



THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

FEB 22 2012

The Honorable Maurice Hinchey
U.S. House of Representatives
Washington, DC 20515

Dear Representative Hinchey:

Thank you for your December 20, 2011, letter concerning Department of Defense (DoD) implementation of section 8108 of the Fiscal Year 2011 Department of Defense Appropriations Act, the inventory of contracts for services (ICS) and corresponding number of contractor full-time equivalents reported therein.

On November 22, 2011, the Department delivered to the congressional defense committees its consolidated section 8108 compliance plan that addresses actions to improve visibility and accountability in this area. This plan identifies both short- and long-term actions that will improve the inventory of contracts for services and make it a more reliable and complete data set.

In the course of preparing the DoD response to section 8108, it was noted that many of the individual component plans would begin to modify statements of work in contracts to collect direct labor hours and associated costs in accordance with title 10, U.S.C., section 2330a, beginning on October 1, 2011. Leadership in the acquisition community expressed concern that this approach could invalidate the Government's unilateral right to exercise contract options and potentially be in conflict with laws that regulate the collection of information from the public, which require the advance approval of the Office of Management and Budget. The primary purpose of the October 11, 2011, Director, Defense Procurement and Acquisition Policy (DPAP) memorandum was to take immediate action to ensure adherence to all Federal laws and sound business practices prior to implementing individual component plans. These steps resulted in delay in providing individual component plans to Congress. The consolidated Department plan delivered in November superseded the Director, DPAP, memorandum and directs Component Acquisition Executives to support their individual Component plans, as well as the plans of those organizations for which they provide contracting services. In doing so, the Components remain consistent with the overall DoD plan as the way ahead for the ICS.

The Department is currently seeking relief from the Paperwork Reduction Act, thus enabling actions to move forward with collecting data from private sector firms that will make full implementation of section 2330a of title 10, U.S.C., possible. As you have noted, the Army has successfully implemented the inventory practices. I am committed to supporting DoD information technology and business enterprise system efforts to enable the rest of the Department to quickly implement the Army's Contractor Manpower Reporting Application (CMRA) tool this fiscal year while also leveraging the Army processes, lessons learned, and best practices to comply with the law in the most cost-efficient and effective manner.

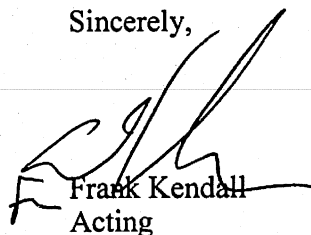
Your questions regarding apparent inconsistencies in reporting FY 2010 budget and execution data on contracts for services very likely resulted from making direct comparisons using differently constructed data sets. For illustration, the \$63 billion figure you refer to reflects only the base budget amount by object class 25.1, 25.2, 25.4, 25.5, 25.6, 25.7, and 25.8 for the FY 2010 President's Budget request, while the \$106 billion figure includes the Overseas Contingency Operations (OCO) amount by the same object class and period. Although the accounting system identifies significant amounts specifically to OCO, the Department cannot isolate all OCO obligations from base budget obligations in our actual data. The \$121 billion is a distinctly different figure as shown in the FY 2010 Inventory of Contracts for Services Report to Congress, reflecting the amounts obligated as reported in the Federal Procurement Database System (FPDS) on January 5, 2011, by product service code and by the Army using its CMRA to collect invoiced dollars. These figures in FPDS do not report by object class but by service portfolio as reflected in the budget submissions; they do include both base budget and OCO obligations using single-year and multi-year appropriations and they do not consistently account for de-obligations of service contracts during FY 2010. However, CMRA does include object class data, as it includes financial data from the Army accounting system and its invoiced amounts would exclude de-obligations.

The Department will include a contract services exhibit in its detailed budget justification material that provides FY 2011 funding actuals, FY 2012 enacted funding, and FY 2013 requested funding for base and OCO of all direct appropriations, excluding military construction.

The Department is currently pursuing changes in financial reporting that will provide monthly execution reporting by object class at the Department level to provide greater oversight over execution and will allow for an accurate comparison between our budget and execution data on contracts for services.

Your interest in the status of DoD contractor inventory compliance is appreciated.

Sincerely,



Frank Kendall
Acting