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Defense Acquisitions: How and Where DOD Spends Its Contracting Dollars

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Committees of Congress

Summary

The Department of Defense (DOD) has long relied on contractors to provide the U.S. military with a wide range of goods and services, including weapons, vehicles, food, uniforms, and operational support. Without contractor support, the United States would be currently unable to arm and field an effective fighting force. Costs and trends associated with contractor support provides Congress more information upon which to make budget decisions and weigh the relative costs and benefits of different military operations—including contingency operations and maintaining bases around the world.

Total DOD Contract Obligations

Obligations occur when agencies enter into contracts, employ personnel, or otherwise commit to spending money. The federal government tracks money obligated on federal contracts through a database called the Federal Procurement Data System-Next Generation (referred to as FPDS). There is no public database that tracks DOD contract outlays (money expended from the Treasury) as comprehensively as FPDS tracks obligations.

In FY2017, DOD obligated more money on federal contracts ($320 billion in current dollars) than all other government agencies combined. DOD's contract obligations were equal to 8% of all mandatory and discretionary federal spending. Services accounted for 41% of total DOD contract obligations, goods for 51%, and research and development (R&D) for 8%. This distribution is in contrast to the rest of the federal government, which obligated a larger portion of contracting dollars on services (71%), than on goods (21%) or research and development (8%).

According to FPDS data, from FY2000 to FY2017, DOD contract obligations increased from $189 billion to $320 billion (FY2017 dollars). The increase in spending, however, has not been steady. DOD contract obligations over the last 17 years were marked by an annualized increase of 11.5% between FY2000 and FY2008, followed by an annualized decrease of 6.5% from FY2008 to FY2015, and then increased again from FY2015 to FY2017 by 6.5% annually. Some say the steep rise, fall, and rise of DOD contract spending makes it difficult for DOD to pursue a strategic approach to budgeting.

For almost 20 years, DOD has dedicated an ever-smaller share of its contracting dollars to R&D, with such contracts dropping from 15% of total contract obligations in 2000, to 8% in 2017.

Understanding the Limitation of FPDS Data

Decisionmakers should be cautious when using obligation data from FPDS to develop policy or otherwise draw conclusions. In some cases, the data itself may not be reliable. In some instances, a query for particular data may return differing results, depending on the parameters and timing.

All data have imperfections and limitations. FPDS data can be used to identify broad trends and produce rough estimates, or to gather information about specific contracts. Some observers say that despite its shortcomings, FPDS data are substantially more comprehensive than what is available in most other countries in the world. Understanding the limitations of data—knowing when, how, and to what extent to rely on data—helps policymakers incorporate FPDS data more effectively into their decisionmaking process.

The General Services Administration (GSA) is undertaking a multi-year effort to improve the reliability, precision, retrieval, and utility of the information contained in FPDS and other federal government information systems. This effort, if successful, could significantly improve DOD's ability to engage in evidence- and data-based decisionmaking.

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Introduction

The Department of Defense (DOD) has long relied on contractors to provide the U.S. military with a wide range of goods and services, including weapons, vehicles, food, uniforms, and operational support. Without contractor support, the United States would not be able to arm and field an effective fighting force. Costs and trends associated with contractor support provide Congress more information upon which to make budget decisions and weigh the relative costs and benefits of different force structures and different military operations—including contingency operations and maintaining bases around the world.

This report examines (1) how much money DOD obligates on contracts, (2) what DOD is buying, and (3) where that money is being spent. This report also examines the extent to which these data are sufficiently reliable to use as a factor when developing policy or analyzing government operations.

Related CRS products include CRS In Focus IF10887, *The FY2019 Defense Budget Request: An Overview*, by Brendan W. McGarry, and CRS Report R44329, *Using Data to Improve Defense Acquisitions: Background, Analysis, and Questions for Congress*, by Moshe Schwartz.

How Much DOD Spends on Contract Obligations

When Congress appropriates money, it provides *budget authority*—the authority to enter into obligations. *Obligations* occur when agencies enter into contracts, submit purchase orders, employ personnel, or otherwise legally commit to spending money. *Outlays* occur when obligations are liquidated (primarily through the issuance of checks, electronic fund transfers, or the disbursement of cash).[1]

[1] CRS Report 98-721, *Introduction to the Federal Budget Process*, coordinated by James V. Saturno. The Government Accountability Office (GAO) defines an obligation as "a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received, or a legal duty on the part of the United States that could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States. Payment may be made immediately or in the future. An agency incurs an obligation, for example, when it places an order, signs a contract, awards a grant, purchases a service, or takes other actions that require the government to make payments to the public or from one government account to another." U.S. Government Accountability Office, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP, September 1, 2005.

How Are Government Contract Data Tracked?

The Federal Procurement Data System—Next Generation (FPDS)—is a central database of U.S. government-wide procurement. The purpose of FPDS is to provide data that can be used as "a basis for recurring and special reports to the President, the Congress, the Government Accountability Office, Federal executive agencies, and the general public."[2] The contract data in this report come from the FPDS database.

FPDS generally reports information on contracts that exceed the micro-purchase threshold, defined in 48 C.F.R. §2.101.[3] The micro-purchase threshold is generally $10,000 (meaning that contract actions above this amount must be reported to FPDS).[4] FPDS does not include data from judicial branch agencies, the legislative branch, certain DOD components, or select executive branch agencies—such as the Central Intelligence Agency and National Security Agency.[5] Unless otherwise indicated, all data in this report are derived from FPDS.

Due to concerns over data reliability (see below) and what information is submitted to the system, data from FPDS are used in this report to identify broad trends and rough estimations. FPDS contains data from 1978 to the present. For a more detailed discussion on how FPDS operates, see **Appendix A**.

In FY2017, the U.S. federal government obligated $507 billion for contracts for the acquisition of goods, services, and research and development. The $507 billion obligated on contracts was equal to approximately 13% of total FY2017 federal budget outlays of $3.98 trillion.[6] As noted in **Figure 1**, in FY2017 DOD obligated more money on federal contracts ($320 billion) than all other federal agencies combined. DOD's obligations were equal to 8% of all federal spending.

[2] Federal Acquisition Regulation "Subpart 4.6—Contract Reporting," Section 4.602, at https://www.acquisition.gov/far/html/Subpart%204_6.html.

[3] U.S. General Services Administration, "Reportable/Nonreportable Contract Actions," at https://www.fpds.gov/help/Reportable_Nonreportable_Contract_Actions.htm.

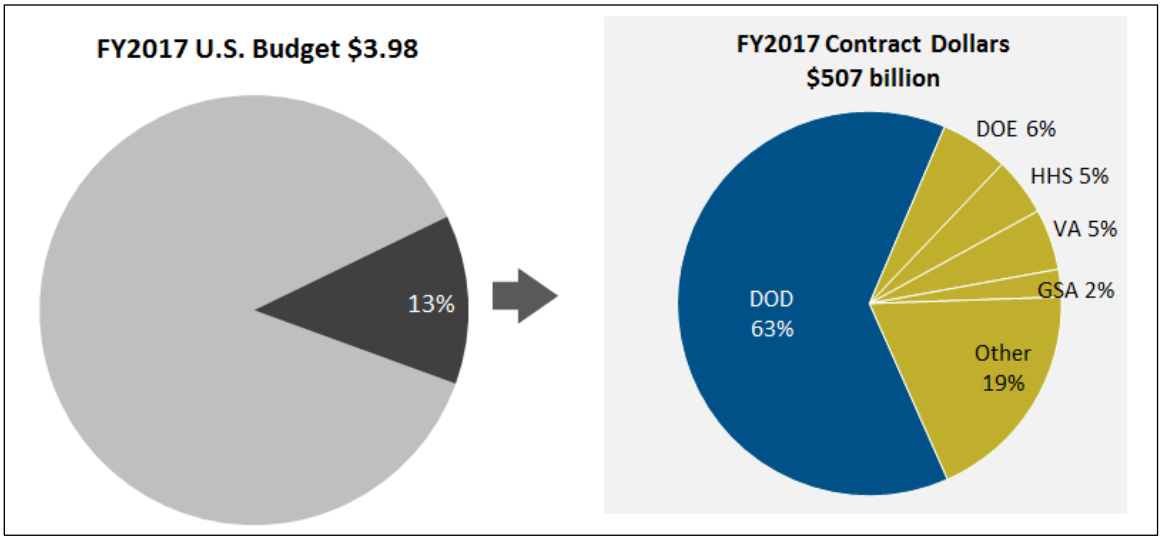
[4] The FY2018 NDAA (P.L. 115-91, §806) raised the micro-purchase threshold to $10,000. For DOD, the threshold is $5,000, pursuant to 10 USC 2338. The House version of the FY20H.R. 551519 NDAA (, §822) proposed to increase the DOD threshold to $10,000 to be in line with the threshold for the rest of the federal government. Electronic Code of Federal Regulations, 48 C.F.R. §2.101—Definitions: http://www.ecfr.gov/cgi-bin/text-idx?node=sp48.1.2.2_11.

[5] U.S. Government Accountability Office, *Defense Contracting: Improved Policies and Tools Could Help Increase Competition on DOD's National Security Exception Procurements*, GAO-12-263, January 2012, p. 11, at http://www.gao.gov/assets/590/587681.pdf. Based also on CRS review of data found in FPDS-NG.

[6] Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2019, Supplemental Materials, Public Budget Database (Outlays); Given the difference between outlays and obligations, this comparison is only intended to illustrate a rough magnitude of contract obligations within the context of overall federal government spending.

Figure 1. Contract Obligations by Agency

U.S. Budget Dollars in Trillions, Contract Dollars in Billions



Source: Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2019, Supplemental Materials, Public Budget Database (Outlays); Federal Procurement Data System-Next Generation, January 2018. Figure created by CRS.

From FY2010 to FY2017, the federal government obligated both a smaller amount of money and a smaller percentage of the overall budget to contract acquisitions. In addition, the DOD share of overall contract obligations decreased relative to the rest of the federal government (see **Table 1**).

Table 1. Trends in Contract Obligations

FY2017 Dollars

	FY2010	FY2017
Total government contract obligations	$618 billion	$507 billion
Total contract obligations as percent of budget	16%	13%
DOD share of contract obligations	65%	63%
DOD contract obligations as percentage of federal spending	10%	8%

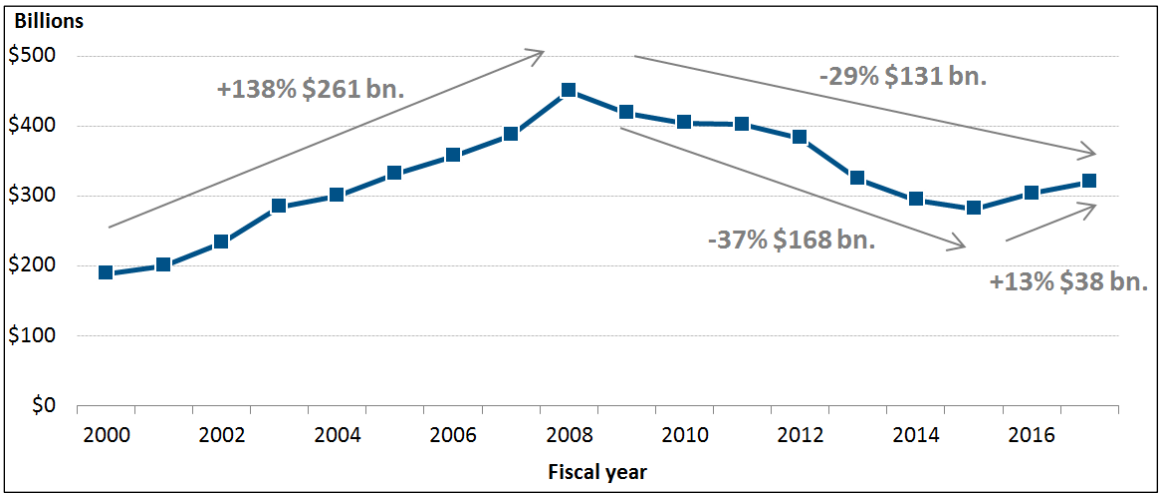
Sources: Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2019, Supplemental Materials, Public Budget Database (Outlays); Federal Procurement Data System-Next Generation, January 2018.

Trends in DOD Contract Obligations

From FY2000 to FY2017, adjusted for inflation (FY2017 dollars), DOD contract obligations increased from $189 billion to $320 billion. However, the increase in spending has not been steady. DOD contracting was marked by a steep increase in obligations from FY2000 to FY2008 (an increase of $261 billion or 138%), followed by a drop in obligations (a decrease of $131 billion or 29%) from FY2008 to FY2017 (see **Figure 2**).

Figure 2. DOD Contract Obligations, FY2000-FY2017

FY2017 Dollars



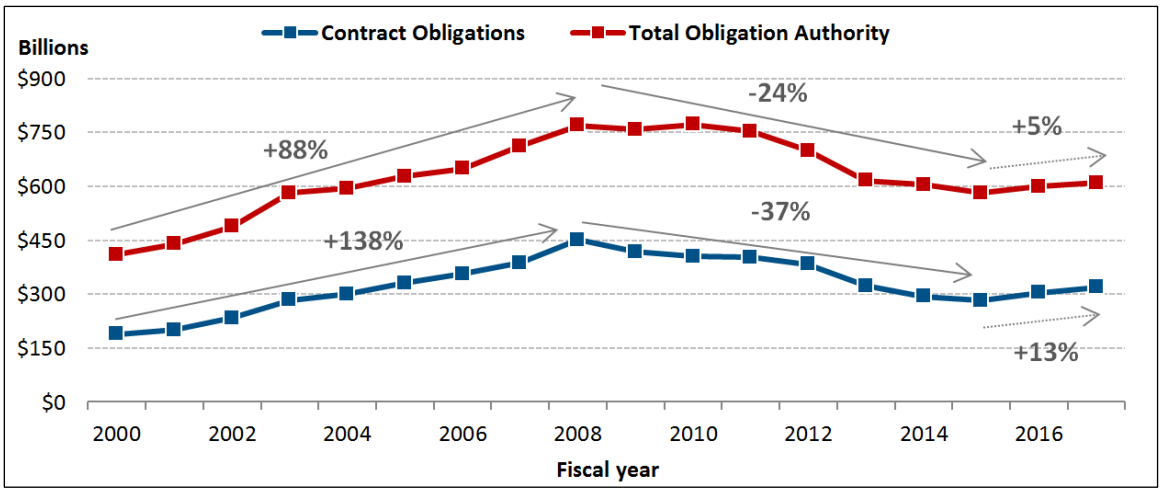
Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

Note: According to DOD, the reporting threshold for FPDS changed in FY2006 from $25,000 to the micro-purchase threshold. In addition, reporting form the CENTCOM AOR prior to 2007 may not have been consistently reported.

Contract obligation trends are generally consistent with—but still steeper than—overall DOD obligation authority trends. For example, DOD total obligation authority (including contracts as well as all other obligations) increased significantly from FY2000 to FY2008, and decreased from FY2008 to FY2015, and then increased again from FY2015-FY2017 (see **Figure 3**).

Figure 3. DOD—Total Obligation Authority, FY2000-FY2017

FY2017 Dollars



Sources: For Total Obligation Authority, Office of the Under Secretary of Defense (Comptroller), Department of Defense, *National Defense Budget Estimates for FY2019*, "Department of Defense TOA—By Public Title," Table 6-1. For DOD Contract Obligations, CRS analysis of Federal Procurement Data System-Next Generation, January 2018. Figure created by CRS.

Some analysts believe that this trend of rapid contract spending increases (averaging 11.5% annual increases), followed by a relatively sharp cut in contract spending from FY2008-FY2015

(averaging 6.5% annual decreases), puts DOD at increased risk of making short-term budget decisions (aimed at meeting budget caps) that could cause long-term harm.[7] Limits on DOD funding resulting from the Budget Control Act required DOD to implement significant spending cuts that were not the result of deliberate and strategic planning.[8] A more gradual reduction in spending, or additional funding in select budget categories, could help DOD make more gradual spending reductions and more considered choices. This could potentially minimize hazardous, long-term effects of budget cuts.[9]

DOD vs. Rest of Government Contracting Trends

The rise and fall of DOD contract spending may make budgeting more difficult than in the rest of the federal government, which has had more gradual increases and less drastic cuts (see **Figure 4**).[10]

[7] Todd Harrison, *Analysis of the FY 2015 Defense Budget*, Center for Strategic and Budgetary Assessments, September 5, 2014, p. 30, at http://csbaonline.org/research/publications/analysis-of-the-fy2015-defense-budget.

[8] For more information on the Budget Control Act, see CRS Report R42506, *The Budget Control Act of 2011 as Amended: Budgetary Effects*, by Grant A. Driessen and Marc Labonte.

[9] Aaron Mehta, "Former US Air Force head details decision to cut maintenance budgets in 2013," *AirForceTimes*, May 9, 2018, pp. https://www.militarytimes.com/news/your-military/aviation-in-crisis/2018/05/08/former-us-air-force-chief-details-decision-to-cut-maintenance-budgets-in-2013/. Addressing budget cuts, former Pentagon comptroller Robert Hale wrote that one option for Congress is to

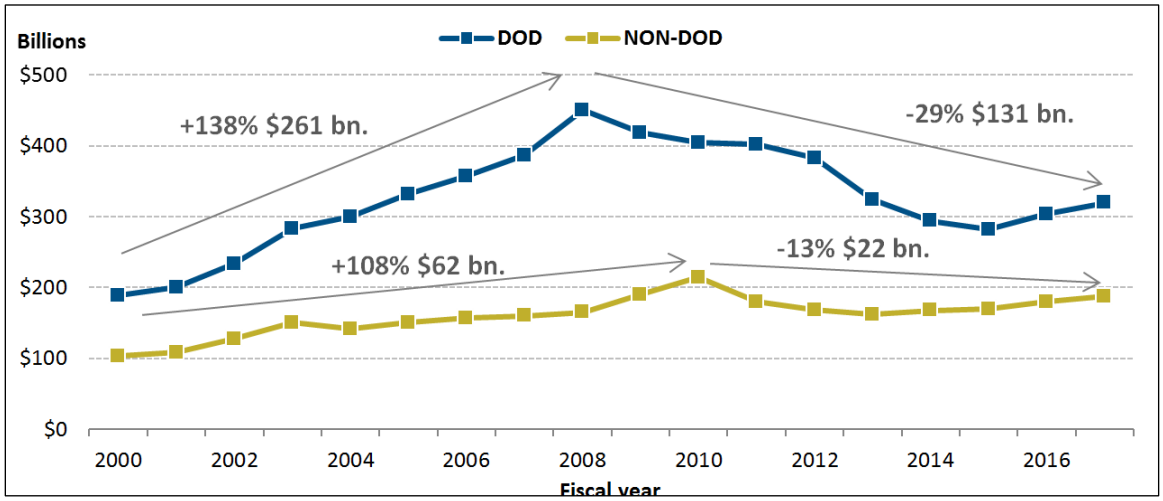
> approve more funding in at least some budget categories and raise the budget caps to accommodate the boosted funding. This could be accomplished in a mini budget deal (as opposed to the forever elusive "grand bargain") that, hopefully for at least a few years, would effectively eliminate the threat of sequestration in favor of *considered choices* (italics added).

Robert Hale, "Sequestration: Don't Believe All the Hype," *Breaking Defense*, February 19, 2015, at http://breakingdefense.com/2015/02/sequestration-dont-believe-all-the-hype.

[10] In response to a CRS query on the nature of the rise and fall in DOD contract obligations, DOD said: "DOD funding exhibit cycles of increases and decreases. We are just now coming off a decrease, and that is affecting contract obligation levels. Funding cycles (and, more importantly, near-term changes such as sequestration) make budgeting difficult because DOD capabilities (acquisition programs, force structure, military personnel, operational support) often take many years to change" [sic].

Figure 4. DOD vs. Rest of Government Contract Obligations, FY2000-FY2017

FY2017 Dollars



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

What DOD Buys

In FY2017, 41% of total DOD contract obligations were for services, 51% for goods, and 8% for research and development (R&D). This is in contrast to the rest of the federal government (excluding DOD), which obligated a significantly larger portion of contracting dollars on services (71%) than on goods (21%) or research and development (8%).

How Are Contracts Categorized?

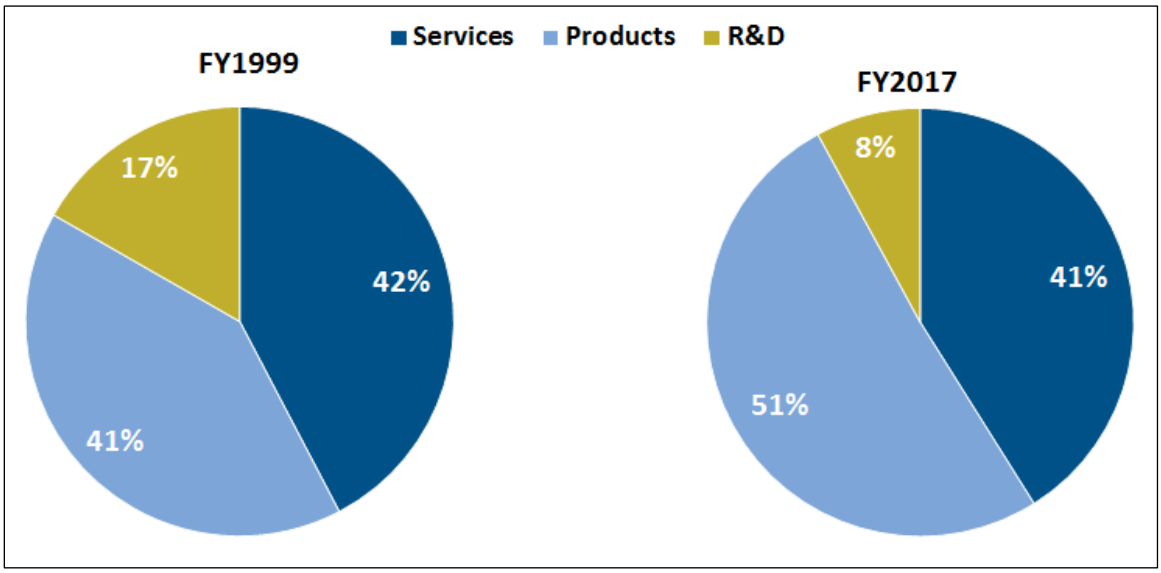
FPDS categorizes contracts by product or service codes. According to FPDS, "These product/service codes are used to record the products and services being purchased by the Federal Government. In many cases, a given contract/task order/purchase order will include more than one product and/or service. In such cases, the product or service code data element code should be selected based on the predominant product or service that is being purchased. For example, a contract for $1000 of lumber and $500 of pipe would be coded under 5510, Lumber & Related Wood Materials."

Because FPDS contracts are associated with only a single product or service code—even when the contract involves substantial deliveries of other products or services—the analysis in this report should be used only to identify broad overall trends.

Source: U.S. General Services Administration Office of Governmentwide Policy, *Federal Procurement Data System Product and Service Codes Manual*, October 1, 2015, p. 6, at https://www.fpds.gov/downloads/top_requests/PSC_Manual_FY2016_Oct1_2015.pdf. This is the most recent version of the manual.

For almost 20 years, DOD has dedicated an ever-smaller share of contracting dollars to R&D, with such contracts dropping from 17% of total contract obligations in FY1999 to 8% in FY2017. (See **Figure 5**. For a breakout of obligations trends by product service code, see **Appendix B**.)

Figure 5. DOD Contract Obligations by Major Category

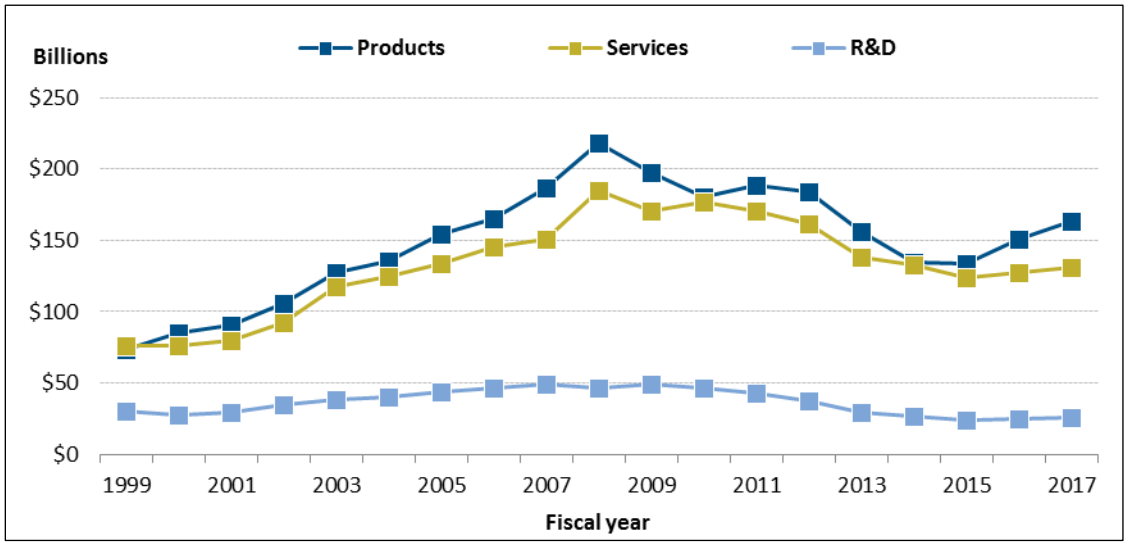


Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

The relative decrease in R&D contracts manifests as both a percentage of overall spending and in terms of constant dollars. Despite increased spending on R&D from FY2000 to FY2007, adjusted for inflation (in FY2017 dollars), DOD obligated less money on R&D contracts in FY2017 ($25 billion) than it invested more than 15 years earlier ($28 billion in FY2000). In contrast, over the same period, DOD obligations to acquire both goods and services are substantially higher (see **Figure 6**).

Figure 6. DOD Contract Obligations Dedicated to R&D, FY1999-FY2017

FY2017 Dollars



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

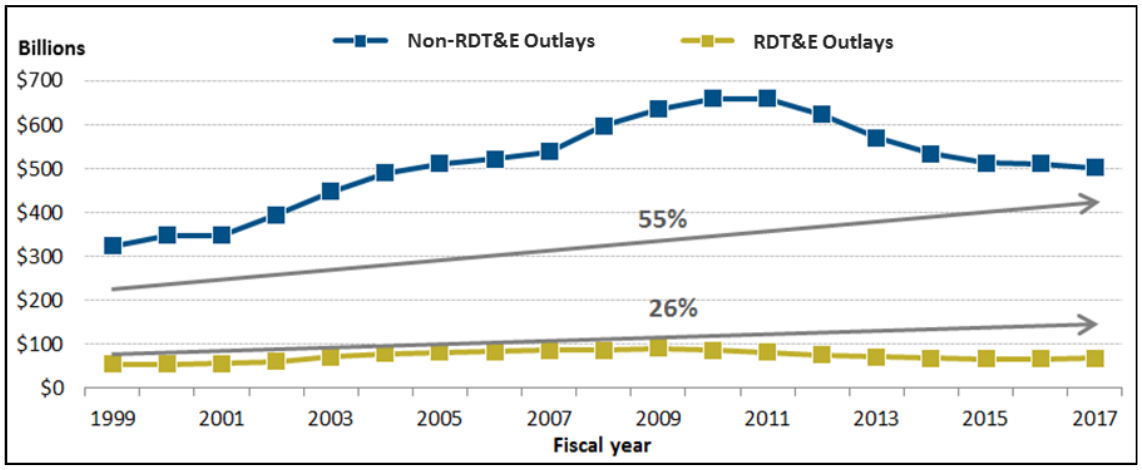
DOD Spending on Research, Development, Test, and Evaluation (RDT&E)

Research and Development contracting is but a portion of overall DOD investment in developing technology. For example, DOD uses grants to support much of its research at universities. More than half of DOD's basic research budget is spent at universities and represents the major contribution of funds in some areas of science and technology.[11] Taken as a whole, the R&D picture looks somewhat different.[12]

Total outlays for RDT&E increased 67% in constant dollars from FY1999 to FY2009, before dropping 24% from FY2009 to FY2017. However, as reflected in **Figure 7**, since FY1999, RDT&E outlays increased at a much slower rate (26%) than non-RDT&E (55%).

Figure 7. DOD RDT&E vs. Non-RDT&E Outlays, FY2000-FY2017

FY2017 Dollars



Source: Office of Management and Budget, Budget of the U.S. Government Fiscal Year 2019, Supplemental Materials, Public Budget Database (Outlays).

Where DOD Obligates Contract Dollars

DOD relies on contractors to support operations worldwide, including operations in Afghanistan, permanently garrisoned troops overseas, and ships docking at foreign ports. Because of its global footprint, this report will look at where DOD obligates contract dollars in two ways:

1. by geographic region, and
2. domestic vs. overseas.

What Is Place of Performance?

[11] Investments in basic research often occur in the form of grants or cooperative agreements.

[12] "R&D" is defined in FPDS's Product and Service Codes and refers to individual DOD contract action obligations. It includes only contract procurement—employee salaries and other noncontracted expenditures are unavailable in FPDS. "RDT&E" is defined by appropriations law and can be used to describe either appropriations or outlays. RDT&E may encompass salaries and other expenditures not involving contract procurement. For this reason, RDT&E outlay totals are greater than DOD's R&D obligation totals.

FPDS defines place of performance as "the location of the principal plant or place of business where the items will be produced, supplied from stock, or where the service will be performed."[13] Foreign place of performance is defined as work produced, supplied, or performed primarily outside of the United States or its territories.

According to DOD, FPDS is required to collect only the predominant place of performance for contract actions. Because FPDS lists only one country for place of performance, contracts listed as being performed in one country can also involve substantial performance in other countries. In 2012, GAO noted that FPDS's inability to provide more granular data entry and analysis limited the "utility, accuracy, and completeness" of the data.[14] In more recent years, however, GAO has determined that FPDS data are "sufficiently reliable for examining trends" in DOD contracting.[15]

By Geographic Region

DOD divides its geographic responsibilities among six Unified Combatant Commands:[16]

1. U.S. Northern Command (NORTHCOM),[17]
2. U.S. Africa Command (AFRICOM),
3. U.S. Central Command (CENTCOM),[18]
4. U.S. European Command (EUCOM),
5. U.S. Indo-Pacific Command (INDOPACOM), which includes Hawaii and a number of U.S. territories,[19] and
6. U.S. Southern Command (SOUTHCOM).[20]

[13] General Services Administration, Federal Procurement Data System-Next Generation (FPDS) Data Element Dictionary, version 1.4, p. 98, June 22, 2016, at https://www.fpds.gov/downloads/Version_1.4_specs/FPDSNG_DataDictionary_V1.4.pdf.

[14] U.S. Government Accountability Office, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, GAO-12-357, April 2012, Highlights, at http://www.gao.gov/assets/590/589951.pdf.

[15] U.S. Government Accountability Office, *DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements*, February 2016, at http://www.gao.gov/assets/680/675276.pdf.

[16] U.S. Department of Defense, "Unified Combatant Commands: Unified Command Plan," at http://www.defense.gov/Military-Services/Unified-Combatant-Commands.

[17] NORTHCOM includes the United States, Mexico, Canada, and the Bahamas.

[18] CENTCOM includes Middle Eastern and central Asian countries, such as Egypt, Israel, Iraq, Afghanistan, Iran, Tajikistan, and Uzbekistan.

[19] U.S. territories in INDOPACOM include American Samoa, Guam, Wake Island, and Johnson Atoll.

[20] SOUTHCOM includes Central American, South American, and Caribbean countries.

Figure 8. DOD Combatant Commands' Areas of Responsibility

Source: Map published by Defense Procurement and Acquisition Policy, "Areas of Responsibility" at http://www.acq.osd.mil/dpap/pacc/cc/areas_of_responsibility.html. Map published prior to the renaming of PACOM.

Note: As indicated in this report, PACOM is now INDOPACOM.

These commands do not control all DOD contracting activity that occurs within their respective geographic regions. For example, Transportation Command (TRANSCOM), headquartered at Scott Air Force Base, IL, may contract with private companies to provide transportation services within CENTCOM's Area of Responsibility (AOR). For purposes of this report, DOD contract obligations are categorized by the place of performance, not the DOD component that signed the contract or obligated the money. For example, all contract obligations for work in the CENTCOM AOR will be allocated to CENTCOM, regardless of which DOD organization signed the contract.

In FY2017, 92.8% of DOD contracts were performed in NORTHCOM (which includes the Bahamas, Canada, and Mexico). DOD obligated 3.1% of total contract work in CENTCOM, followed by INDOPACOM (2.1%), EUCOM (1.7%), AFRICOM (0.1%), and SOUTHCOM (0.1%).

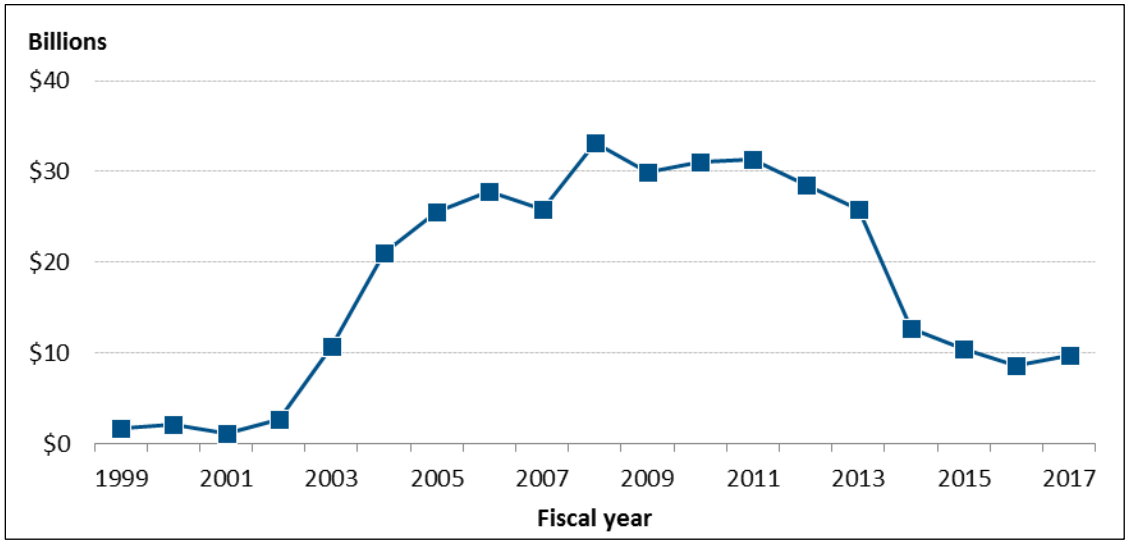
Domestic vs. Overseas

Since 2008, DOD obligations for domestic contracts dropped by 26% from a high of $401 billion in FY2008 to some $299 billion in FY2017 dollars; obligations for overseas contracts (in non-US or US affiliated territories) dropped by 58%, from $49 billion in FY2008 to $21 billion in FY2017. The drop in overseas obligations stems primarily from drawdowns in the Iraq and

Afghanistan theaters, where contract obligations decreased from $33 billion in FY2008 to $10 billion in FY2017 (**Figure 9**).[21]

Figure 9. Contract Obligations in Iraq and Afghanistan Theaters

FY2017 Dollars



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

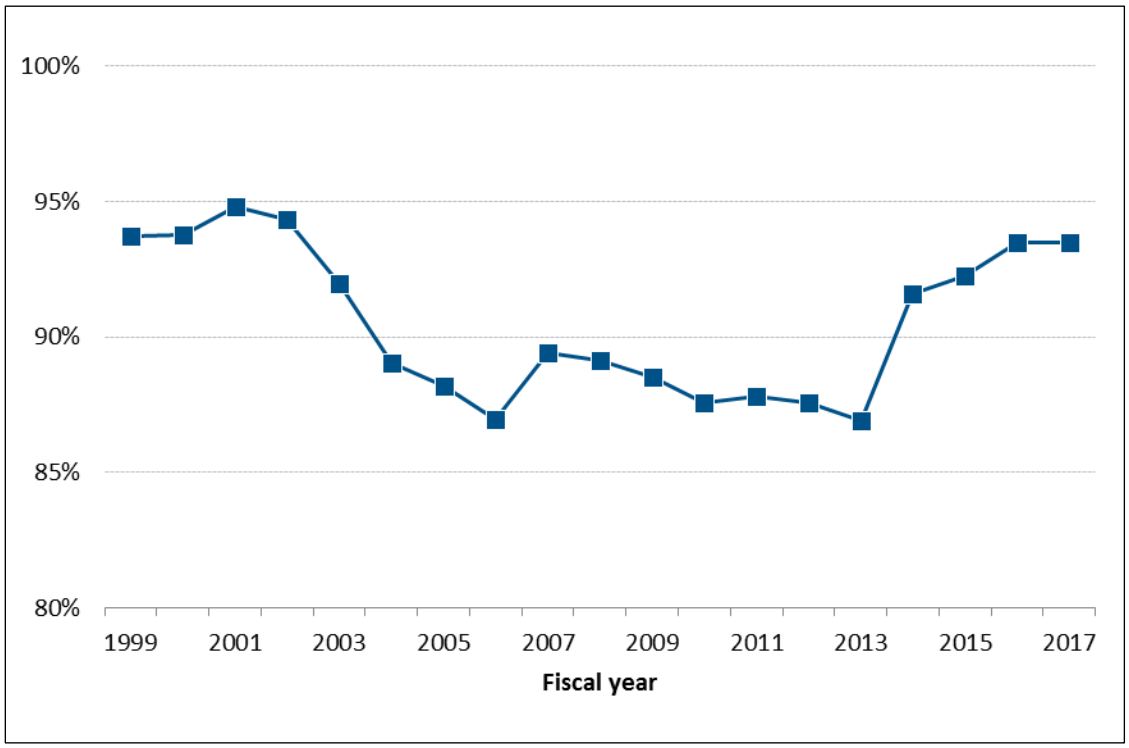
Concurrent with the drawdowns in Iraq and Afghanistan, in recent years the share of DOD contract obligations performed in the United States has increased. In FY2017, 93% of DOD contract obligations were for work performed in the United States, the highest percentage since FY2002 (see **Figure 10**).[22]

[21] Based on Congressional Budget Office (CBO) methodology, the Iraqi theater includes Iraq, Bahrain, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, and the United Arab Emirates. See Congressional Budget Office, *Contractors' Support of U.S. Operations in Iraq*, August 2008, p. 3. For purposes of this analysis, the Afghan theater includes Afghanistan, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.

[22] For purposes of this report, U.S. territories (including American Samoa, Guam, Northern Mariana Islands, Puerto Rico, the U.S. Virgin Islands, Johnston Atoll, and Wake Island) are deemed domestic spending. For more information on some of the U.S. territories, see http://www.doi.gov/oia/islands/politicatypes.

Figure 10. Percentage of DOD Contract Obligations Performed in the United States

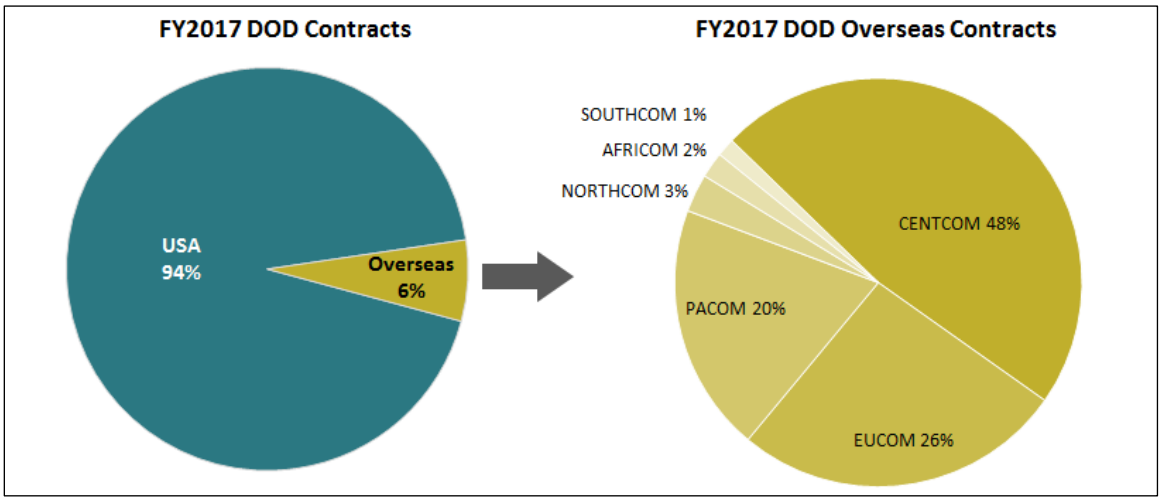
Note that for ease of visualization, axis encompasses only 80% to 100%.



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

Despite the drawdown in Iraq and Afghanistan, in FY2017 DOD contract obligations for workperformed overseas were still primarily steered to CENTCOM (48%), followed by EUCOM(26%), INDOPACOM (20%), NORTHCOM (3%), AFRICOM (2%), and SOUTHCOM (1%) (**Figure 11**). Of the top 20 countries where DOD contractors perform work abroad, eight were in CENTCOM, eight were in EUCOM, three were in INDOPACOM, and one was in NORTHCOM (**Appendix C**).

Figure 11. DOD Contract Obligations for Work Performed in Combatant Command Areas of Responsibility



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018..

However, a significant shift in where contracting dollars are allocated appears to be under way. Action obligations for CENTCOM and EUCOM have declined since FY2008, while INDOPACOM and AFRICOM dollars have increased (see **Table 2**).

Table 2. Obligations for Contracts Performed Overseas

FY2017 Dollars in Millions

Unified Combatant Command	FY2008	FY2017	Change
CENTCOM	$33,294	$9,875	-70%
EUCOM	$10,504	$5,455	-48%
INDOPACOM	$3,030	$4,084	35%
NORTHCOM	$1,336	$625	-53%
AFRICOM	$317	$427	35%
SOUTHCOM	$423	$297	-30%

Source: CRS Analysis of FPDS data, Downloaded January 2018.

Notes: FY2008 was selected as the point of comparison because FY2008 is the high point of DOD contract obligations. Does not include contracts performed in the United States and its territories.

The trend of dedicating more resources to INDOPACOM began under the Obama Administration and has continued under the Trump Administration. This is consistent with the release of the 2018 National Military Strategy, which states

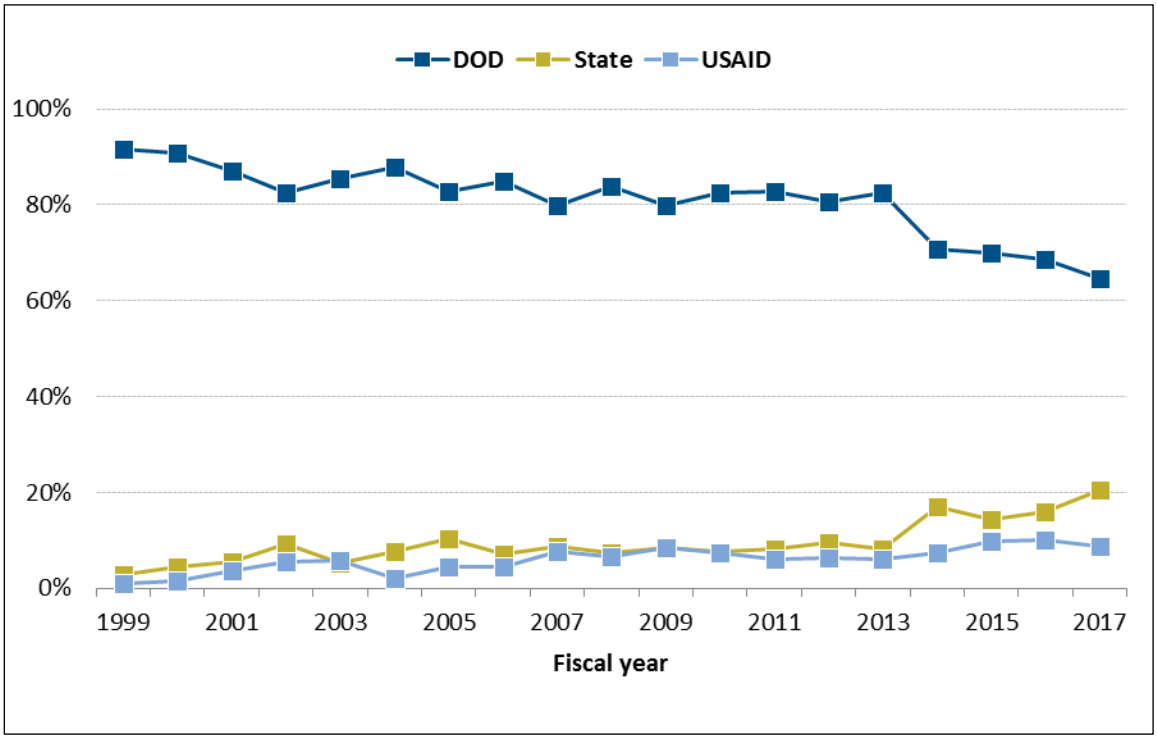
> Long-term strategic competitions with China and Russia are the principal priorities for the department, and require both increased and sustained investment, because of the magnitude

of the threats they pose to U.S. security and prosperity today, and the potential for those threats to increase in the future.[23]

DOD Overseas Obligations vs. Rest of Government

DOD's share of total government obligations for contracts performed abroad has trended down from 92% in FY1999 to 65% in FY2017. Over the same period, combined Department of State and USAID contract obligations increased from 4% to 29% of all U.S. government overseas obligations (see **Figure 12**).

Figure 12. DOD's Proportion of Total U.S. Government Contract Work Performed Overseas



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

Note: USAID was established as an independent agency in 1961, but receives overall foreign policy guidance from the Secretary of State.

A number of analysts have argued that as a result of its larger budget and workforce, DOD often undertakes traditionally civilian missions because other agencies do not have the necessary resources to fulfill those missions.[24] Some argue that more resources should be invested into

[23] 2018 National Defense Strategy, p. 4, https://www.defense.gov/Portals/1/Documents/pubs/2018-National-Defense-Strategy-Summary.pdf.

[24] In FY2009, the height of DOD spending during the conflicts in Iraq and Afghanistan, DOD had a base budget of $515.4 billion, more than 13 times the combined budgets of the Department of State, the U.S. Agency for International Development (USAID), and other foreign affairs agencies. In addition, DOD had a total workforce of more than 2.4 million, nearly 70 times the combined workforce of the Department of State and USAID. As a result of resource allocation, the Commission on Wartime Contracting in Iraq and Afghanistan stated that "Defense has become heavily engaged in stabilization and reconstruction—tasks seen as more akin to development than warfighting." See Commission on Wartime Contracting in Iraq and Afghanistan, *Transforming Wartime Contracting, Controlling costs,*

civilian agencies to allow them to play a larger role in conflict prevention, post-conflict stabilization, and reconstruction. In 2010, the Senate Foreign Relations Committee majority staff wrote, "The civilian capacity of the U.S. Government to prevent conflict and conduct post-conflict stabilization and reconstruction is beset by fragmentation, gaps in coverage, lack of resources and training, coordination problems, unclear delineations of authority and responsibility, and policy inconsistency."[25]

Many of these analysts have argued that to achieve its foreign policy goals, the United States needs to take a more whole-of-government approach that brings together the resources of, among others, DOD, the Department of State, and USAID—and government contractors.[26] Contract obligations since FY2000 may indicate a shift toward a whole-of-government approach to achieving foreign policy objectives.

Reliability of Data on Contract Obligations

The GAO, CRS, and other organizations have raised some concerns about the accuracy of procurement data retrieved from the Federal Procurement Data System (FPDS). For detailed information on the history of FPDS data validity concerns, see **Appendix A**.

reducing risks, August 31, 2011, p. 132.

[25] Senate Foreign Relations Committee, Discussion Paper on Peacekeeping, Majority Staff, April 8, 2010.

[26] See Remarks delivered by Secretary of Defense Robert M. Gates at Manhattan, KS, November 26, 2007.

Appendix A. FPDS Background, Accuracy Issues, and Future Plans

According to the Federal Acquisition Regulation, FPDS can be used to measure and assess "the effect of Federal contracting on the Nation's economy and ... the effect of other policy and management initiatives (e.g., performance based acquisitions and competition)."[27] FPDS is also used to meet the requirements of the Federal Funding Accountability and Transparency Act of 2006 (P.L. 109-282), which requires all federal award data to be publicly accessible.

Congress, legislative and executive branch agencies, analysts, and the public all rely on FPDS as the primary source of information for understanding how and where the federal government spends contracting dollars. Congress and the executive branch rely on the information to help make and oversee informed policy and spending decisions. Analysts and the public rely on the data in FPDS to conduct analysis and gain visibility into government operations.

Data reliability is essential to the utility of FPDS. As GAO has stated, "[R]eliable information is critical to informed decision making and to oversight of the procurement system."[28] According to officials within the White House's Office of Federal Procurement Policy, "[c]omplete, accurate, and timely federal procurement data are essential for ensuring that the government has the right information when planning and awarding contracts and that the public has reliable data to track how tax dollars are being spent."[29] If the data contained in FPDS are not sufficiently reliable, the data may not provide an appropriate basis for measuring or assessing federal contracting, making policy decisions, or providing transparency into government operations. The result could be the implementation of policies that squander resources and waste taxpayer dollars. According to GAO, "[f]ederal agencies are responsible for ensuring that the information reported in [the FPDS] database is complete and accurate."[30]

History of FPDS

On August 30, 1974, Congress enacted the Office of Federal Procurement Policy Act, which established an Office of Federal Procurement Policy (OFPP) within OMB and required the establishment of "a system for collecting, developing, and disseminating procurement data which takes into account the needs of Congress, the executive branch, and the private sector."[31] One of the goals of establishing a system for tracking procurement data was to "promote economy, efficiency, and effectiveness in the procurement of property and services."[32]

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[27] FAR Subpart 4.602(2) and 4.602(4).

[28] U.S. General Accounting Office, *Reliability of Federal Procurement Data*, GAO-04-295R, December 30, 2003, p. 1, at http://www.gao.gov/assets/100/92399.pdf.

[29] Daniel I. Gordon, *Improving Federal Procurement Data Quality—Guidance for Annual Verification and Validation*, Executive Office of the President, Office of Federal Procurement Policy, Washington, DC, May 31, 2011, at http://www.whitehouse.gov/sites/default/files/omb/procurement/memo/improving-data-quality-guidance-for-annual-verification-and-validation-may-2011.pdf.

[30] Government Accountability Office, *Opportunities Remain to Incorporate Lessons Learned as Availability of Spending Data Increases*, September 2013, at http://www.gao.gov/assets/660/657826.pdf.

[31] P.L. 93-400, §6(d)(5).

[32] Ibid., §2. The section also states that Congress has a policy interest in "avoiding or eliminating unnecessary overlapping or duplication of procurement and related activities" and in "coordinating procurement policies and programs of the several departments and agencies."

In February 1978, the OFPP issued a government-wide memorandum that designated the Department of Defense as the executive agent to operate the Federal Procurement Data System.[33] Agencies were instructed to begin collection of procurement data on October 1, 1978, and to report the data to DOD in February 1979.[34] Since 1982, the GSA has operated the system on behalf of the OFPP.[35] Today, FPDS is the only government-wide system that contains all publicly available federal procurement data. FPDS data are used by other federal-spending information resources, including *USASpending.gov*.

Almost from FPDS's inception, the GAO expressed concerns about the accuracy of the information in the database.[36] OMB attempted to eliminate many of the errors in FPDS by introducing a successor system—the Federal Procurement Data System-Next Generation (FPDS), which began operation on October 1, 2003.[37] FPDS was to "rely less on manual inputs and more on electronic 'machine-to-machine' approaches."[38] Despite the systems update, GAO said "[i]nformation in FPDS can only be as reliable as the information agencies enter though their own systems."[39]

In September 29, 2009, testimony before the Senate Homeland Security and Governmental Affairs Subcommittee on Contracting Oversight, William T. Woods, GAO's Director of Acquisition and Sourcing Management, said the following about FPDS information:

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[33] U.S. General Accounting Office, *The Federal Procurement Data System—Making it Work Better*, April 18, 1980, p. 3, at http://archive.gao.gov/f0202/112171.pdf.

[34] Ibid., p. 4.

[35] Letter from Katherine V. Schinasi, Managing Director, Acquisition and Sourcing Management, Government Accountability Office, to The Honorable Joshua B. Bolten, Director, Office of Management and Budget, September 27, 2005, GAO-05-960R, p. 2, at http://www.gao.gov/new.items/d05960r.pdf.

[36] For example, in an October 1979 letter to former Representative Herbert E. Harris, II, then-Comptroller General Elmer B. Staats wrote of FPDS that "the extent of completion and accuracy varies for the different agencies involved." Moreover he wrote, "the Federal Procurement Data System relies on the integrity of many individuals to prepare the Individual Procurement Action reports ... and to prepare them correctly." Letter from Elmer B. Staats, Comptroller General of the United States, to The Honorable Herbert E. Harris, II, Chairman, Subcommittee on Human Resources of the Committee on Post Office and Civil Service, October 12, 1979, GAO/PSAD-79-109, pp. 1-2, at http://archive.gao.gov/d46t13/110552.pdf. In an August 19, 1994 report, GAO wrote "we found that the [Federal Procurement Data] Center does not have standards detailing the appropriate levels of accuracy and completeness of FPDS data.... [U]sers have identified instances where contractor names and dollar amounts were erroneous. We believe developing standards for FPDS data accuracy and completeness, then initiating a process to ensure that these standards are met, would improve data accuracy and completeness." U.S. General Accounting Office, *OMB and GSA: FPDS Improvements*, GAO.AIMD-94-178R, August 19, 1994, p. 2, at http://archive.gao.gov/t2pbat2/152380.pdf. In a September 27, 2005, report, GAO wrote that "GSA has not informed users about the extent to which agencies' data are accurate and complete. This lack of confirmation perpetuates a lack of confidence in the system's ability to provide quality data." Letter from Katherine V. Schinasi, Managing Director, Acquisition and Sourcing Management, Government Accountability Office, to the Honorable Joshua B. Bolten, Director, Office of Management and Budget, September 27, 2005, GAO-05-960R, at http://www.gao.gov/new.items/d05960r.pdf.

[37] Letter from William T. Woods, Director, Acquisition and Sourcing Management, Government Accountability Office, to The Honorable Joshua B. Bolten, Director, the Office of Management and Budget, December 30, 2003, p. 3, at http://www.gao.gov/new.items/d04295r.pdf. FPDS was designed, maintained, and updated by Global Computer Enterprises, Inc., through a contract with GSA.

[38] Ibid. According to GAO, most agencies were "expected to have computerized contract writing systems that [would] allow for direct submission of data to FPDS. Reliability of data [were] expected to improve because agency submissions to FPDS-NG [would] be based on data already in the contract writing systems, reducing or eliminate separate data entry requirements. The system provides for immediate data verification to detect errors. If errors are detected, agency procurement officials will have the opportunity to correct them immediately while the information is still readily available."

[39] Ibid.

> Our past work has found that federal contracting data systems, particularly FPDS-NG, contain inaccurate data. FPDS-NG is the primary government contracting data system for obligation data. Despite its critical role, GAO and others have consistently reported on FPDS-NG data quality issues over a number of years.[40]

A 2012 GAO report reiterated its finding that DOD needs to "obtain better data on its contracted services to enable it to make more strategic workforce decisions and ensure that it maintains appropriate control of government operations."[41] And a 2015 report by the Inspector General of the Department of Commerce found that "the Department needs to improve (a) its process for entering accurate and reliable data into FPDS-NG."[42]

Data Reliability Concerns Persist

According to GSA, agencies are required to validate their data annually. Agency statements regarding data accuracy are independent of the FPDS systems and outside the authority of GSA. For DOD specifically, components (at the service branch level) are required to submit to Defense Procurement and Acquisition Policy (DPAP) an annual certification of reported data, summary of data verification and validation efforts, and Agency FPDS Data Quality Certifications.[43]

Continued concerns raised over the reliability of data have prompted many analysts to rely on FPDS primarily to identify broad trends and make rough estimations. According to one GAO report

> DOD acknowledged that using FPDS-NG as the main data source for the inventories has a number of limitations. These limitations include that FPDS-NG does not provide the number of contractor FTEs performing each service, identify the requiring activity, or allow for the identification of all services being procured.[44]

Officials from the GSA, the agency that administers FPDS, stated that data errors in FPDS do not substantively alter the larger context of 1.4 million actions and billions of dollars of obligations entered into the system by DOD every year. Officials have also indicated that whenever possible and feasible, steps are taken to improve the reliability and integrity of the data contained in FPDS. For example, in early 2016, CRS noted discrepancies in reported contract obligations associated with public-private competitions under OMB Circular A-76.[45] Despite a prohibition on new

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[40] U.S. Government Accountability Office, *Federal Contracting: Observations on the Government's Contracting Data Systems*, GAO-09-1032T, September 29, 2009, p. 3, at http://www.gao.gov/new.items/d091032t.pdf.

[41] U.S. Government Accountability Office, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, GAO-12-357, April 2012, Highlights, at http://www.gao.gov/assets/590/589951.pdf.

[42] Department of Commerce, Office of the Inspector General , *Inaccurate Reporting of Undefinitized Actions in the Federal Procurement Data System-Next Generation*, Final Report No. OIG-15-033, June 19, 2015.

[43] U.S. Department of Defense, "Federal Procurement Data System (FPDS) Contract Reporting Data Improvement Plan," Section 4.0 Step 10, January 12, 2010: http://www.acq.osd.mil/dpap/pdi/eb/docs/OSD_Data_Improvement_Plan_v1-3.pdf.

Agency FPDS Data Quality Certification documents can be found on DPAP's website. See the FY2016 version at http://www.acq.osd.mil/dpap/pdi/eb/docs/FY16_OSD_Data_Improvement_Cert_(final)_Exhibit_J_%2020160121.doc.

[44] U.S. Government Accountability Office, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, GAO-12-357, April 2012, p. 2.

The term "FTE" refers to "full-time equivalent"—an estimate of the number of full-time employees that would be equivalent to the work done on a given service contract.

[45] Circular A-76, most recently updated in 2003, affected public-private competition policies for U.S. government procurement of commercial services. A moratorium on DOD A-76 competitions has been in effect since FY2008. For more information, see CRS In Focus IF10566, *DOD A-76 Competitions*, by Moshe Schwartz, Gabriel M. Nelson, and

public-private competitions under Circular A-76 (see P.L. 111-8, the FY2009 Omnibus Appropriations Bill), FPDS reported a large number of contracts in this category in each subsequent fiscal year. DOD reported that A-76 contracts, for example, represented approximately 1% of all contract obligations in FY2013, FY2014, and FY2015 (roughly $3 billion in each fiscal year).[46] When asked for clarification, DOD's Defense Procurement and Acquisition Policy office stated that the majority of these contract obligations were in fact coding errors in FPDS.[47] That same year, CRS observed that DOD's FPDS-reported A-76 obligations were restated, to approximately $150 million per year from FY2013 to FY2015.

Despite the limitations of FPDS, imperfect data may be better than no data. Some observers say that despite its shortcomings, FPDS is one of the world's leading systems for tracking government procurement data. FPDS data can be used to identify some broad trends and rough estimations, or to gather information about specific contracts. Understanding the limitations of data—knowing when, how, and to what extent to rely on data—could help policymakers incorporate FPDS data more effectively into their decisionmaking process.

Heidi M. Peters.

[46] These figures were retrieved from FPDS in early 2016. When CRS ran the same queries again in September 2016, DOD's reported A-76 obligations were reduced to only about $150 million per fiscal year.

[47] Information provided to author by email from DOD.

Appendix B. Obligations Trends by PSC

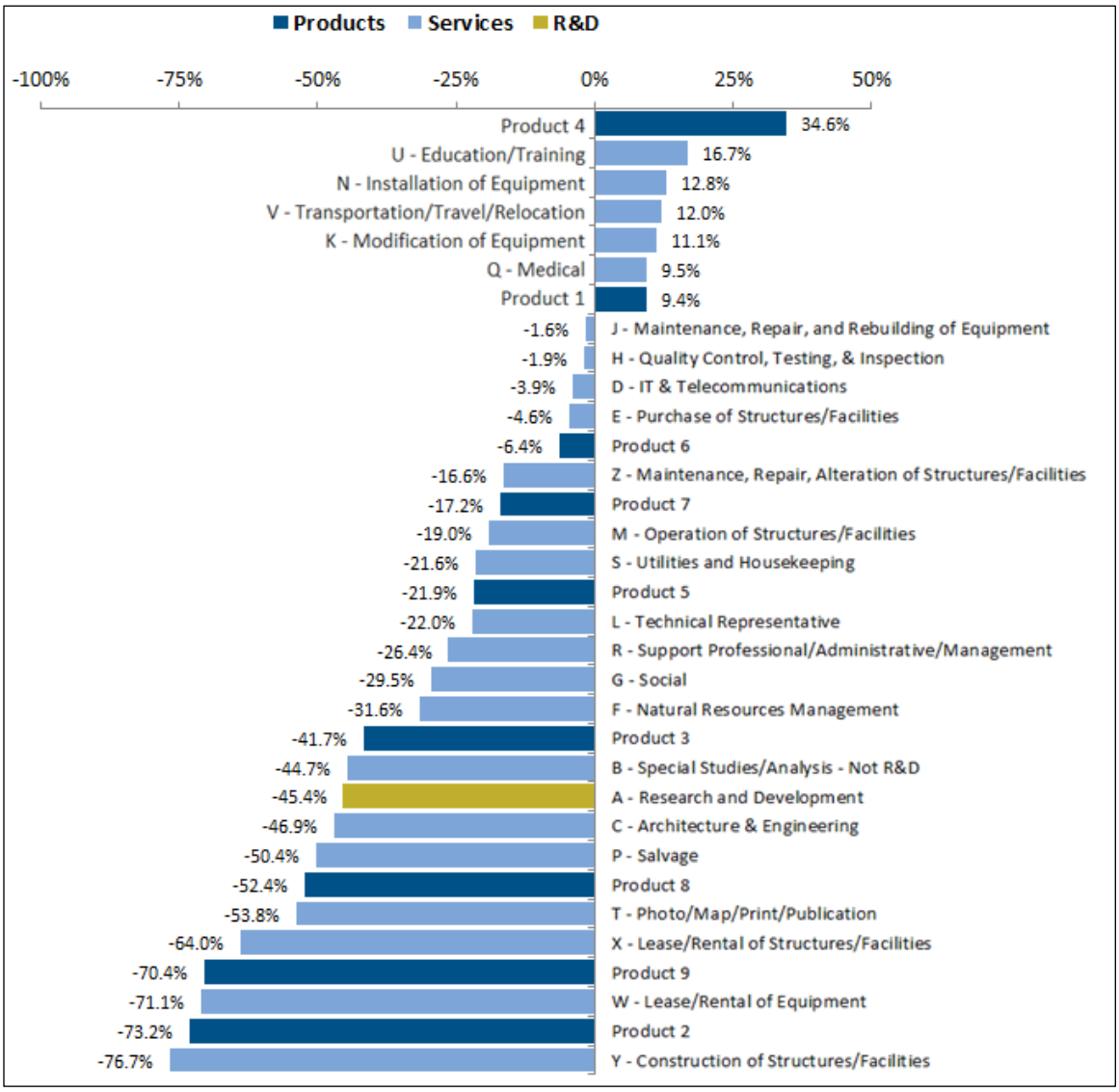
Product and service codes (PSCs) are used "to describe the products, services, and research and development (R&D) purchased by the federal government."[48] FPDS sorts contract obligations into 33 overarching PSCs: nine product codes, 23 service codes, and one R&D code. Each of the nine product codes are represented by numbers from 1-9. Each of the service codes is represented by a single letter, and R&D is represented by the letter "A." **Figure B-1** depicts changes in DOD contract obligations by PSC, from FY2008-FY2015.

Each of the 33 PSCs for services has a description identifying the types of contracts contained in the category; the nine PSCs for products do not have a description. Without a clear and logical system for categorizing products into overarching PSC categories—including descriptions for each category—sorting such data is of limited value. To better understand what is contained in each product category, see the notes for **Figure B-1**.

[48] For more information on PSC codes, see https://www.fpds.gov/downloads/top_requests/PSC_Manual_FY2016_Oct1_2015.pdf.

Figure B-1. Change in DOD Contract Obligations by PSC Code

Percentage Change between FY2008 and FY2017



Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

Notes: Each two number code listed below corresponds to one of the nine product codes represented in the figure. Codes beginning with a 1 are in the Product 1 category; codes beginning with a 2 are in the Product 2 category, etc. Services are self-explanatory (see descriptions in figure).

12 - Fire Control Equipment

13 - Ammunitions and Explosives

14 - Guided Missiles

15 - Aircraft and Airframe Structural Components

16 - Aircraft Components and Accessories

17 - Aircraft Launching/Landing/Ground Handling Equip.

18 - Space Vehicles

19 - Ships, Small Craft, Pontoons, and Floating Docks

20 - Ship and Marine Equipment

22 - Railway Equipment

23 - Ground Vehicles, Motor Vehicles, Trailers, Cycles
24 - Tractors
25 - Vehicular Equipment Components
26 - Tires and Tubes
28 - Engines, Turbines, and Components
29 - Engine Accessories
30 - Mechanical Power Transmission Equipment
31 - Bearings
32 - Woodworking Machinery and Equipment
34 - Metalworking Machinery
35 - Service and Trade Equipment
36 - Special Industry Machinery
37 - Agricultural Machinery and Equipment
38 - Construction, Mining, Excavating, Highway Maint.
39 - Materials Handling Equipment
40 - Rope, Cable, Chain, and Fittings
41 - Refrigeration, Air Conditioning Equip.
42 - Fire Fighting, Rescue, and Safety Equipment
43 - Pumps and Compressors
44 - Furnace/Steam Plant/Drying Equip, Nuclear Reactors
45 - Plumbing, Heating, and Sanitation Equipment
46 - Water Purification and Sewage Treatment Equipment
47 - Pipe, Tubing, Hose, Fittings
48 - Valves
49 - Maintenance and Repair Shop Equipment
51 - Hand Tools
52 - Measuring Tools
53 - Hardware and Abrasives
54 - Prefabricated Structures and Scaffolding
55 - Lumber, Millwork, Plywood, and Veneer
56 - Construction and Building Materials
58 - Communications, Detection and Coherent Radiation
59 - Electrical and Electronic Equipment Components
60 - Fiber Optics Materials and Components
61 - Electric Wire, and Power and Distribution Equipment
62 - Lighting Fixtures and Lamps
63 - Alarm, Signal, and Detection Systems
65 - Medical, Dental, and Veterinary Equipment
66 - Instruments and Laboratory Equipment
67 - Photographic Equipment
68 - Chemicals and Chemical Products
69 - Training Aids and Devices
70 - ADP Equipment Software, Supplies, Equipment
71 - Furniture
72 - Household/Commercial Furnishings and Appliances
73 - Food Preparation and Serving Equipment
74 - Office Machines

75 - Office Supplies and Devices
76 - Books, Maps, and Other Publications
77 - Musical Instruments
78 - Recreational and Athletic Equipment
79 - Cleaning Equipment and Supplies
80 - Brushes, Paints, Sealers, and Adhesives
81 - Containers, Packaging, and Packing Supplies
83 - Textiles/Leather/Furs/Apparel/Shoes/Tents/Flags
84 - Clothing, Individual Equipment, and Insignia
85 - Toiletries
87 - Agricultural Supplies
88 - Live Animals
89 - Subsistence (Food)
91 - Fuels, Lubricants, Oils, and Waxes
93 - Nonmetallic Fabricated Materials
94 - Nonmetallic Crude Materials
95 - Metal Bars, Sheets, and Shapes
96 - Ores, Minerals, and Their Primary Products
99 - Miscellaneous

Appendix C. Top 20 Foreign Countries Where DOD Obligates Contracting Dollars

Table C-1. Top 20 Foreign Countries (FY2017) by Action Obligations and Place of Performance

FY2017 Dollars in Millions

Country	COCOM	FY2017 (Top 20)	FY2008
Afghanistan	CENTCOM	$3,027	$6,861
Japan	INDOPACOM	$2,198	$985
Germany	EUCOM	$2,006	$3,310
Kuwait	CENTCOM	$1,963	$4,786
South Korea	INDOPACOM	$1,312	$1,701
United Arab Emirates	CENTCOM	$1,309	$1,287
Iraq	CENTCOM	$1,133	$17,447
United Kingdom	EUCOM	$958	$2,102
Saudi Arabia	CENTCOM	$954	$364
Canada	NORTHCOM	$562	$1,244
Qatar	CENTCOM	$486	$455
Bahrain	CENTCOM	$401	$1,293
Italy	EUCOM	$362	$756
Spain	EUCOM	$305	$244
Greece	EUCOM	$271	$898
Israel	CENTCOM	$257	$199
Belgium	EUCOM	$251	$101
Turkey	EUCOM	$192	$187
France	EUCOM	$158	$274
Hong Kong (China)	INDOPACOM	$152	$16

Source: CRS analysis of Federal Procurement Data System-Next Generation, January 2018.

Notes: Table provides FY2008 amounts for comparison. FY2008 column does not include all top 20 countries (by action obligation) for that year.

Author Information

Moshe Schwartz
Specialist in Defense Acquisition

Christopher T. Mann
Analyst in Defense Policy and Trade

John F. Sargent Jr.
Specialist in Science and Technology Policy

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