THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

ACQUISITION,
TECHNOLOGY
AND LOGISTICS

OCT 2 2006

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Acquisition of Services Policy

Section 2330 of title 10, U.S. Code, as amended by section 812 of the National Defense Authorization Act for FY 2006, requires the establishment and implementation of a management structure for the acquisition of services in the Department of Defense. The attached DoD policy implements the statute and supersedes the "Acquisition of Services" memorandum issued on May 31, 2002, and Enclosure 8, "Acquisition of Services," to DoD Instruction 5000.2, dated May 12, 2003.

This policy and other complementary guidance are intended to strengthen DoD management of the acquisition of services at the strategic and tactical level and will be included in the next revision of DoD Instruction 5000.2.

The Secretaries of the Military Departments and the Commanders and Directors of the other DoD Components shall certify, in writing, that they have issued guidance implementing this policy no later than 60 days from the issuance of this policy. Please provide a copy of the written certification to the Director, Defense Procurement and Acquisition Policy (DPAP).

My point of contact for this action is Mr. Skip Hawthorne, Office of the Director, DPAP, at 703-692-9556 or by e-mail at skip.hawthorne@osd.mil.

Kenneth J. Krieg

Attachment:
As stated

DISTRIBUTION:
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Acquisition of Services Policy

1. Purpose

1.1. This policy is intended to ensure that acquisitions of services support and enhance the warfighting capabilities of the Department of Defense and achieve the following objectives:

1.1.1. Acquisitions of services are based on clear, performance-based requirements.

1.1.2. Expected cost, schedule, and performance outcomes are identifiable and measurable.

1.1.3. Acquisitions of services are properly planned and administered to achieve outcomes consistent with customer's need(s).

1.1.4. Services are acquired by business arrangements which are in the best interests of the Department of Defense and are in compliance with applicable statutes, regulations, policies, and other requirements, whether the services are acquired by or on behalf of the Department of Defense.

1.1.5. Services are acquired using a strategic, enterprise-wide approach, which is applied to both the planning and the execution of the acquisition.

1.2. This policy implements section 2330 of title 10, United States Code (U.S.C.), as amended by section 812 of the National Defense Authorization Act for Fiscal Year 2006 (Pub. L. No. 109-163), and supersedes the "Acquisition of Services" memorandum issued on May 31, 2002, and Enclosure 8, "Acquisition of Services," to DoD Instruction 5000.2, dated May 12, 2003.

2. Applicability. This policy applies to:

2.1. The Office of the Secretary of Defense, the Military Departments, the Chairman of the Joint Chiefs of Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense, the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter collectively referred to as "the DoD Components").

2.2. All requirements for acquisitions of services, including those of advisory and assistance services, acquired from private sector entities by or for the Department of Defense. Although this policy does not apply to research and development or construction activities, the policy does apply to any advisory and assistance services in support of those activities. Senior Officials and Decision Authorities may include research and development related activities within the strategic intent of this policy.

2.3. Acquisitions of services -- occurring after a program achieves full operational capability -- that were not subject to previous milestone reviews.

2.4. **Exception**: Acquisitions of services that are part of a weapon system acquisition program or an automated information system that is managed in accordance with DoD Instruction 5000.2 shall be reviewed and approved as part of that program management process.

2.5. Senior Officials and Decision Authorities retain the ability to respond rapidly to emergencies. Implementation of this policy is not intended to impede the timely acquisition of services in emergency situations.

3. Definitions

3.1. Acquisition of Services: The execution of one or multiple contracts or other instruments committing or obligating funds (*e.g.*, funds transfer, placing orders under existing contracts) for a specified requirement. Acquisition begins at the point when agency needs are established and includes all functions directly related to the process of fulfilling those needs by contract, agreements, or funds transfer.

3.2. Information Technology (IT) Services: The performance of any work related to IT and the operation of IT, including National Security Systems. This includes outsourced IT-based business processes, outsourced information technology and outsourced information functions.

3.3. Procurement action: With respect to the acquisition of services, a procurement action includes the following:

3.3.1. Entry into a contract or any other form of agreement including but not limited to basic ordering agreements, blanket purchase agreements, indefinite quantity/indefinite delivery contracts and similar ordering agreements.

3.3.2. Issuance of a task order or any transfer of funds to acquire a service on behalf of the Department of Defense.

3.4. Service: Engagement of the time and effort of a contractor whose primary purpose is to perform an identifiable task, or tasks, rather than to furnish an end item of supply.

4. Management Structure

4.1. Senior Officials:

4.1.1. The Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) shall be the Senior Official responsible for the management of acquisitions of services by or on behalf of the DoD Components outside the Military Departments, except as provided in paragraph 4.1.3. The USD(AT&L) may delegate decision authority to Commanders and Directors of the DoD Components (see Attachment 4, *Defense Agencies and other Components of*

the Department of Defense Outside the Military Departments) under USD(AT&L) cognizance after the Commanders or Directors have certified implementation of this policy and identified subordinate Decision Authorities (see Table 1, *Acquisition of Services Categories*).

4.1.2. The Service Acquisition Executive of each Military Department shall be the Senior Official responsible for the management of acquisitions of services by or on behalf of his or her respective Department, except as provided in paragraph 4.1.3.

4.1.3. The Assistant Secretary of Defense for Networks and Information Integration (ASD(NII))/DoD Chief Information Officer (CIO) shall be the Senior Official responsible for the management of acquisitions of IT services.

4.2. Duties of Senior Officials:

4.2.1. Comply with the requirements contained in this policy.

4.2.2. Assign specific DoD officials as Decision Authorities (subject to the direction, supervision and oversight of the Senior Official) to review and approve the acquisitions of services for each category of acquisitions identified in Table 1.

4.2.3. Establish a management structure that provides for consistent review and approval of acquisitions of services. The review process which is implemented by the Senior Official and used by the Decision Authority shall require and formally consider the information outlined in Attachment 1, *Acquisition Strategy Requirements*, for all categories of acquisitions of services.

4.2.4. Ensure that acquisitions of services comply with applicable statutes, regulations, policies, and other requirements including the "Proper Use of Non-DoD Contracts" policy memorandum issued on 29 October 2004 by the Acting Under Secretary of Defense (Acquisition, Technology, & Logistics) and the Acting Deputy Under Secretary of Defense (Comptroller).

4.2.5. Using procedures outlined in Attachment 2, *Procedures for Proposed Acquisitions of Services with Estimated Values Exceeding Notification Thresholds*, notify the USD(AT&L) of any proposed acquisition of non-IT services with a total estimated value of over 1 billion dollars (base year(s) and options). Notify the ASD(NII)/DoD CIO of any proposed acquisition of IT services with a total estimated value of over 500 million dollars (base year(s) and options). The ASD(NII)/DoD CIO shall notify the USD(AT&L) of any proposed acquisitions of IT services with a total estimated value greater than 1 billion dollars (base year(s) and options).

4.2.6. If a proposed acquisition includes both hardware and services, and the estimated value of the services exceeds the values specified in paragraph

4.2.5, it shall be reviewed by USD(AT&L) or ASD(NII) unless the exception under paragraph 2.4 applies.

4.2.7. Notwithstanding the thresholds in paragraph 4.2.5, the USD(AT&L), the ASD(NII)/DoD CIO, and other Senior Officials may identify any acquisitions of services as a special interest acquisition subject to review.

4.2.8. Consistent with the Department's strategic sourcing objective, Senior Officials shall collaborate with other Senior Officials, determine key categories of services for the Department, and dedicate full-time commodity managers to coordinate procurement of these services.

4.2.9. Ensure that the acquisition of services uses competition and performance based acquisitions to the maximum extent practicable.

4.2.10. Ensure the collection of data on the acquisition of services for their area of responsibility. At a minimum, data collected shall include the information outlined in Attachment 3, *Acquisition of Services Data Collection Requirements*.

4.2.11. Monitor required data collection and conduct periodic spend analyses.

4.2.12. The USD(AT&L) shall conduct an annual review of the Department's policy for the acquisition of services, and assess the Department's progress in achieving its purpose. Senior Officials and DoD Component Decision Authorities reporting to the USD(AT&L) shall conduct similar reviews of acquisitions within their authority.

4.2.13. Senior Officials or their designees shall, at a minimum, conduct annual execution reviews to assess progress against approved cost, schedule, and performance metrics.

4.3. The Director, Defense Procurement and Acquisition Policy (DPAP/PAIC), shall maintain a list of acquisitions of services that are expected to exceed 1 billion dollars (base year(s) and options) based upon information provided by the DoD Components.

5. Acquisition of Services Categories. Table 1 defines categories, thresholds, and decision authorities.

6. Subtitle III of title 40 of the United States Code (40 U.S.C. 11101 et seq.) [formerly Division E of the Clinger-Cohen Act (CCA) of 1996]. All acquisitions of IT services, regardless of acquisition of services category, are subject to 40 U.S.C. 11101 et seq.

6.1. For acquisitions designated as Category IA in Table 1, DoD Component Senior Officials, Decision Authorities, and CIOs shall ensure acquisition planning

addresses the elements of DoD Instruction 5000.2, Table E4.T1, "CCA Compliance Table."

6.2. For acquisitions of IT services with a total estimated value below $500 million (base year(s) and options), the DoD Component Senior Official or Decision Authority and CIO shall establish procedures that ensure the acquisition strategy and related planning address the relevant aspects of 40 U.S.C. 11101 et seq. before the final solicitation is issued or, for other than full and open competition, before negotiations commence.

Table 1. Acquisition of Services Categories

Acquisitions of Services that DO NOT INCLUDE Information Technology		
Category	**Estimated Value**	**Decision Authority**
Special Interest	As designated by USD(AT&L) or other Senior Official	USD(AT&L) or Senior Officials
Category I	Acquisitions of services valued at $250 million or more (see Note 1)	Senior Official or as designated
Category II	Acquisitions of services valued at $10 million but less than $250 million	Senior Official or as designated
Category III	Acquisitions of services valued at greater than the simplified acquisition threshold but less than $10 million	Senior Official or as designated
Acquisitions of Information Technology Services		
Category	**Estimated Value**	**Decision Authority**
Category IA	Acquisitions of IT services valued at $500 million or more, or acquisitions of IT services designated as special interest acquisitions by the ASD(NII)/DoD CIO (See Note 2).	ASD(NII)/DoD CIO or as designated

Notes:

1. Proposed acquisitions of services with a value estimated at greater than 1 billion dollars (base year and options) shall be referred to USD(AT&L) using the procedure in Attachment 2 and formally reviewed at USD(AT&L) discretion.
2. Proposed acquisitions of IT services with a total estimated value over 500 million dollars (base year(s) and options) shall be referred to ASD(NII)/DoD CIO using the procedure in Attachment 2 and formally reviewed at ASD(NII)/DoD CIO discretion.
3. Dollar amounts are in Fiscal Year 2006 constant year dollars.
4. Acquisitions of services that are part of a weapon system acquisition program or automated information system program managed according to DoD Instruction 5000.2 shall be reviewed and approved as part of program oversight.
5. For acquisitions of IT services with a total estimated value below $500 million (base year and options), the DoD Component Senior Official or Decision Authority and CIO shall establish procedures that ensure the acquisition strategy and related planning address the relevant aspects of 40 U.S.C. 11101 et seq. before the final solicitation is issued or, for other than full and open competition, before negotiations commence.
6. If a proposed acquisition contract includes both hardware and services, and the estimated value of the services portion exceeds the values specified in paragraph 4.2.5, it may be reviewed by USD(AT&L) or ASD(NII)/DoD CIO unless the exception under paragraph 2.4 applies.
7. Related task orders within an ordering vehicle shall be viewed as one effort for the purpose of determining the appropriate thresholds.
8. Category I, II, and Special Interest oversight shall be implemented upon policy signature date.
9. Oversight of Category III Acquisitions of Services should be implemented as soon as possible but no later than 1 October 2009.

Attachment 1

Acquisition Strategy Requirements

Consistent with the size and complexity of the program, Senior Officials or their designees shall consider the following requirements for acquisitions of services:

1. Requirements development and management:

a. The source of the requirement, the outcomes to be achieved and, if performance-based (see Federal Acquisition Regulation (FAR) Subpart 37.6), what metrics will be used to measure the outcomes.

b. How the requirement was previously satisfied.

c. The nature and extent of market research conducted.

d. Whether it complies, if a consolidated requirement, with Defense Federal Acquisition Regulation Supplement (DFARS) 207.

e. For bundled requirements, determine if a benefit analysis was done as prescribed in the DoD Benefit Analysis Guidebook (see www.acq.osd.mil/sadbu/news/contractconsolidation.pdf).

2. Acquisition planning:

a. The adequacy of the acquisition approach including appropriate milestones.

b. Cost/price estimate for the total planned acquisition.

c. How the acquisition will be funded and the availability of funding.

d. Technical, business, management, and other significant considerations.

e. Opportunities for strategic sourcing.

f. Demonstrated implementation of performance-based acquisition methods or rationale for not using those methods.

g. Opportunities to implement socio-economic business concerns.

h. A top level discussion of the source selection process: formal or informal, proposed evaluation criteria and basis for award.

i. Any required waivers or deviations.

j. If other than full and open competition, explain why full and open competition procedures will not apply and cite appropriate statutory authority. Address actions taken to improve competitive environment for the current

requirement and plans to improve competition for foreseeable follow-on acquisitions.

k. Multi-year Contracts. If the acquisition strategy calls for a multi-year service contract (as distinguished from contracts that span multiple years — see FAR Subpart 17.1 and DFARS Subpart 217.171), the strategy shall address compliance with 10 U.S.C. 2306c and Office of Management and Budget (OMB) Circular A-11. OMB Circular A-11 requires that multi-year service contracts be scored as operating leases. Therefore, the acquisition strategy shall address the budget scorekeeping that will result from use of the proposed contracting strategy.

l. Leases. Include a lease-purchase analysis if required by OMB Circular A-94, Section 13.

3. Solicitation and contract award:

a. The type of business arrangements anticipated (*e.g.*, single contract, multiple award task order contract, task order under existing multiple award contract, and interdepartmental transfers, or interdepartmental purchase requests (IPRs)).

b. The duration of each business arrangement (base period and all option periods).

c. Pricing arrangements (*e.g.*, fixed price, cost reimbursement, time and materials, labor hour, or variations, based on guidance in FAR Part 16 and, for commercial services, in FAR Part 12).

4. Risk management: An assessment of current and potential technical, cost, schedule, and performance risks and the plan for mitigating or retiring those risks.

5. Contract tracking and oversight: The existing or planned management approach following contract award, quality assurance surveillance or written oversight plans and responsibilities, and tracking procedures or processes used to monitor contract performance.

6. Performance evaluation: The plan for evaluating whether the metrics and any other measures identified to guide the acquisition have been achieved. These measures shall include the thresholds for cost, schedule, and performance for the acquisition of a service.

Attachment 2

Procedures for Proposed Acquisitions of Services With Estimated Values Exceeding Notification Thresholds

1. For proposed acquisitions of services (non-IT) with a total estimated valued over 1 billion dollars (base year(s) and options), Senior Officials or designated Decision Authorities shall notify the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD(AT&L)) before the final solicitation is issued or, for other than full and open competition, before negotiations commence. The following procedures shall apply:

a. Brief or submit written notification to the Director, Defense Procurement and Acquisition Policy (OUSD(AT&L)DPAP) indicating the expected value of the acquisition of services for the projected life (base year and options) of the contract. Attach a copy of the acquisition strategy (consistent with Acquisition of Services Policy, paragraph 4.2.3. and Attachment 1). If the acquisition strategy uses a sole source approach, attach a Justification and Approval (J&A).

b. The Director, DPAP, shall notify the Senior Official or Decision Authority within 10 working days of receipt if USD(AT&L) will review the acquisition. If DPAP does not notify the Senior Official or Decision Authority within 10 working days, the acquisition may proceed. If a review is conducted, it shall be completed within 30 working days of the determination.

c. If the USD(AT&L) decides to review the acquisition, issues shall be resolved in accordance with procedures specified by the USD(AT&L) or designee in direct coordination with the originating Senior Official or Decision Authority.

2. For proposed acquisitions of IT services with a total estimated valued over 500 million dollars (base year(s) and options), Senior Officials or Decision Authorities shall notify the ASD(NII)/DoD CIO before the final solicitation is issued or, for other than full and open competition, before negotiations commence. The following procedures shall apply:

a. Brief or submit written notification to the Director, Acquisition, OASD(NII), indicating the expected value of the acquisition of services. Attach a copy of the acquisition strategy (consistent with Acquisition of Services Policy, paragraph 4.2.3. and Attachment 1). If the acquisition strategy uses a sole source approach, attach a J&A.

b. The Director, Acquisition, OASD(NII), shall notify the Senior Official or the Decision Authority within 10 working days of receipt if the ASD(NII)/DoD CIO will review the acquisition. If the Director, Acquisition, does not notify the

Senior Official or Decision Authority within 10 working days, the acquisition may proceed. If a review is conducted, it shall be completed within 30 working days of the determination.

c. If the ASD(NII)/DoD CIO decides to review the acquisition, issues shall be resolved in accordance with procedures specified by the ASD(NII)/DoD CIO or designee in direct coordination with the originating Senior Official or Decision Authority.

Attachment 3

Acquisition of Services Data Collection Requirements

Senior Officials and DoD Component Decision Authorities under the cognizance of USD(AT&L) shall establish procedures to collect the following types of data on acquisition of services contracts. The collection of this information shall be automated and may be requested by the USD(AT&L), ASD(NII)DoD CIO or Senior Official at any time:

1. The services purchased.
2. The total estimated value (base year(s) and options) of the contract/task order/interdepartmental purchase request.
3. The total estimated value of the instant acquisition and the total dollar amount obligated to date on the contract.
4. The type of contract action used to make the purchase (*i.e.*, fixed price type, cost type, or time and materials task order/contract).
5. Whether the purchase was made through —
   a. a performance-based contract, performance-based task order, or other performance-based arrangement that contains firm fixed prices for the specific tasks to be performed;
   b. any other performance-based contract, performance-based task order, or performance-based arrangement; or
   c. any contract, task order, or other arrangement that is not performance based.
6. If the purchase was made on behalf of the Department of Defense, the identity of the agency that made the purchase.
7. The extent of competition in making the purchase and the number of offerors.
8. Whether the purchase was made from —
   a. a small business concern;
   b. a small business concern owned and controlled by socially and economically disadvantaged individuals; or
   c. a small business concern owned and controlled by women.

Attachment 4

Defense Agencies and other Components of the Department of Defense Outside the Military Departments

The Commanders or Directors of the following DoD Components identified in Table 4-1 shall report to the USD(AT&L) consistent with responsibilities as stated in paragraph 4.1.1.

Table 4-1

Acronym	DoD Component
AFIS	American Forces Information Service
BTA	Defense Business Transformation Agency
CIFA	DoD Counterintelligence Field Activity
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DECA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service
DIA	Defense Intelligence Agency
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DMEA	Defense Microelectronics Activity
DoDEA	Department of Defense Education Activity
DoDHRA	DoD Human Resources Activity
DPMO	Defense POW/Missing Personnel Office
DSCA	Defense Security Cooperation Agency
DSS	Defense Security Service
DTIC	Defense Technical Information Center
DTRA	Defense Threat Reduction Agency
MDA	Missile Defense Agency
NDU	National Defense University
NGA	National Geospatial-Intelligence Agency
NSA	National Security Agency
OEA	Office of Economic Adjustment
OIG	Office of the Inspector General
OJCS	Office of the Joint Chiefs of Staff
PFPA	Pentagon Force Protection
TMA	TRICARE Management Activity
TRMC	Test Resource Management Center
USJFCOM	United States Joint Forces Command
USNORTHCOM	United States Northern Command
USSOCOM	United States Special Operations Command
USSTRATCOM	United States Strategic Command
USTRANSCOM	United States Transportation Command
USUHS	Uniformed Services University of Health Sciences
WHS	Washington Headquarters Services