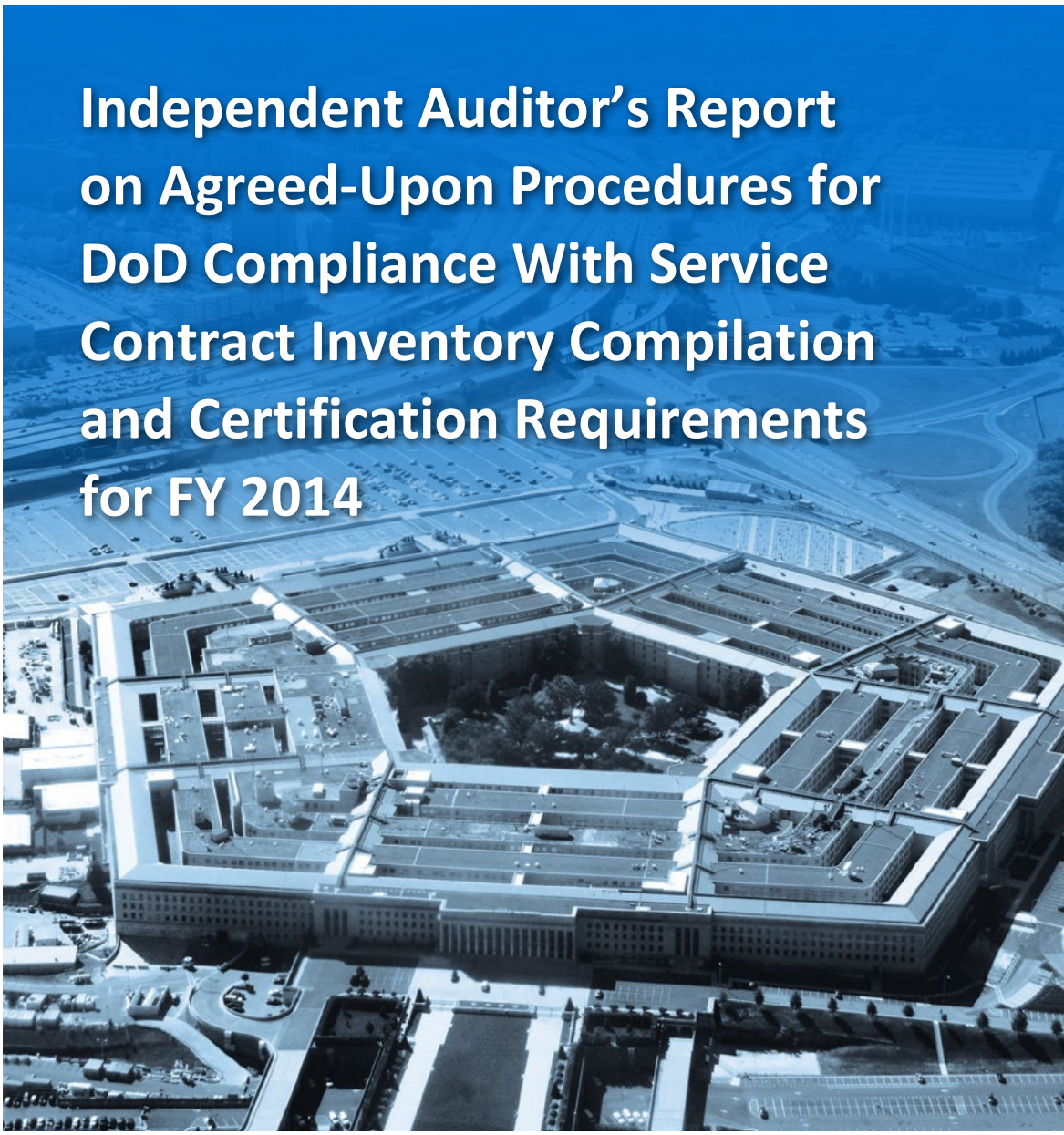
Report No. DODIG-2016-092

Inspector General

U.S. Department of Defense

MAY 19, 2016

Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2014



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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 2014

May 19, 2016

Objective

We assessed whether DoD complied with Federal and DoD requirements when Components compiled and certified the FY 2014 inventory of contracts for services (ICS). We observed the methods that DoD Components used to compile the ICS and the completeness of information in Component certification letters. In addition, we followed up on recommendations from our reports on DoD's FY 2012 and FY 2013 ICS.

Results

DoD compiled and submitted an FY 2014 ICS to Congress, as required; however, the report was submitted 2 months past the Federally mandated deadline. DoD included four additional Components in the report that were not part of the FY 2013 ICS and did not include information on six Components. In addition, fewer Components included complete information in their FY 2014 ICS submissions than in FY 2013.

DoD Components used different sources and methods to compile their FY 2014 ICS and to calculate contractor full-time equivalents. DoD continues to face limitations to fully capture and consistently report on service contracts. Of the 38 Components that submitted an ICS, 37 submitted a certification letter for the FY 2014 reporting period. Thirteen Components submitted late certification letters. Of the 37 Components, only 10 included all seven required elements.

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Results (cont'd)

In addition, Components varied in the level of information they provided in the certifications to address the elements required in the certification letter. Components would benefit from clarification on the certification letter requirements.

Recommendations

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the Under Secretary of Defense for Personnel and Readiness revise sections of the Office of the Secretary of Defense Guidance that are related to the FY 2016 ICS review. Revisions should:

- identify and explain the specific items, outcomes, or results that Components are tasked to discuss in the certification letters related to specific review techniques; functions to realign to Government performance; use of the ICS; and overseas contingency operation funded actions; and
- identify and explain the elements that Components are required to fully assess and report in the certification letters and which elements are goals that Components should work toward.

Management Comments and Our Response

Comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness addressed the specifics of the recommendation, and no further comments are required. 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		1.a and 1.b
Under Secretary of Defense for Personnel and Readiness		1.a and 1.b

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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May 19, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION, TECHNOLOGY, AND LOGISTICS
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 2014 (Report No. DODIG-2016-092)

We are providing this report for your information and use. We performed the procedures described in the report, which we discussed with House Armed Services Committee staff, to assess whether DoD complied with Federal and DoD requirements when Components compiled and certified the FY 2014 inventory of contracts for services. Compared to FY 2013, fewer Components reported complete information in their FY 2014 inventory of contracts for services submissions. Components did not include all the required elements in the certification letters to signify completion of their FY 2014 review of contracts for services, and the level of information in the certification letters varied. 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.

We considered management comments on a draft of this report when preparing the final report. Comments from the Under Secretary of Defense for Acquisition, Technology, and Logistics 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).

Michael J. Roark
Assistant Inspector General
Contract Management and Payments

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Introduction

Objectives

To perform our agreed-upon procedures, we assessed whether DoD complied with Federal and DoD requirements when Components[1] compiled and certified the FY 2014 inventory of contracts for services (ICS). Specifically, we assessed whether DoD Components submitted an FY 2014 ICS, and we observed the methods that they used to compile the ICS and the completeness of the ICS. We also assessed whether Components certified the ICS review, and we observed the completeness of information in Component certification letters. In addition, we followed up on recommendations from our reports on DoD's FY 2012 and FY 2013 ICS.[2]

This report is the third 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. The United States Code (U.S.C.)[3] establishes the minimum ICS content and reporting requirements, and requires the Secretary of Defense to submit the ICS to Congress by June 30th each year. Within 90 days of submitting the ICS to Congress, 10 U.S.C. § 2330a requires the Military Department Secretaries and 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 Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, DoD Office of Inspector General (DoD OIG), the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense.

[2] DoD IG 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, and DoD IG Report No. DODIG-2015-106, "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.

[3] Section 2330a, title 10, United States Code (10 U.S.C. § 2330a).

The 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 beneficial to the DoD. The Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness, supported by the Under Secretary of Defense (Comptroller), are tasked with providing ICS oversight and guidance.

On December 29, 2014, 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]) issued guidance from the Office of the Secretary of Defense (OSD) for the FY 2014 ICS.[4] The OSD Guidance required Components to submit their FY 2014 ICS to OUSD(AT&L) and OUSD(P&R) by May 1, 2015, with a transmittal memorandum describing the methods used to collect and populate the ICS and calculate the number of contractor full-time equivalents (CFTEs).[5] OUSD(AT&L) then compiled and included Component submissions in DoD's FY 2014 ICS Report to Congress. Following the ICS submission, Components were required to review their ICS in accordance with 10 U.S.C. § 2330a, subsection (e), and OSD Guidance, and submit a certification letter to OUSD(P&R) to signify completion of their review. An OUSD(P&R) official explained that the OSD Guidance also incorporated applicable workforce management requirements from 10 U.S.C. §§ 2463, 129a, and 115b.[6] On March 25, 2016, OSD issued separate guidance to the Components for the FY 2015 ICS period.

Public Law 113-66[7] tasks the DoD OIG with reviewing 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. In September 2015, we met with House Armed Services Committee staff and discussed the scope of our agreed-upon procedures engagement in response to this requirement. The Government Accountability Office was also required to report on DoD's ICS process starting with the FY 2008 ICS. Public Law 113-66 also tasked 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.

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[4] OSD, "Guidance for the Submission and Review of the FY 2014 Inventory of Contracted Services," December 29, 2014.

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

[6] 10 U.S.C. § 2463 outlines requirements to ensure that consideration is given to having DoD civilians perform functions currently performed by contractors. 10 U.S.C. § 129a requires DoD to use the ICS when assessing its workforce mix. 10 U.S.C. § 115b requires DoD to develop a strategic workforce plan to shape and improve its civilian employee workforce.

[7] Public Law 113-66, "National Defense Authorization Act for FY 2014," Subtitle E, "Total Force Management," Section 951, "Reviews of Appropriate Manpower Performance," December 26, 2013.

Results

Agreed-Upon Procedures Performed on and Results of DoD's FY 2014 ICS

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

Overall Procedures

To perform our agreed-upon procedures, we assessed whether DoD complied with Federal and DoD requirements when Components compiled and certified the FY 2014 ICS. Specifically, we:

- assessed whether Components submitted a FY 2014 ICS;
- observed the methods that Components used to compile the ICS and the completeness of information in the ICS;
- 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 reports on DoD's FY 2012 and FY 2013 ICS.

Procedure 1: Confirm DoD's ICS Submission

To assess whether DoD Components submitted a FY 2014 ICS, we interviewed officials from OUSD(P&R) and OUSD(AT&L) and obtained the DoD Report to Congress on the FY 2014 ICS. We also compared the DoD FY 2014 ICS to the required elements in 10 U.S.C. § 2330a.

Results 1a: Compilation and Submittal of the ICS

DoD compiled and submitted an ICS to Congress as required by 10 U.S.C. § 2330a. OUSD(AT&L) submitted DoD's FY 2014 ICS on August 31, 2015, which was 2 months after June 30, 2015, the date required by 10 U.S.C. § 2330a. An OUSD(AT&L) official stated that the report was submitted late because only one person was responsible for compiling Component ICS submissions into the overall DoD report, and that person had to contact individual Components for clarification and revised submissions. The Under Secretary of Defense for Acquisition, Technology, and Logistics notified Congress in June 2015 that the submission would be late.

DoD reported information for 37 Components[8] in its FY 2014 ICS, which included four Components[9] that were not part of the FY 2013 ICS. The 37 Components reported $131 billion in service contracts that supported 641,428 CFTEs. Table 1 shows that 10 Components accounted for 96.4 percent of the total CFTEs with the three Military Services accounting for 85.1 percent of the CFTEs. The remaining 27 Components each reported fewer than 5,300 CFTEs with 17 of those Components each reporting fewer than 500 CFTEs.

Table 1. Top 10 Components by Total CFTEs Reported

Component Name	Total CFTEs	Percent of DoD CFTEs*
Navy	236,762	36.9
Army	185,654	28.9
Air Force	123,668	19.3
Defense Health Agency	14,778	2.3
Defense Information Systems Agency	13,134	2.0
Missile Defense Agency	12,380	1.9
Defense Logistics Agency	11,668	1.8
United States Special Operations Command	8,548	1.3
Defense Commissary Agency	6,445	1.0
Defense Threat Reduction Agency	5,379	0.8
Total		**96.4**

* Total does not equal the actual sum because percentages are rounded.

Components reported the elements required by 10 U.S.C. § 2330a in the DoD FY 2014 ICS Report to Congress by providing information in a spreadsheet template as outlined in the OSD Guidance. Of the 36 Component unclassified ICS submissions,[10] 6 Components submitted complete information for the 13 required elements, whereas the remaining 30 Components either did not include a required element or submitted incomplete information for one or more required elements. For example, over half of the incomplete entries consisted of missing data fields. Components also included blank columns in their ICS to address a required element or provided information unrelated to the element.

[8] In addition to the 37 Components reported, DoD's ICS noted that the submissions for the United States Africa Command and the United States Pacific Command were classified. DoD's ICS also mentioned classified submissions for two intelligence agencies (National Reconnaissance Office and Defense Intelligence Agency), which we did not include in our review.

[9] The Components are the Defense Acquisition University, Defense Technical Information Center, and National Defense University. In addition, the National Reconnaissance Office provided a classified submission.

[10] The United States Africa 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 OIG.

For the 36 unclassified ICS submissions included in our review, Table 2 shows the number of Components that submitted complete information, submitted incomplete information, or did not include information for each of the 13 elements.

Table 2. Completeness of FY 2014 ICS Elements

Elements Required by 10 U.S.C. § 2330a	Complete	Incomplete	Not Included
Functions and missions performed by the contractor	31	4	1
Contracting, administering, and requiring organization	23	8	5
Funding source	29	6	1
Fiscal year the activity first appeared in the ICS	23	10	3
CFTEs	31	5	0
Personal services determination	25	9	2
Services purchased	34	2	0
Total dollar amount of the purchase	35	1	0
Form of contracting action used to make the purchase	29	6	1
Use of performance-based arrangements	22	8	6
Purchase made though an agency other than DoD	29	6	1
Extent of competition	23	12	1
Purchases made from small business concerns	23	12	1

Compared to FY 2013, fewer Components included complete information in their FY 2014 ICS submissions. In FY 2013, 12 of 31 Components (38.7 percent) included complete information for the 12 elements we reviewed.[11] In FY 2014, 6 of the 36 Components (16.7 percent) included complete information to address these 12 elements.

Results 1b: Nonreporting Components

OSD Guidance identified Components that were required to report and certify input for DoD's ICS. The following six Components did not submit an ICS for FY 2014.

- Defense Prisoner of War Missing Personnel Office[12]
- Defense Technology Security Administration

[11] OSD did not include a column in the FY 2013 ICS reporting template to capture 1 of the 13 elements. OSD corrected the omission for the FY 2014 reporting period.

[12] The Defense Prisoner of War Missing Personnel Office became part of the Defense POW/MIA Accounting Agency on January 30, 2015.

- DoD Test Resource Management Center
- Office of Economic Adjustment
- National Geospatial-Intelligence Agency
- National Security Agency/Central Security Service

We asked officials from these Components why they did not submit an ICS, and they provided the following responses.

- DoD Test Resource Management Center—acknowledged our request but did not provide a response as of March 15, 2016.
- Office of Economic Adjustment—was not aware of the reporting requirement and believed that the Washington Headquarters Service would report its contracts; officials plan to submit an ICS in the future.
- National Geospatial-Intelligence Agency—stated that based on a previous agreement between officials from OUSD(P&R), OUSD(AT&L), and the Office of the Under Secretary of Defense for Intelligence, the National Geospatial-Intelligence Agency was not required to submit an ICS and instead reported similar information to the Office of the Director of National Intelligence as part of a separate reporting requirement.
- National Security Agency/Central Security Service—did not submit ICS information due to classification reasons; however, officials compiled and maintained the data internally.

In addition, the ICS for the Office of the Under Secretary of Defense for Policy, which was included in the Office of the Secretary of Defense ICS submission, contained contract information for the Defense Prisoner of War Missing Personnel Office and Defense Technology Security Administration. However, these organizations did not independently participate in the FY 2014 ICS process by submitting an ICS, transmittal memorandum, or certification letter to OUSD(AT&L) and OUSD(P&R) as required.

Procedure 2: Observations on ICS Compilation Methods

To make observations on the sources and methods used 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 ICS

DoD Components used different sources and methods to obtain information to compile their FY 2014 ICS. The majority of the Components used the Federal Procurement Data System–Next Generation, a computer-based system that Government contracting officers use to collect and report procurement data.

This system is the central repository of Federal contracting information. However, 27 Components, including the Services, indicated that they supplemented the Federal Procurement Data System–Next Generation data with other sources, such as data from the Enterprise-wide Contractor Manpower Reporting Application (eCMRA)[13] or their financial or contracting systems. For example, the Air Force used the Commanders' Resource Integration System, and the Defense Technical Information Center and the Defense Media Activity used internal documents or reports.

Results 2b: Calculation of Contractor Full-Time Equivalents

DoD Components generally used one or more of the five methods established in the OSD Guidance to calculate and report CFTEs in the ICS. Of the 38 Components included in our review,[14] 34 Components used factors provided by the Army's Contractor Manpower Reporting Application for each product service code (PSC) and multiplied these factors by the total dollar amount obligated. However, while 12 of the 34 Components solely relied on the PSC factors, 22 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. The remaining four Components used other methods to calculate and report CFTEs.

More Components included eCMRA CFTE data in their FY 2014 ICS submissions than in FY 2013 when the CFTE totals for only seven Components included eCMRA data. Specifically, 21 Components included eCMRA data in their FY 2014 ICS submissions. The CFTE totals reported to Congress for 14 of these Components included eCMRA data. Of the 641,428 CFTEs reported in DoD's FY 2014 ICS, 261,716 (40.8 percent) came from eCMRA; however, the Army reported the majority of these CFTEs. Only 11.9 percent of the CFTEs reported came from eCMRA when the Army data were excluded. Some of the Components who did not rely on eCMRA for FY 2014 stated in their transmittal letters that they planned to use the application in the future to calculate CFTEs.

Only 11 of the 37 Components that submitted an unclassified ICS transmittal letter[15] discussed the percentage of their total contracts reported in eCMRA, as required by OSD Guidance. Percentages ranged from 0 percent and 1.5 percent for the United States European Command and Department of Defense Education Activity to 85 percent and 100 percent for the Defense Technical Information

[13] eCMRA is a DoD application that collects information from contractors on labor-hour expenditures by function, funding source, and mission supported on contracted functions.

[14] Includes the United States Africa Command and United States Pacific Command.

[15] Includes the United States Africa Command, which submitted a classified ICS and an unclassified transmittal letter.

Center and Army, respectively. The transmittal letters for nine other Components quantified the use of eCMRA by other means, such as the percentage of CFTEs, percentage of contract actions, or the number of contracts, and one Component explained that it could not access eCMRA.

The majority of the Components that submitted an unclassified ICS transmittal letter also discussed the extent they used eCMRA to support their FY 2014 ICS submission, as required by OSD Guidance. Five Components included data in the eCMRA column of their ICS submissions but did not discuss the extent they used eCMRA in the transmittal letters, so it was unclear whether these Components relied on the eCMRA data to support their overall CFTE calculations. Four of these Components used another method to calculate CFTEs in addition to using eCMRA and Component representatives later indicated that all available eCMRA data were used. The remaining Component did not use eCMRA to support CFTE calculations and instead used the eCMRA column in its ICS to record information from another source. Of the 38 Components[16] reviewed,

- 16 Components used all available CFTE data reported in eCMRA to support their ICS submissions. However, Components varied in the extent they used eCMRA data.
- 22 Components did not use eCMRA data to support CFTE calculations in the FY 2014 ICS. Thirteen of these Components provided rationale for not using eCMRA in their transmittal letters and the rationale provided generally dealt with a lack of complete, accurate information in eCMRA.

Results 2c: Inconsistencies and Limitations in Capturing DoD's ICS Universe

We identified the following inconsistencies and limitations regarding DoD's ability to capture all service contracts for the FY 2014 ICS universe.

- Components were inconsistent with the PSCs that they included in their ICS submission. According to 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 that included these PSCs. We identified 16 Components that included certain PSCs associated with telecommunications, which should also be excluded according to OSD Guidance.

[16] In addition to the 37 Components that submitted an unclassified transmittal letter, this includes the United States Pacific Command.

- Some Components reported both positive and negative obligations in their ICS submissions, while other Components only reported positive values.
- Two Component ICS submissions were limited to contracts awarded by a particular contracting office.
- Four Components expressed concern about possible double-counting of contracts when other organizations award contracts for them.

The inconsistencies and limitations were similar to those identified in our prior reports on DoD's FY 2012 and FY 2013 ICS submissions.

Procedure 3: Assess Certification Status of Review

To assess whether DoD Components certified their review of the FY 2014 ICS, we reviewed certification letters and contacted representatives from select Components, as necessary.

Results: Review and Certification of the ICS

Of the 38 Components[17] that submitted an ICS, 37 submitted a certification letter for the FY 2014 reporting period. As of April 5, 2016, the Air Force[18] had not submitted a certification letter.

This year, OUSD(P&R) granted Components 2 additional weeks (October 16, 2015) after the 90-day review period outlined in 10 U.S.C. § 2330a (September 30, 2015) to staff and coordinate the certification letters. Ten Components submitted certification letters between these two dates. Of the 13 Components that submitted certification letters after OUSD(P&R)'s deadline, 10 were 30 days late, or less. The Department of Defense Education Activity submitted its certification letter 45 days late and representatives cited problems with the Component's correspondence routing systems as the reason for the late submission. The Army and the Navy submitted their certification letters 184 and 133 days late, respectively, and representatives cited extended coordination and staffing delays.

Components improved on making timely certification letter submissions for the last three reporting periods. The number of Components submitting late certification letters decreased from 50 percent for FY 2012, to 45.2 percent for FY 2013, and 35.1 percent in FY 2014. Further, of those Components submitting late certification letters, Components generally submitted their reviews closer to the established reporting deadline in FY 2014 than in the previous two reporting periods.

[17] The 38 Components include the United States Africa Command and the United States Pacific Command, which submitted a classified ICS but an unclassified certification letter. For independence purposes, we did not review the certification letter for the DoD OIG.

[18] The Air Force did not submit a certification letter for the FY 2012 and FY 2013 reporting periods.

Procedure 4: Observations on Certification Letters

To make observations on the completeness of information in Component certification letters, we reviewed the certification letters for 37 Components and contacted representatives from select Components, as necessary.

Results 4a: ICS Review Results

In accordance with 10 U.S.C. § 2330a, Components are required to review their inventories and ensure:

- 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 does not include CAIG functions.

The Army was the only Component to identify inherently governmental functions and unauthorized personal services. The Army identified 102 CFTEs that supported inherently governmental functions and 5 CFTEs that supported unauthorized personal services contracts. The Army indicated that it would modify the contracts associated with these CFTEs. In addition, 23 Components identified CAIG functions. These Components reported $9.4 billion for 56,878 CFTEs[19] that supported CAIG functions. The Army accounted for 88.3 percent of the CFTEs that were associated with CAIG functions, and the Navy accounted for 6.3 percent.

Results 4b: Certification Letters Did Not Address Required Elements

Of the 37 Components that submitted a certification letter, only 10 Components included all seven elements in their certifications as required by OSD Guidance. Seventeen Components addressed six elements, eight Components addressed five elements, and the remaining two Components each addressed four elements.

Table 3 shows how many Components fully addressed, partially addressed, or did not address each required element in their FY 2014 certification letter. See Appendix B for additional details regarding Component-specific information and the required elements and our review methodology.

[19] This only includes partial CFTE totals for the Army. The Army identified the total number of CFTEs for CAIG functions that were continued in its certification letter, but did not provide a CFTE total for divested CAIG functions.

Table 3. FY 2014 Certification Letter Elements

Element	Fully Addressed	Partially Addressed	Not Addressed
Criteria and methodology used to review the ICS	16	21	0
Inherently governmental functions or unauthorized personal services contracts	37	0	0
CAIG functions	36	1	0
Identification of contracted services to be realigned that should be: exempt from private sector performance, require special consideration, or those that can be more cost effectively performed by Government civilians	31	2	4
Use of the ICS in program and budget reviews	37	0	0
Table delineating results	37	0	0
Overseas contingency operation funding	26	1	10

When compared to FY 2013, Components either remained the same or improved in addressing all of the elements except one—criteria and methodology used to review the ICS. While 83.9 percent of the Components addressed this element in FY 2013, only 43.2 percent of the Components addressed this element in FY 2014. We determined that fewer Components addressed this element in FY 2014 because many Components did not discuss three review techniques, which were new requirements in OSD Guidance for FY 2014.

Results 4c: Certification Letters Varied in Amount of Detail

Components varied in the level of information they provided in the 37 certification letters to address the OSD required elements. For example:

Methodology and Criteria Descriptions. 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. Of the 37 Components who submitted certification letters, 21 Components addressed all three of the required review techniques. Of the 16 remaining Components, 7 addressed 2 of the 3 required review techniques, and 4 Components addressed 1 of the 3 techniques. Five Components did not discuss any of the three required techniques; however, three of those did provide some information about an overall ICS review methodology. If Components discussed one or more of the review techniques, they varied in the amount of information provided to explain how the techniques were accomplished or to describe the results of the reviews. Components would benefit from clarification on this OSD requirement.

OSD Guidance required Components to compare PSCs to DoD function codes for military and civilian personnel to assess economies of scale or scope, identify potential areas of risk and overreliance on contracted services, and identify opportunities for efficiencies. Twenty-five Components discussed this review technique. To address this technique, the Components:

- stated that they compared PSCs to DoD function codes;
- stated that they had the right mix of civilian, military, and contractor personnel to carry out their missions;
- provided results that show the comparison of PSCs to DoD function codes;
- provided the percentage of CFTEs as compared to the total workforce; or
- discussed efficiencies identified as a result of the review.

OSD Guidance required Components to discuss whether their ICS reviews were consistent with their organizational structure, mission, and function alignments; were based on each DoD Component's requirements; and included functions associated with all contracts, task orders, delivery orders, or interagency acquisition agreements listed in the Component's ICS. Thirty Components discussed this review technique. While some of these Components stated that they met this requirement or that the review results were consistent with the mission or expectations of the organization, other Components discussed the type of contracted services provided. Other Components cited formal requirements management boards, which validated and prioritized requirements based on mission, tasks, and functions prior to the allocation of resources.

OSD Guidance required Components to review the nature or way a contract was performed and administered as well as the organizational environment in which it operated. Twenty-six Components discussed this review technique. While some Components made a general statement that personnel reviewed the way contracts were performed and administered, other Components explained how contract administration takes place in their organization.

OSD Guidance directed Components to review all contracts listed in the ICS, regardless of dollar amount or security classification. Of the 37 Components that submitted certification letters, 32 indicated that they reviewed 100 percent of their ICS. The Army only reviewed 73 percent of the contracted functions reported in the ICS. The Navy excluded actions that were low risk or reviewed in previous years. The Defense Human Resources Activity did not review the actions awarded outside of its Procurement Support Office. The Joint Staff did not review contracts that they funded but did not control or where the services were nonseverable to a larger requirement. United States Southern Command reviewed fewer CFTEs

and total dollars than what their ICS reported because officials stated that the command did not have visibility over these CFTEs, and they could not confirm the dollar amounts associated with contracts that were not in their databases.

CAIG Functions. Component personnel identified CAIG functions in 23 of the 37 Component certification letters. OSD Guidance required Components to identify the number of contracts in their inventories containing CAIG functions and to describe the steps taken to ensure appropriate Government control and oversight of these functions, or, if necessary, a plan to either divest (eliminate) or realign such functions to Government performance. One of the 23 Components, the United States Southern Command, identified CAIG functions but did not describe Government oversight or identify a plan to divest or realign the functions. Two Components either divested or realigned all the CAIG functions identified in their inventories and one Component planned to realign all of its CAIG functions. The 19 remaining Components provided information on the steps taken to ensure appropriate Government control and oversight, and 5 of these Components also divested or realigned CAIG functions.

Components varied in the amount of detail that they provided in the certification letters to describe the CAIG functions in their ICS and the processes in place to ensure proper oversight. Of the 19 Components that discussed Government oversight processes, 11 identified the total number of contracts or actions that contained CAIG functions and only 7 described the type of work the CAIG functions supported. These 19 Components described one or more oversight techniques in the certification letters. Specifically:

- 16 Components assigned Government officials, such as contracting officer's representatives, to oversee or monitor contracts;
- 7 Components discussed efforts to clearly define contractor performance or keep Government duties separate from contracted functions;
- 6 Components relied on quality assurance surveillance plans;
- 6 Components cited training for Government officials; and
- 4 Components either executed non-disclosure agreements or took other steps to mitigate potential conflicts of interest.

Identification of Contracted Services to be Realigned. Component statements varied in the certification letters to address the OSD requirement to identify contracted services to be realigned to Government performance that:

- should be exempt from private sector performance, in accordance with DoD Instruction 1100.22[20];
- should require special consideration under 10 U.S.C. § 2463; or
- could be more effectively performed by Government civilians, consistent with DoD Instruction 7041.04.[21]

Five Component certification letters identified 85.7 CFTEs, valued at $14.5 million that were either insourced or scheduled to be insourced.

Eight Components indicated in their FY 2014 certification letters that in-sourcing could not be achieved since they were capped at the number of civilian or military positions and were not authorized to hire any more Government personnel. Two additional Components acknowledged the limitations Government staffing restrictions had on their overall workforce. For example, United States European Command personnel stated in the certification letter that 7 of its 39 contracts could be either partially or fully converted to civilian or military positions to achieve cost savings; however, a lack of authorizations restricted the conversion.

Components would benefit from clarification on the OSD requirement to identify contracted services to be realigned to Government performance in the certification letters. While the majority of the Components addressed this OSD requirement in their certification letters, 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. Overall, of the 37 Components:

- 13 provided broad, overarching statements on whether their inventories contained functions in each of the three scenarios identified in the OSD Guidance;
- 2 only discussed one or two of the scenarios;
- 6 discussed one or two of the scenarios and provided an overall statement on whether they realigned or in-sourced any contractor performed functions;

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

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

- 7 only provided information on whether they realigned or in-sourced any functions;
- 5 discussed the three scenarios outlined in the OSD Guidance and provided a general statement on realignment or conversion; and
- 4 did not address the OSD requirement in the certification letter.

Of the 37 Components, 24 specifically identified 10 U.S.C. § 2463 in their certification letters; however, it was not always clear whether Component personnel assessed their ICS against this requirement. In accordance with 10 U.S.C. § 2463, Components are required to give special consideration to critical and CAIG functions and functions performed on a noncompetitive basis. Nine Components stated in the certification letters that their inventories did not contain functions that required special consideration, but five of these Components specifically identified having critical or CAIG functions in their certification letters. Further, the inventories for seven of these Components included noncompetitive actions.[22] Two additional Components mentioned 10 U.S.C. § 2463 in their certification letters but did not discuss how the requirement applied to their reviews.

Use of the ICS in Annual Program Reviews and Budget Processes. All 37 Components that submitted a FY 2014 certification letter addressed the requirement to discuss "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." In addition, since FY 2012, more Components have addressed this requirement in their certification letters with each reporting period.

Components would benefit from clarification on this OSD requirement. The majority of the Components cited existing review and approval processes to address this requirement in the FY 2014 certification letters but did not specifically discuss how the ICS reviews affected those processes. Only nine Components mentioned whether the ICS process was incorporated into overall reviews or strategic sourcing strategies and these discussions generally did not provide insight into how the inventories were actually used. The following are examples of how Components addressed the OSD requirement in their certification letters.

- Defense Security Cooperation Agency—will continue to perform annual program reviews and budget processes to ensure resources are appropriately allocated.

[22] We did not review the ICS for one Component because it was classified. In addition, another Component did not identify the extent that functions were competed in its ICS submission.

- Department of Defense Education Activity—used review boards and acquisition planning processes to evaluate service contracts throughout the year and reviewed its structure to determine how best to fulfill its manpower needs to ensure the appropriate reallocation of resources.
- Defense Information Systems Agency—used the ICS as one of many strategic planning aides to assess the right skill mix of civilian, military and contractor personnel and to support budget formulation; the review also aided strategic sourcing strategies to consolidate similar contracts across the Agency for increased efficiency.

Results 4d: OSD Guidance for Certification Letters Needs Improvement

OSD Guidance did not provide clear instruction on what Components must report in their certification letters. Several Components stated that portions of the OSD Guidance were unclear and believed clarification would be helpful. An OUSD(P&R) official stated that Components need to understand OSD requirements as a whole and how to assess their ICS against those requirements. The official further explained that the elements in the OSD Guidance were part of a "holistic vision of a total force management strategic process," and since many United States Code requirements are inter-related, OSD's intent was to eventually transition from a data set to a process that improves management. The official acknowledged that Components could not answer some of the certification elements outlined in the FY 2014 OSD Guidance but noted that OSD wanted Components to attempt to cover those areas in their reviews.

Components interpreted the requirement to report on the three required review techniques differently. Additionally, the Components varied in the amount of information provided in the certification letters to explain how the techniques were accomplished or to describe the results of the review. An OUSD(P&R) official did not have any insight into how Components were to report on these new elements; however, several Components stated that the OSD Guidance regarding these review techniques was unclear and that clarification would be helpful. For example, a Defense Security Service official stated that the section of the OSD Guidance discussing how to complete the ICS review was the most difficult to understand in terms of what Components must include in the certification letters, because the requirements were written more as statements than questions. As a result, the Defense Security Service official interpreted the OSD Guidance to only require a "yes or no" answer for the required review techniques. In addition, four Components specifically cited difficulty with the review technique related to comparing PSCs to DoD function codes for military and civilian personnel.

In our report[23] on the DoD FY 2013 ICS, we also reported on the Components' differing interpretations of the OSD requirement to identify contracted services to realign to Government performance, as well as on the uncertainty surrounding the types of functions Components actually reviewed. However, Components made only minor improvement when reporting on the element in the FY 2014 certification letters. OSD modified the language in the FY 2014 OSD Guidance but did not change the requirement or clarify the ambiguity related to the element. An OUSD(P&R) official stated that Components should address the element as a whole but did not have an opinion on how or what Components should specifically report.

The majority of the Components cited existing review and approval processes to address how they used the ICS to inform staffing, programing, and budgeting decisions in the certification letters. However, Components did not specifically discuss how the ICS reviews affected those processes. This was consistent with what we reported in our previous reports on DoD's FY 2013 and FY 2012 inventories. An OUSD(P&R) official acknowledged that Components could not address this requirement at this time and viewed the element as a goal rather than a requirement.

In our report[24] on the DoD FY 2012 ICS, we recommended that OSD clarify whether a response was necessary to address an element that did not apply to a Component's ICS or review. OSD agreed with the recommendation and updated the December 2014 OSD Guidance to specifically state that Components must provide input in the affirmative or negative to each of the requirements. However, the FY 2014 OSD Guidance restructured a requirement on reporting overseas contingency operation funded actions, stating that Components should provide a separate review table for these functions, if applicable. An OUSD(P&R) official stated that a lack of a separate review table would indicate that a Component did not have overseas contingency operation funding; however, we disagree with this statement. As discussed in our prior report, when Components do not address an element in their certification letters, it is not clear whether personnel reviewed the ICS for this element and determined that it was not applicable, or whether they did not review the ICS for this element.

Officials at OUSD(AT&L) and OUSD(P&R) should revise sections of the OSD Guidance related to the review of the FY 2016 ICS. Revisions should identify and explain the specific items, outcomes, or results Components are tasked

[23] DoD IG Report No. DODIG-2015-106, "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.

[24] DoD IG 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.

to discuss in the certification letters and distinguish between which elements Components are required to fully assess and which elements are goals that Components should work toward.

Procedure 5: Follow-Up on Previous Recommendations

To follow up on our previous recommendation to staff the Total Force Management Support Office (TFMSO) and implement eCMRA, we contacted officials from the Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs and the Defense Manpower Data Center. To follow up on our previous recommendations to clarify ICS guidance, we reviewed the FY 2014 and FY 2015 OSD Guidance and contacted officials from OUSD(P&R) and OUSD(Comptroller).

Results 5a: Status of eCMRA and TFMSO

We recommended in our previous report[25] that OSD provide an update on the status, including time frames, for staffing the TFMSO. In a March 2015 response, the Principal Deputy Assistant Secretary of Defense for Readiness and Force Management[26] stated that the TFMSO would be established no later than September 30, 2015, to improve DoD's ICS reporting. Afterwards, DoD planned to 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.

As of April 2016, DoD officials had not formally established the TFMSO. Officials from the Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs and the Defense Manpower Data Center explained that DoD created an office within the Defense Manpower Data Center to migrate four instances of the existing eCMRA systems (Army, Navy, Air Force, and other DoD Components) into a central system. They further stated that they were still in the process of establishing the TFMSO, had staffed two of the six authorized positions, and were working to resolve technical issues related to the eCMRA migration. Office of the Assistant Secretary of Defense for Manpower and Reserve Affairs and the Defense Manpower Data Center officials did not provide estimates for when the migration would be complete or if and when TFMSO would assume responsibility for the centralized eCMRA help desk. Officials stated that a memorandum of agreement was being developed to outline the roles and responsibilities of TFMSO. Officials stated that TFMSO would not be involved with the ICS for FY 2015, but the Defense Manpower Data Center official believed the centralized system would be available for the FY 2016 ICS reporting period.

[25] DoD IG 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" on September 17, 2014.

[26] The Principal Deputy was performing the duties of the Assistant Secretary of Defense for Readiness and Force Management.

In addition, the Joint Explanatory Statement to accompany the National Defense Authorization Act for FY 2016[27] directed the Secretary of Defense to examine DoD's current approach and alternate methods for complying with the ICS reporting requirement. OUSD(P&R) contracted with RAND Corporation to assess the methods DoD uses to produce the annual ICS; develop alternative methods to collect and report ICS data; and recommend improvements to inform planning, programming, and budgeting decisions, as well as strategic workforce planning across the DoD. OSD officials explained that OUSD(P&R) provided an interim briefing to Congress in March 2016, and plans to finalize the study by October 2016.

Differences in opinion regarding the proper way forward for TFMSO and eCMRA exist among OUSD(P&R) senior policy makers and other DoD stakeholders. DoD subject matter experts who are responsible for the ICS cited a lack of transparency, communication, and direction from senior officials. We previously reported that delays with staffing the TFMSO and implementing eCMRA affected the FY 2013 ICS process, and Components expressed similar concerns related to the FY 2014 ICS. Specifically, Components cited challenges related to eCMRA and the FY 2014 ICS:

- help desk was not fully functional;
- problems inputting data or accessing the system;
- lack of training or familiarity with the system;
- incomplete or unreliable data; and
- difficulty in enforcing the requirement for contractors to report.

Due to the undefined TFMSO roles and uncertainty with the continued use of eCMRA, Components will continue to face challenges for the FY 2015 ICS reporting period.

Results 5b: OSD ICS Guidance

We recommended in our previous report[28] that OSD issue guidance to clarify how Components should identify in their ICS certification letters contracted services to be realigned to Government performance that are exempt from private-sector performance, require special consideration, or can be more cost effectively performed by Government civilians. However, the OSD FY 2014 and FY 2015 ICS guidance did not provide clarification on this element. See Procedure 4c and 4d for additional information.

[27] Public Law 114-92, November 25, 2015.

[28] DoD IG Report No. DODIG-2015-106, "Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2013" on April 15, 2015.

We recommended in our previous report[29] that OSD 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. The Comptroller issued separate guidance regarding the funding reductions,[30] and Components are no longer required to discuss these reductions as part of the ICS certification process.

Summary

DoD compiled and submitted an FY 2014 ICS to Congress, as required; however, the report was 2 months past the Federally mandated deadline. DoD's FY 2014 ICS reported on four additional Components that were not part of the FY 2013 ICS and did not include information on six Components. In addition, fewer Components submitted complete information for inclusion into the FY 2014 ICS than in FY 2013, and DoD continues to face limitations to fully capture and consistently report on service contracts.

Of the 38 Components that submitted an ICS, 37 submitted a certification letter for the FY 2014 reporting period. Thirteen Components submitted late certifications, and only 10 of the 37 Components included all seven required elements in their certification letters. In addition, Components varied in the level of information they provided in the certification letters to address the required certification letter elements, and Components would benefit from clarification on the certification letter requirements in the OSD Guidance.

OUSD(P&R) is examining DoD's current approach and alternate methods for complying with the ICS reporting requirement and continues to assess the role that the TFMSO will have with the ICS process. OUSD(P&R) plans to finalize its study by October 2016. However, due to the undefined TFMSO roles and uncertainty with the continued use of eCMRA, Components will continue to face challenges for the FY 2015 ICS reporting period.

[29] DoD IG Report No. DODIG-2015-106, "Independent Auditor's Report on Agreed-Upon Procedures for DoD Compliance With Service Contract Inventory Compilation and Certification Requirements for FY 2013" on April 15, 2015.

[30] "Guidance for Limitation on Aggregate Annual Amount Available for Contracted Services for Fiscal Year 2015," May 11, 2015.

Recommendation, Management Comments, and Our Response

Recommendation 1

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness revise sections of the Office of the Secretary of Defense Guidance related to the review of the FY 2016 inventory of contracts for services. Revisions should:

a. Identify and explain the specific items, outcomes, or results that Components are tasked to discuss in the certification letters related to specific review techniques; functions to realign to Government performance; use of the inventory of contracts for services; and overseas contingency operation funded actions.

b. Identify and explain the elements that Components are required to fully assess and report in the certification letters and which elements are goals that Components should work toward.

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 Manpower and Reserve Affairs, 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 Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Office of the Under Secretary of Defense for Personnel and Readiness will ensure the Guidance for the Submission and Review of the Fiscal Year 2016 Inventory of Contracted Services is revised as needed to provide the recommended clarifications and explanation.

Our Response

Comments from the Director addressed the recommendation, and no further comments are required.

Appendix A

Scope and Methodology

We conducted this agreed-upon procedures engagement from October 2015 through April 2016 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 did not make representations 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 stated in this report. 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), and OUSD(P&R) 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 2014 ICS Report and all available FY 2014 Component ICS transmittal and certification letters[31] and compared the documents against requirements from 10 U.S.C. § 2330a and OSD Guidance to identify inconsistencies and to make observations on the completeness of data.

OSD Guidance required Components to discuss seven elements in their certification letters to signify completion of their FY 2014 ICS review. We reviewed each certification letter to determine whether it addressed the OSD required elements. Our review was limited to the information included in Component certification letters. See Appendix B for details about the elements required by OSD and our methodology for reviewing the Component certification letters.

[31] DoD's ICS also mentioned classified submissions for two intelligence agencies (National Reconnaissance Office and Defense Intelligence Agency), which we did not include in our review. We did not review the ICS submissions for the United States Africa Command and the United States Pacific Command because they were classified. For independence purposes (Generally Accepted Government Auditing Standards, Chapter 3, December 2011), we did not review the ICS submission and certification letter from the DoD OIG.

We also reviewed:

- 10 U.S.C. § 2463;
- 10 U.S.C. § 129a;
- 10 U.S.C. § 115b;
- DoD Instruction 1100.22, "Policy and Procedures for Determining Workforce Mix," April 12, 2010; and
- 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 officials from OUSD(AT&L), OUSD(P&R), Army, Navy, and Air Force to discuss FY 2014 ICS compilation and certification efforts. During our engagement, we also contacted officials who compiled and reviewed the ICS 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.

Appendix B

Review of Certification Letters

OSD Guidance required Components to address seven 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 2014 Component certification letters was consistent with our FY 2013 review. As noted below, we adjusted our methodology for reviewing several certification elements to account for changes in the OSD Guidance. In addition, the OSD Guidance for FY 2014 did not specifically require Components to discuss one element, "delineation of the results in accordance with all applicable title 10 provisions (e.g., 129, 129a, 235, 2330a, and 2463) and this guidance," which was required for FY 2013.

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 determined that it was not applicable or whether personnel did not review the ICS for the element. Therefore, if a Component did not include an element in its certification letter, we considered the element not addressed. If a Component only addressed a 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. FY 2014 OSD Guidance also required Components to discuss the three following review techniques[32] in the certification letters, which we considered as part of the required discussion on a Component's ICS review methodology.

- Functional reviews shall correspond both to the PSCs and be compared to the annually released DoD function codes for military and civilian personnel. DoD Components shall also review the inventory of military and Government civilian functions compared to the ICS to assess economies of scale or scope, identify potential areas of risk and overreliance on contracted services, and identify opportunities for efficiencies.
- Reviews of a Component's ICS shall be consistent with its organizational structure and mission, task, and function alignments; must be based on each DoD Component's requirements; and should include functions

[32] The FY 2013 OSD Guidance outlined these review techniques, but did not specifically require Components to discuss them in the certification letters.

associated with all contracts, task orders, delivery orders, or interagency acquisition agreements listed in the DoD Component's ICS for a given fiscal year.

- DoD Components shall review the nature or way the contract is performed and administered as well as the organizational environment within which it is operating.

Our Methodology: to address the ICS review methodology, the Component had to discuss each of the three review techniques by describing how they were accomplished (such as what processes were used or what the Component actually assessed during the review) or the results of the review related to a specific review technique. 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 ICS sufficient to address this element if the explanation did not address the actual review of the ICS data. We considered the element partially addressed if the Component did not discuss the three specific review techniques but still provided some information regarding the overall review methodology used. To address contract selection criteria in the FY 2014 certification letters, the Component had to state that it reviewed all contracts on the ICS.

Element 2—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 ICS 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 3—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 ICS 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 4—Identification of contracted services to be realigned to Government performance that should be: exempt from private-sector performance in accordance with DoD Instruction 1100.22, "Policy and Procedures for Determining Workforce Mix," April 12, 2010; require special consideration under 10 U.S.C. § 2463; or could 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.

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

Element 5—Actions taken or considered in regards to annual program reviews and budget processes to ensure appropriate (re)allocation of resources based on reviews conducted. The FY 2014 OSD Guidance also required Components to discuss in their certification letters how they used the ICS reviews and subsequent workforce shaping decisions to inform programming and budget matters, including requests to realign work, as appropriate, to military or civilian performance, and to inform their strategic workforce planning efforts,[33] which we considered as part of the required discussion on a Component's use of the ICS.

Our Methodology: we considered this element fully addressed if a Component included any description of a program review, budget process, or workforce planning.

Element 6a—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

[33] The FY 2013 OSD Guidance contained the same language but did not specifically require Components to discuss this in the certification letters.

- Unauthorized personal services
- 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, dollar amount, and the number of CFTEs associated with each reviewed function.

Element 6b—If relied upon, Components should list Overseas Contingency Operation funded functions in a separate table, to the maximum extent practicable.[34]

> **Our Methodology:** we considered this element fully addressed if a Component provided a review table detailing its Overseas Contingency Operation funded functions or explained that its ICS did not include such functions.

[34] The FY 2013 OSD Guidance required Components to explain in the certification letter the extent functions were Overseas Contingency Operation funded or reimbursable functions not included in the Component's budget estimate for contracted services. The FY 2014 OSD Guidance removed the requirement for Components to report on reimbursable functions and specified the use of a review table for Overseas Contingency Operation funded functions.

Review of Certification Letters

Table 4 shows the 37 Components that submitted an FY 2014 ICS certification letter, as of April 5, 2016, and whether the Component fully responded to the seven elements required by the December 2014 OSD Guidance.

Table 4. Review of Certification Letters

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

Table 4. Review of Certification Letters (cont'd)

Component	Element 1	Element 2	Element 3	Element 4	Element 5	Element 6a	Element 6b
Defense Acquisition University	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
Defense Contract Audit Agency	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Contract Management Agency	Partially Addressed	Addressed	Addressed	Partially Addressed	Addressed	Addressed	Addressed
Defense Commissary Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Finance and Accounting Service	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Health Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Human Resources Activity	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
Defense Information Systems Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Legal Services Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Logistics Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
Defense Media Activity	Partially Addressed	Addressed	Addressed	Not Addressed	Addressed	Addressed	Addressed
Defense Micro-Electronics Activity	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
DoD Education Activity	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
Defense Security Cooperation Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Security Service	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Defense Technical Information Center	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed

Table 4. Review of Certification Letters (cont'd)

Component	Element 1	Element 2	Element 3	Element 4	Element 5	Element 6a	Element 6b
Defense Threat Reduction Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Joint Staff	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Missile Defense Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
National Defense University	Addressed	Addressed	Addressed	Not Addressed	Addressed	Addressed	Not Addressed
Office of the Secretary of Defense[2]	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Pentagon Force Protection Agency	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
United States Forces, Korea	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Not Addressed
Uniformed Services University of the Health Sciences	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Washington Headquarters Service[3]	Partially Addressed	Addressed	Addressed	Addressed	Addressed	Addressed	Addressed
Addressed	**16**	**37**	**36**	**31**	**37**	**37**	**26**
Partially Addressed	**21**	**0**	**1**	**2**	**0**	**0**	**1**
Not Addressed	**0**	**0**	**0**	**4**	**0**	**0**	**10**
Total	**37**	**37**	**37**	**37**	**37**	**37**	**37**

[1] As of April 5, 2016, the Air Force had not submitted a certification letter, but officials indicated an intent to do so.

[2] The ICS submission for the Office of the Secretary of Defense included 12 individual organizations.

[3] The ICS submission for Washington Headquarters Service included 10 individual organizations.

Management Comments

Assistant Secretary of Defense for Manpower and Reserve Affairs

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-4000

MANPOWER AND
RESERVE AFFAIRS

APR 28 2016

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 2014 (Project No. D2016-D000CG-0036.000), dated April 15, 2016.

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 2014 (Project No. D2016-D000CG-0036.000)*, dated March 15, 2016. 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:

"Recommendations

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Under Secretary of Defense for Personnel and Readiness revise sections of the Office of the Secretary of Defense Guidance related to the review of the FY 2016 inventory of contracts for services. Revisions should:

- identify and explain the specific items, outcomes, or results that Components are tasked to discuss in the certification letters related to specific review techniques; functions to realign to Government performance; use of the iICS; and overseas contingency operation funded actions; and
- identify and explain the elements that Components are required to fully assess and report in the certification letters and which elements are goals that Components should work toward."

Response: The Department concurs with this recommendation. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics and the Office of the Under Secretary of Defense for Personnel and Readiness will ensure the *Guidance for the Submission and Review of the Fiscal Year 2016 Inventory of Contracted Services* is revised as needed to provide the recommended clarifications and explanation.

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

Richard A. Robbins
Director, Total Force Planning &
Requirements

Acronyms and Abbreviations

CAIG	Closely Associated with Inherently Governmental
CFTE	Contractor Full-Time Equivalent
DoD OIG	DoD Office of Inspector General
eCMRA	Enterprise-wide 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 Under Secretary of Defense for Personnel and Readiness
PSC	Product Service Code
TFMSO	Total Force Management Support Office
U.S.C.	United States Code

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U.S. Department of Defense

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For more information about DoD IG reports or activities, please contact us:

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