THE UNDER SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

AUG 25 2003

The Honorable Duncan Hunter
Chairman, Committee on Armed Services
United States House of Representatives
Washington, DC 20515-6035

Dear Mr. Chairman:

The enclosed Department of Defense report is provided pursuant to section 802(b) of the National Defense Authorization Act for Fiscal Year 2002 (PL 107-107), as amended by section 805 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (PL 107- 314). Section 802 (b) as modified by section 805 requires the Department to report on progress towards goals in the procurement of services using multiple award contracts and on initiatives to improve the acquisition of services generally.

I am sending a copy of the report to the Chairman of the Senate Armed Services Committee and the Chairmen of the Senate and House Appropriations Committees, Subcommittees on Defense.

Sincerely,

Michael W. Wynne
Acting

Enclosure:
As stated

cc:
The Honorable Ike Skelton
Ranking Member

Procurement of Services Report to Congress

This report is submitted pursuant to section 802(b) of the National Defense Authorization Act for Fiscal Year 2002 (PL 107-107) as modified by section 805 of the Bob Stump National Defense Authorization Act for Fiscal Year 2003 (PL 107-314).

STEPS TAKEN OR PLANNED TO IMPROVE THE MANAGEMENT OF SERVICES

Section 821 of the Floyd D. Spence National Defense Authorization Act for Fiscal Year 2001, PL 106-398, established that the preferred way of acquiring services was through the use of performance based requirements. The Department of Defense (DoD) issued guidance specifying that by 2005, 50 percent of dollars obligated for services should specify the government's needs in performance based terms. In addition, representatives from DoD participated in the preparation of the "Seven Steps" guidebook for Government-wide use in connection with performance based service acquisitions. The government-wide guidebook is available on-line at: http://oamweb.osec.doc.gov/ pbsc/index.html. Finally, we are developing an on-line interactive training module to facilitate the use of performance specifications.

In a February 2002 memorandum, the Director of Defense Procurement and Acquisition Policy required that each purchase of services under multiple award contracts in excess of $100,000 be made on a competitive basis, consistent with the requirement of section 803 of the National Defense Authorization Act for Fiscal Year 2002, PL 107-107. DoD amended the Defense Federal Acquisition Regulation Supplement to implement this requirement.

In a May 2002 memorandum, the Under Secretary of Defense for Acquisition, Technology and Logistics (USD (AT&L)) issued guidance to implement a system to improve its management of service acquisitions. Consistent with the requirements contained in section 801 of the National Defense Authorization Act for Fiscal Year 2002, we mandated a management approach for the largest acquisitions of services that is similar to our approach for acquiring major defense systems. The Military Departments submitted implementation plans for this management requirement, which have been approved by the USD(AT&L).

The Department of Defense is conducting a commercial type "spend analysis" to identify opportunities to leverage Department-wide buying power and develop more efficient acquisition strategies for services. The goal of the spend analysis will be to understand, from a Department-wide perspective, what services DoD buys, what organizations buy them, from who DoD buys them, where the services are required and how they can be obtained at less cost. The Department has formed a joint Integrated Process Team to conduct the spend analysis and will create commodity teams to develop acquisition strategies for pilot programs identified in the spend analysis process.

ESTIMATE OF FUTURE SERVICE REQUIREMENTS

As services are not consolidated in a single budget line, but are commingled with program areas and scattered throughout the budget, it is not possible to identify reasonably the amount that will be expended by the Department of Defense for the procurement of services in FY 2003 and FY 2004. While DoD does not have a specific estimate for FY 2003 or 2004, we expect the amount spent on services to continue to rise from the FY 2002 amount.

MULTIPLE AWARD CONTRACTS (MAC) DATA

While the requested data is available for orders placed by DoD under DoD multiple award contracts, only part of the requested data is available for orders placed by or on behalf of DoD on non-DoD multiple award contracts. Therefore, separate information is presented for each of these categories.

A. Department of Defense Multiple Award Contracts

Total dollars of orders placed on DoD Multiple Award Contracts in FY 2002.	$9,922 Million
The percentage of the total dollars that were made on a competitive basis and involved receipt of more than one offer from qualified contractors.	88% ($8,689 Million)
The percentage of the total dollars that used a performance-based requirement and specify a firm fixed price for the specific tasks to be performed.	17% ($1,686 Million)*

*The Defense Contract Action Data System (DCADS) only records performance based transactions if the value of the order exceeds $100,000 and the amount of performance based effort exceeds 80% of the entire effort. Therefore, some performance based effort is not captured by the DCADS system.

B. Non Department of Defense Multiple Award Contracts**

i.	Orders placed by DoD	$4,725 Million
ii.	Orders placed by non-DoD entities but funded by DoD	$1,534 Million
	Total dollars of orders placed on non-DoD multiple award contracts in FY 2002 on behalf of DoD	$6,259 Million

Performance-Based Firm Fixed Price Orders:

iii.	Orders placed by DoD	$1,034 Million
iv.	Orders placed by non-DoD entities but funded by DoD	$ 74 Million
	Total Performance-based	$1,108 Million
	Percentage Performance-based	17.7%

** It is not possible to ascertain whether competition was obtained or the number of offers received from the database for individual orders placed on non-DoD multiple award contracts.