. Specifically, of the 31 Components:

- five provided broad, overarching statements on whether their inventories contained functions in each of the three scenarios identified in the OSD Guidance;
- four only discussed one or two of the scenarios;

¹⁷ DoD Instruction 1100.22, "Policy and Procedures for Determining Workforce Mix," April 12, 2010.

¹⁸ DoD Instruction 7041.04, "Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support," July 3, 2013.

- ten discussed one or two of the scenarios and provided an overall statement on whether they realigned or in-sourced any contractor performed functions;
- four only provided information on whether they realigned or in-sourced any functions;
- five discussed the three scenarios outlined in the OSD Guidance as well as provided a general statement on realignment or conversion; and
- three did not address the OSD requirement at all in the certification letter.

Seventeen of the 31 Components specifically identified 10 U.S.C. § 2463 (2012) in their certifications; however, it was not always clear whether Component personnel assessed their inventory against this requirement. The United States Code requires Components to give special consideration to critical and CAIG functions and functions performed on a noncompetitive basis. Ten Components stated in the certification letter that their inventory did not contain functions that required special consideration, but seven of these Components specifically identified having critical or CAIG functions in their certification letters. Further, the inventories for nine of the Components included noncompetitive actions.¹⁹

Components would benefit from clarification on the OSD requirement to identify contracted services to be realigned to Government performance that are exempt from private-sector performance. Personnel from two Components initially identified these functions in their certification letters but later stated that they misinterpreted the requirement and no functions were exempt. Further, officials from the Army and Navy explained that DoD Instruction 1100.22 was unclear and that they were unsure how to address these designations in the certification letter.

OSD officials should clarify the extent Components should address the requirement in the certification. Clarification should include whether Components should address each of the three specific scenarios and whether Components should discuss the extent that these scenarios apply to their overall inventory or only to realigned functions.

Inventory of Contracts for Services Results and Annual Program Reviews and Budget Processes. OSD Guidance required Components to discuss in their certification letters, “actions being taken or considered with regards to annual program reviews and budget processes to ensure appropriate (re)allocation of resources based on the reviews conducted.” Of the 31 Components, 27 provided information in their certification letters about program reviews and budget processes or other Component review and approval processes. However, while some Components linked the ICS to these processes, other Components did not discuss any relationship between the processes and the ICS. For example:

¹⁹ We did not review the inventory for the remaining Component because it was classified.

- Defense Human Resources Activity personnel stated in the certification letter that they used the inventory review as part of their annual program and budget review processes to support allocation of manpower resources.
- United States Pacific Command personnel stated in the certification that the Command implemented a contract review process, which will help to improve the reporting of future ICS by establishing set criteria in both budget reporting and execution.
- Defense Security Service personnel stated in the certification that the budget and spending plans were reviewed and approved at three levels, with a focus on the functions to be performed and on the efficient allocation of resources between government and contractor sources.

Results 4d: Certification Letters Provided Limited Information on Funding Reductions

To ensure compliance with congressionally mandated direction²⁰ to reduce funding for staff augmentation contracts²¹ and contracts that contain CAIG functions, the Under Secretary of Defense (Comptroller) and the Assistant Secretary of Defense for Readiness and Force Management²² provided additional guidance for FY 2013 Component certification letters in May 2014 memorandums. The guidance required Components to delineate specific actions taken and provide supporting documentation that demonstrated compliance with a 10-percent funding reduction for staff augmentation contracts and a 10-percent funding reduction for contracts for the performance of CAIG functions for FY 2012 and FY 2013. If the reductions were not fully implemented for each fiscal year, then the amounts remaining for those reductions would be implemented in FY 2014.

Generally, Components discussed either staff augmentation contracts, contracts for CAIG functions, or both types of contracts in their certification letters, supplements, or revisions or through e-mails to OUSD(P&R) officials. However, Component discussions did not always address all parts of the requirement. For example, of the 31 Components:

- 23 did not discuss whether any of their FY 2012 contracts contained CAIG functions or whether a 10-percent funding reduction was necessary;

²⁰ Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," Section 808, as modified by Public Law 113-66, "National Defense Authorization Act for Fiscal Year 2014," Section 802, established this requirement.

²¹ Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," Section 808, defines staff augmentation contracts as contracts for personnel who are subject to the direction of a Government official other than the contracting officer for the contract, including but not limited to contractor personnel who perform personal service contracts.

²² As part of OUSD(P&R), the Assistant Secretary of Defense for Readiness and Force Management develops policies, provides advice, and makes recommendations in the areas of civilian and military personnel policy, force readiness, and military community and family policy.

- 22 identified CAIG functions in their FY 2013 inventory, but only 11 Components discussed some form of a reduction. Further, Components that reduced funding generally did not include enough information in the certification letters to show whether the 10-percent funding reduction was met; and
- 20 for the FY 2012 inventory and 16 for the FY 2013 inventory did not indicate whether they had staff augmentation contracts or whether a 10-percent funding reduction was necessary. Of the 16 Components, 15 stated in their certification letters that the FY 2013 inventories did not include personal service contracts; however, Public Law 112-81²³ states that staff augmentation contracts include, but are not limited to, personal service contracts.

The May 2014 memorandums did not provide Components with specific guidance to help ensure complete, uniform reporting on funding reductions across DoD. For example, the memorandums did not:

- specify how and to what extent Components should delineate the funding reduction information in the certification letters;
- specify whether Components should provide negative assurance on whether FY 2012 and FY 2013 inventories contained staff augmentation contracts or CAIG functions; and
- provide a detailed description of what staff augmentation contracts were, or how to identify those types of contracts in their inventories. The only definition of staff augmentation provided to the Components was that provided in Public Law 112-81.

Further, five Components specifically cited noncompliance with the funding reduction requirement in the certification letters. Three of these Components specially cited concerns over the CAIG baseline formulation or making reductions based on that baseline. In a June 2012 memorandum, the Deputy Secretary of Defense directed Components to use the FY 2010 or the FY 2011 inventory as the baseline to assess the CAIG funding reductions. However, Components were not required to fully report on the CAIG functions within their inventory until the FY 2013 ICS period.

²³ Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," Section 808.

The Government Accountability Office previously reported on the mandated funding reductions. In December 2014, the Government Accountability Office reported that DoD could not determine if staff augmentation reductions were taken due to insufficient guidance and management attention and that comparable and timely data were not available to determine whether mandated funding reductions for CAIG functions were implemented.²⁴

Public Law 113-291²⁵ extended the funding reduction requirements for FY 2015. To ensure Components meet the funding reductions for the mandated periods, OSD should issue clarifying guidance to specify how Components should report these reductions in the certification letters.

Procedure 5: Follow Up on Previous Recommendation

To follow up on our previous recommendation on staffing the Total Force Management Support Office and implementing CMRA, we contacted officials from the Office of the Assistant Secretary of Defense for Readiness and Force Management.

Results: OSD Took Action to Address Previous Recommendation

In our previous report, we recommended that OUSD(AT&L) and OUSD(P&R) provide an update on the status, including time frames, for staffing the Total Force Management Support Office and finalizing the service contract review form.²⁶ The Acting Assistant Secretary of Defense for Readiness and Force Management, responding for OUSD(AT&L) and OUSD(P&R), did not provide specific dates for these actions and stated that the Department was assessing the information technology requirements, personnel alignment, and the specific roles and responsibilities to be undertaken by the Total Force Management Support Office, as well as reviewing, streamlining, and standardizing an approval form for service contracts. On March 23, 2015, the Acting Assistant Secretary provided additional comments on the status of the Total Force Management Support Office and service contract review form.

²⁴ GAO-15-115, "DoD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed," December 11, 2014.

²⁵ Public Law 113-291, "National Defense Authorization Act for Fiscal Year 2015," Section 813.

²⁶ OSD was developing a standard form to assist Components with justifying new and follow-on contracts for services, assessing whether the work is appropriate to be contracted out, and reviewing certain ICS elements before contract award.

In December 2014, the Joint Explanatory Statement accompanying the National Defense Authorization Act for Fiscal Year 2015 directed OUSD(AT&L) and the senior acquisition executives for the Navy and the Air Force to issue to the Defense agencies and the Military Services, respectively, policies implementing a standard service contract checklist. The Acting Assistant Secretary stated that her office was available to assist OUSD(AT&L) in developing a pre-contract decision tool.

DoD continues to face challenges with the ICS process. Component personnel stated that delays with staffing the Total Force Management Support Office and implementing CMRA affected the FY 2013 ICS process and expressed concern that it would continue to impact future reporting periods. For example, a Navy official stated that they must now renew the accreditation for their reporting system and extend a help desk support contract. Further, the Joint Explanatory Statement stated that in the absence of a plan of action with milestones and time frames to establish a common data system to collect contractor manpower data, Congress extended the cap on DoD's aggregate annual amount spent on contracts for services²⁷ in FY 2015.

On March 23, 2015, the Acting Assistant Secretary stated that the Total Force Management Support Office would be established no later than September 30, 2015, to improve DoD's ICS reporting. Afterwards, DoD will assess long-term efforts and develop an integrated solution to incorporate the ICS into DoD's systems of record to address the congressional intent that the ICS inform critical budgeting and workforce planning decisions.

Summary

DoD compiled and submitted an FY 2013 ICS to Congress, as required. DoD's FY 2013 ICS reported on two additional Components that were not part of the FY 2012 ICS but did not include information on eight Components. In addition, fewer Components submitted complete information for inclusion into the FY 2013 ICS than in FY 2012 and DoD continues to face limitations to fully capture and consistently report on service contracts.

Of the 33 Components that submitted an ICS, 31 submitted a certification letter for the FY 2013 reporting period. Fourteen Components submitted late certifications, and only 10 of the 31 Components included all eight required elements in their certification letters. In addition, Components varied in the level of information they provided in the certifications to address the required certification letter

²⁷ Public Law 112-81, "National Defense Authorization Act for Fiscal Year 2012," Section 808, limited DoD's obligations for service contracts in FY 2012 and FY 2013 to the amount submitted in the President's budget for FY 2010. Public Law 113-66, "National Defense Authorization Act for Fiscal Year 2014," Section 802, extended those limitations to FY 2014.

elements, and Components provided limited information in the certification letters to address mandated funding reductions for staff augmentation contracts and contracts containing CAIG functions.

DoD continues to face challenges with the ICS process. OSD plans to establish a Total Force Management Support Office by September 30, 2015, to improve DoD's ICS reporting and will then assess long-term efforts to incorporate the ICS into DoD's systems of record.

Management Comments on the Results and Our Response

OSD Comments on Our Results

The Director, Total Force Planning and Requirements, Office of the Assistant Secretary of Defense for Readiness and Force Management, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics; the Under Secretary of Defense (Comptroller); and the Under Secretary of Defense for Personnel and Readiness, recommended that we clarify the discussion on the Army's identification of functions closely associated with inherently governmental functions by noting that the Army has a mature process to identify such functions.

Our Response

We considered management comments when preparing the final report and added clarifying information to "Results 4a: Inventory of Contracts for Services Review Results."

Component Comments on Our Results

Although not required to comment, two Components provided informal unofficial comments in response to the draft report, which we considered and made changes, as appropriate, when preparing the final report.

Recommendations, Management Comments, and Our Response

Recommendation 1

We recommend that the Under Secretary of Defense for Personnel and Readiness and the Under Secretary of Defense for Acquisition, Technology, and Logistics issue clarifying guidance on how Components should identify in their certification letters contracted services to be realigned to Government performance that are

w exempt from private-sector performance, require special consideration, or can be more cost effectively performed by Government civilians. Specify whether Components should:

- a. address each of the three specific scenarios, and**
- b. discuss the extent that these scenarios apply to their overall inventory or only to realigned functions.**

Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense for Personnel and Readiness Comments

The Director, Total Force Planning and Requirements, Office of the Assistant Secretary of Defense for Readiness and Force Management, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness, agreed, and will issue clarifying guidance to help Components identify and address contracted services to be realigned to Government performance in their certification letters.

Our Response

Comments from the Director addressed the recommendation, and no further comments are required. However, the Director did not provide specific actions or time frames. We will follow up on the status of these actions during our review of DoD's FY 2014 inventory of contracts for services.

Recommendation 2

We recommend that the Under Secretary of Defense for Personnel and Readiness; the Under Secretary of Defense for Acquisition, Technology, and Logistics; and the Under Secretary of Defense (Comptroller) issue clarifying guidance to specify how Components should report on specific actions taken to meet the mandated funding reductions for staff augmentation contracts and contracts for the performance of closely associated with inherently governmental functions, for all of the mandated periods.

Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense for Personnel and Readiness Comments

The Director, Total Force Planning and Requirements, Office of the Assistant Secretary of Defense for Readiness and Force Management, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness, agreed, stating that the guidance for the next compilation of the inventory of contracts for services will include detailed information on the funding reduction requirements.

Under Secretary of Defense (Comptroller) Comments

The Director of Operations (Program/Budget), responding for the Under Secretary of Defense (Comptroller), agreed, stating that during the FY 2017 budget estimate submissions, Components will submit a special budget display on advisory and assistance services funding from FY 2010 through FY 2015 to show that funding was reduced by the mandated amounts. The Office of the Under Secretary of Defense (Comptroller) will adjust the FY 2017 funding levels of those Components that have not satisfied the mandated funding reductions.

Our Response

Comments from both Directors addressed the recommendation, and no further comments are required. We will follow up on the status of these actions during our review of DoD's FY 2014 inventory of contracts for services.

Appendix A

Scope and Methodology

We conducted this agreed-upon-procedures engagement from October 2014 to March 2015 in accordance with generally accepted government auditing standards, which incorporate attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described in the report either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an examination to express an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. House Armed Services Committee staff requested that we report on any need to revise legislation or change implementing guidance; we discussed this need in the report.

This report is intended solely for the information and use of the House Armed Services Committee, OUSD(AT&L), OUSD(P&R), and the Office of the Under Secretary of Defense (Comptroller), and is not intended to be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the report is a matter of public record, and its distribution is not limited; therefore, we will post the report on our website and provide copies on request.

We obtained DoD's FY 2013 ICS Report (to include updates posted to the Defense Procurement and Acquisition Policy website) and all available FY 2013 Component ICS transmittal and certification letters²⁸ and compared the documents against requirements from 10 U.S.C. § 2330a (2012) and the OUSD(AT&L) and OUSD(P&R) "Guidance for the Submission and Review of the FY 2013 Inventory of Contracts for Services," March 18, 2014, to identify inconsistencies and to make observations on the completeness of data.

²⁸ We did not review the ICS for 2 of the 34 Components included in our engagement, specifically the United States Central Command and the United States Pacific Command because their ICS submissions were classified. As of the date of this report, 2 of the 34 Components included in our engagement did not submit certification letters. In addition, for independence purposes, we did not review the ICS submission and certification letter from the DoD Office of Inspector General.

The OSD Guidance required Components to discuss eight elements in their certification letters to signify completion of their FY 2013 ICS review. We reviewed each certification letter to determine whether it addressed the OSD required elements. This review was limited to the information included in Component certification letters. See Appendix B for details about the OSD required elements and our methodology for reviewing the Component certification letters.

In addition, we reviewed Component certification letters and supplemental information²⁹ in response to a May 19, 2014 memorandum from the Under Secretary of Defense (Comptroller), “Guidance for Limitation on Aggregate Annual Amount Available for Contracted Services for Fiscal Year 2014,” and a May 30, 2014 memorandum from the Assistant Secretary of Defense for Readiness and Force Management, “Reductions in Funding for Contracts for Performance of Closely Associated with Inherently Governmental Functions and Staff Augmentation Contracts.”

We also reviewed:

- DoD Instruction 1100.22, “Policy and Procedures for Determining Workforce Mix,” April 12, 2010
- DoD Instruction 7041.04, “Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support,” July 3, 2013

We met with and discussed FY 2013 ICS compilation and certification efforts with officials from OUSD(AT&L), OUSD(P&R), the Office of the Under Secretary of Defense (Comptroller), and we conducted interviews with officials from the Army, Navy, and Air Force. During our engagement, we also contacted officials who compiled and reviewed the inventory for select Components to obtain clarification regarding ICS submissions and certification letters. We presented this supplemental information throughout the report, as applicable. Observational statements in the report may not reflect all Component-specific considerations related to the ICS process.

Use of Computer-Processed Data

We did not rely on computer-processed data to perform the agreed-upon procedures for this attestation engagement.

²⁹ Our review of supplemental information was limited to that provided by OUSD(P&R) officials.

Appendix B

Certification Letter Review Methodology

The OSD Guidance requires that Components address eight elements in their certification letters. We reviewed each certification letter using the following methodology to determine whether a Component certification letter addressed the OSD-required elements. Our methodology for reviewing the FY 2013 Component certification letters was consistent with our FY 2012 review. However, we adjusted our methodology for reviewing certification elements 1 and 5 to account for changes in the OSD Guidance.

Our review was limited to the information from Component certification letters. When Components did not address an element in their certification letters, it was not clear whether personnel reviewed the ICS for the element and it was not applicable, or whether personnel did not review the ICS for the element. Therefore, if a Component was silent about an element in its certification letter, we considered the element not addressed. If a Component only addressed part of an element in its certification, we considered the element partially addressed.

Element 1—Explanation of the methodology used to conduct the review and criteria for selecting contracts for review.

Our Methodology: To address review methodology, the Component had to describe how it conducted its ICS review (such as what processes were used) or what the Component actually assessed during the review (such as documentation, processes, or past review results). A Component had to explain how or what it specifically reviewed and could not solely rely on the statements it provided in the certification letter to address other required elements, such as the statement, “no inherently governmental functions were identified.” Furthermore, we did not consider an explanation of how a Component compiled its inventory sufficient to address this element if the explanation did not address the actual review of the ICS data. To address contract selection criteria in the FY 2013 certification letters, the Component had to state that it reviewed all contracts on the ICS.

Element 2—Delineation of the results in accordance with all applicable 10 U.S.C. (2012) provisions (for example, sections 129, 129a, 235, 2330a, and 2463) and the March 2014 OSD Guidance.

Our Methodology: We considered this element fully addressed if a Component included any type of statement regarding compliance with the OSD Guidance or another requirement when it conducted its ICS review.³⁰ The certification letter did not need to specifically mention the title 10 provisions identified in the OSD guidance. This is because an OUSD(P&R) official stated that this element was intended more as a thinking and discussion-driven process meant to create a dialog about appropriate use of service contracts.

Element 3—Identification of any inherently governmental functions or unauthorized personal services contracts, with a plan of action to either divest, correct, or realign such functions to Government performance.

Our Methodology: We considered this element fully addressed if a Component stated whether its inventory included functions in each of the two scenarios. If the Component identified any such functions, then it would also need to discuss a plan of action to divest or realign them to Government performance.

Element 4—Identification of contracts under which closely associated with inherently governmental functions are being performed, with an explanation of the steps taken to ensure appropriate Government control and oversight of such functions or, if necessary, a plan to either divest or realign such functions to Government performance.

Our Methodology: We considered this element fully addressed if a Component stated whether its inventory included functions for this scenario. If a Component identified any such functions, then the Component would also need to discuss the steps taken to ensure appropriate Government control and oversight over the functions or identify a plan of action to divest or realign them to Government performance.

Element 5—Identification of contracted services to be realigned to Government performance that are exempt from private-sector performance in accordance with DoD Instruction 1100.22, “Policy and Procedures for Determining Workforce Mix,” April 12, 2010; those that require special consideration under 10 U.S.C. § 2463 (2012); or those that can be more cost effectively performed by Government civilians, consistent with DoD Instruction 7041.04, “Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support,” July 3, 2013.

³⁰ We considered this element partially addressed for the Navy because personnel listed the OSD Guidance as a reference in the certification letter and discussed some of the results of their review but did not make a statement regarding compliance with any requirement when conducting the ICS review.

Our Methodology: We considered this element fully addressed in one of two ways: if a Component stated whether its inventory included functions in each of the three scenarios or whether or not it identified contracted services for conversion or realignment to Government performance.

Element 6—Actions taken or considered in regards to annual program reviews and budget processes to ensure appropriate (re)allocation of resources based on reviews conducted.

Our Methodology: We considered this element fully addressed if a Component included any description of a program review, or budget process, or any explanation of the actions being done or planned to ensure appropriate (re)allocation of resources.

Element 7a—A table showing the results of these reviews in terms of the number of CFTEs and dollars associated with the following categories.

- Inherently governmental functions
- CAIG functions
- Critical functions
- Unauthorized personal services lacking statutory authority
- Authorized personal services
- Commercial functions

Actions taken with respect to these categories should be summarized as continue contract, modify contract, in-source, or divest.

Our Methodology: We considered this element fully addressed if a Component included the table outlined in the OSD Guidance, or text within the certification letter, to identify the type of functions reviewed and the status, invoiced dollar amount, and the number of CFTEs associated with each reviewed function.

Element 7b—Explanation of the degree the functions reviewed are Overseas Contingency Operation funded or reimbursable functions not currently included in the Component's budget estimate for contracted services.

Our Methodology: We considered this element fully addressed if a Component explained the extent its inventory included each of the two scenarios.

Review of Certification Letters

The following table shows the 31 Components that submitted an FY 2013 ICS certification letter, as of January 30, 2015, and whether the Component fully responded to the eight elements required by the March 2014 OSD Guidance.

Table 4. Review of Certification Letters

Component	Element 1	Element 2	Element 3	Element 4	Element 5	Element 6	Element 7a	Element 7b
Army*	Partially Addressed	Addressed	Addressed	Addressed	Not Addressed	Not Addressed	Addressed	Partially Addressed
Navy	Partially Addressed	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Partially Addressed
Air Force†								
United States Africa Command	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed	Addressed	Partially Addressed
United States Central Command	Not Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
United States European Command	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Partially Addressed
United States Northern Command	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
United States Pacific Command	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Partially Addressed
United States Southern Command	Addressed	Addressed	Addressed	Addressed	Not Addressed	Addressed	Addressed	Not Addressed
United States Special Operations Command	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Partially Addressed
United States Strategic Command	Addressed	Addressed	Addressed	Addressed	Partially Addressed	Addressed	Addressed	Not Addressed
United States Transportation Command	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Advanced Research Projects Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed

* The Army submitted an interim certification letter on December 10, 2014. For purposes of this report, we considered it as the final certification.

† As of January 30, 2015, the Air Force had not submitted a certification letter. Personnel indicated an intent to do so but did not provide an estimated date.

Component	Element 1	Element 2	Element 3	Element 4	Element 5	Element 6	Element 7a	Element 7b
Defense Contract Audit Agency	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Partially Addressed
Defense Contract Management Agency	Addressed	Addressed	Addressed	Addressed	Partially Addressed	Addressed	Not Addressed	Partially Addressed
Defense Commissary Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Finance and Accounting Service	Addressed	Addressed	Addressed	Addressed	Partially Addressed	Addressed	Addressed	Addressed
Defense Human Resources Activity	Addressed	Addressed	Addressed	Addressed	Partially Addressed	Addressed	Addressed	Addressed
Defense Information Systems Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Legal Services Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed	Partially Addressed	Not Addressed
Defense Logistics Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed	Addressed	Not Addressed
Defense Media Activity	Addressed	Addressed	Addressed	Addressed	Not Addressed	Addressed	Addressed	Not Addressed
Defense Micro-Electronics Activity	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
DoD Education Activity	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
DoD Office of Inspector General [‡]								
Defense Security Cooperation Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
Defense Security Service	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Threat Reduction Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Joint Staff	Addressed	Addressed	Addressed	Partially Addressed	Addressed	Addressed	Addressed	Partially Addressed
Missile Defense Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed

[‡] For independence purposes, we did not review the certification letter for the DoD Office of Inspector General.

Component	Element 1	Element 2	Element 3	Element 4	Element 5	Element 6	Element 7a	Element 7b
Office of the Deputy Chief Management Officer [§]	Addressed	Addressed						
TRICARE Management Activity (Now Defense Health Agency)	Addressed	Addressed						
Test Resource Management Center [#]								
United States Forces, Korea	Addressed	Not Addressed						
Addressed	26	30	31	30	24	27	29	13
Partially Addressed	4	1	0	1	4	0	1	9
Not Addressed	1	0	0	0	3	4	1	9
TOTAL	31	31						

[§] The ICS submission for the Office of the Deputy Chief Management Officer included 24 individual organizations.

[#] As of January 30, 2015, the Test Resource Management Center had not submitted a certification letter.

Management Comments

Assistant Secretary of Defense for Readiness and Force Management



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READINESS AND FORCE
MANAGEMENT

MAR 27 2015

MEMORANDUM FOR DEPUTY ASSISTANT INSPECTOR GENERAL CONTRACT
MANAGEMENT AND PAYMENTS, DoDIG

SUBJECT: Response to DoDIG Draft Report on Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance with Service Contract Inventory Compilation and Certification Requirements for FY 2013 (Project No. D2015-D000CG-0006.000), dated March 11, 2015.

This memorandum is in response to the DoD Inspector General (DoDIG) Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance with Service Contract Inventory Compilation and Certification Requirements for FY 2013 (Project No. D2015-D000GC-0006.000), dated March 11, 2015. We appreciate the DoDIG's work on this engagement, as well as the opportunity to review and comment on this draft report. The following is provided to address the report's specific recommendations:

Recommendation #1: Issue clarifying guidance on how Components should identify in their certification letters contracted services realigned to Government performance that are exempt from private-sector performance, require special consideration, or can be more cost effectively performed by Government civilians. Specify whether Components should: a. address each of the three specific scenarios, and b. discuss the extent that these scenarios apply to their overall inventory or only to realigned functions.

Response: The Department concurs with this recommendation.

Recommendation #2: Issue clarifying guidance to specify how components should report on specific actions taken to meet the mandated funding reductions for staff augmentation contracts and contractors for the performance of closely associated with inherently governmental functions, for all of the mandated periods.

Response: The Department concurs with this recommendation. The Department will work to ensure this requirement is detailed in the guidance for the compilation of the next ICS.

The Department appreciates the work that DoDIG has done to produce this report. As a way to strengthen the report even further, we recommend the inclusion of narrative context to complement data points. For example, noting that the Army has 86% of the contracted services for closely associated with inherently governmental services may lead a reader to believe the Army is at not performing as well as other Components, rather than that the Army simply has a more mature process by which to identify such functions. Proper contextualization will make the report's results more meaningful and help avoid potential misinterpretation.

Assistant Secretary of Defense for Readiness and Force Management (cont'd)

Should you have any questions, please contact the primary action officer for this engagement, [REDACTED]



Rich Robbins
Director, Total Force Planning &
Requirements

Under Secretary of Defense (Comptroller)



COMPTROLLER
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MEMORANDUM FOR THE DEPUTY ASSISTANT INSPECTOR GENERAL
CONTRACT MANAGEMENT AND PAYMENT, DODIG

SUBJECT: Response to DoDIG Draft Report on Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance with Service Contract Inventory Compilation and Certification Requirements for Fiscal Year (FY) 2013 (Project No. D2015-D000CG-0006.000), dated March 11, 2015.

This memorandum is in response to the DoD Inspector General (DoDIG) Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance with Service Contract Inventory Compilation and Certification Requirements for FY 2013 (Project No. D2015-D000GC-0006.000), dated March 11, 2015. We appreciate the DoDIG's work on this engagement, as well as the opportunity to review and comment on this draft report. The following is provided to address the report's specific recommendations:

Recommendation #2: Issue clarifying guidance to specify how components should report on specific actions taken to meet the mandated funding reductions for staff augmentation contracts and contractors for the performance of closely associated with inherently governmental functions, for all of the mandated periods.

Response: The Department concurs with this recommendation.

As part of the FY 2017 Budget Estimate Submission, Comptroller will direct the components to submit a special budget display of the PB-15 budget exhibit (Advisory and Assistance Services Funding) that displays FY 2010 to FY 2015 baseline funding to reflect the specified reductions from the FY 2010 levels. If the components are not in compliance with the reduction, the Comptroller will enforce the reduction by making adjustments to component funding levels during the FY 2017 budget build to achieve the 30 percent reduction from FY 2010 levels.

Please contact [REDACTED] if you have questions.

Monique Dilworth
Director for Operations

Acronyms and Abbreviations

CAIG	Closely Associated with Inherently Governmental
CFTE	Contractor Full-Time Equivalent
CMRA	Contractor Manpower Reporting Application
ICS	Inventory of Contracts for Services
OSD	Office of the Secretary of Defense
OUSD(AT&L)	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
OUSD(P&R)	Office of the Secretary of Defense for Personnel and Readiness
PSC	Product Service Code
U.S.C.	United States Code



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