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Defense Primer: Department of Defense Contractors

Throughout its history, the Department of Defense (DOD) has relied on contractors to support a wide range of military operations. Within the defense policy community, the term *contractor* is commonly used in two different contexts. The word can describe the private companies, academic institutions, and other entities with which DOD contracts to provide supplies, construction services, or other types of services. It can also describe individuals hired by DOD—usually through private companies, which are also considered contractors in the previous context—to perform specific tasks. The term “contractor” does not refer to military servicemembers, civilian DOD career employees, or civilian political appointees. Congress has exercised its legislative powers in the past to establish certain reporting requirements regarding DOD contractors, and exercised oversight of DOD contractor activities.

Contractors as Entities

In Fiscal Year (FY) 2022, DOD obligated more money on federal contracts (\$415 billion in current dollars) than all other government agencies combined spent on contracts. While DOD contracts with many entities, five companies (Boeing, General Dynamics, Lockheed Martin, Northrup Grumman, and Raytheon) typically received a majority of departmental contract obligations each fiscal year (see **Table 1**). These companies frequently serve as *prime contractors*, or *primes*, a company that maintains a direct contractual relationship with the government. Primes in turn subcontract to other companies that serve as *subprime contractors*, or *subprimes*. For FY2022, another top recipient of DOD contract funding was Pfizer Inc., with which DOD has contracts to obtain antiviral oral therapeutics and mRNA vaccines used to treat and prevent COVID-19. Some of these contracts were executed in partnership with the Department of Health and Human Services (HHS) as part of the national emergency response to COVID-19.

Table 1. Six Largest DOD Contractors by Obligations, FY2022

(in billions of current dollars)

Company	Obligations
Lockheed Martin Corporation	\$46.2
Raytheon Technologies Corporation	\$26.1
General Dynamics Corporation	\$21.6
Pfizer Inc.	\$16.7
The Boeing Company	\$14.8
Northrup Grumman Corporation	\$13.8

Source: SAM.gov Top 100 Contractors Report, FY2022.

Notes: Fifty percent of the Bell-Boeing Joint Project Office is attributed to The Boeing Company. Raytheon is now known as RTX Corporation.

In FY2022, 49% of total DOD contract obligations were for services and 51% of DOD contract obligations were for goods, or products.

Contractors as Individuals

Individual DOD contractors fulfill a wide variety of organizational roles and functions, from logistics and transportation to intelligence analysis and private security.

Reasons for DOD Using Individual Contractors

After the Cold War, the U.S. military—in line with a government-wide trend—embraced outsourcing, increasing reliance on contractors instead of using military servicemembers or government civilians to perform certain tasks. Proponents of this trend note that effective use of contractors helps DOD by freeing up uniformed personnel to focus on military specific activities; providing supplemental expertise in specialized fields, such as linguistics or weapon systems maintenance; and providing a surge capability to quickly deliver critical support functions tailored to specific military needs. They note that meeting immediate personnel needs through surges in contractor use by the federal government is more cost-effective on a long-term basis than adding staff. Critics of the trend counter that ineffective management and oversight of contractors can lead to wasteful spending of taxpayer dollars and impeded operational outcomes. Some critics point out that contractors can also compromise the credibility and effectiveness of the U.S. military and undermine operations, pointing to certain operations in Iraq and Afghanistan.

Tracking Numbers of Contractors DOD Employs

DOD’s Inventory of Contracted Services (ICS, see 10 U.S.C. §4505(c)) is a required annual report to Congress that provides information on certain categories of contractor hiring by individual DOD components (e.g., the military departments and defense agencies). Under 10 U.S.C. §4505, DOD is required to collect and report data to Congress for each purchase of services in excess of \$3 million within four service acquisition portfolio groups: logistics management services, equipment related services, knowledge-based services, and electronics and communications services. These data are to be collected “in a manner comparable to the manpower data elements used in inventories” of similar DOD civilian employee functions. After the data have been collected, relevant DOD agencies must provide a review that includes ensuring that the contracting activities in the report “do not include any governmental functions,” and identify potential contracting activity that could be converted to civilian employee performance.

These reports combine contract data DOD contracting officials routinely enter into the Federal Procurement Data System (FPDS) with data contractors report annually to the government. Contractor-supplied data include the total

number of direct labor hours expended on services performed under contract, as well as the number of employees associated with these services. The report has not included a total number of individual contractors—instead providing an estimate of contractor full-time equivalents (FTEs) for direct labor, a measure referring to the estimated numbers of labor hours contracted.

According to the FY2023 ICS report, DOD contracted about 972,000 total prime and subprime contractor FTEs within the four defined service portfolios during that year (see **Table 2**). Of that number, the Department of the Army contracted about 11%, the Department of the Navy about 59%, and the Department of the Air Force about 26%.

Table 2. Selected Reported FY2023 DOD Component Contractor FTEs

Prime Contractors and Subcontractors for Contracts Required to be Reported Under 10 U.S.C. §4505, by DOD Component

Funding Agency	Reported FTEs
Department of the Army	97,745
Department of the Navy	576,139
Department of the Air Force	254,861
Defense Advanced Research Projects Agency (DARPA)	547
Defense Information Systems Agency (DISA)	9,875
Defense Counterintelligence and Security Agency (DCSA)	3,400
U.S. Special Operations Command (USSOCOM)	6,028
Defense Health Agency (DHA)	5,001
Office of the Secretary of Defense (OSD)	5,108
Missile Defense Agency (MDA)	3,705

Source: CRS analysis of DOD FY2023 Inventory of Contracted Services.

Notes: FTE estimates in the ICS include contractor-provided data. Some DOD components, such as DIA, which may provide classified contractor FTEs, are not included in these FTE estimates.

Value of the ICS Report for Congress

In establishing the statutory requirement for the ICS report, Congress sought in part to gain more oversight of certain types of service contracts—particularly staff augmentation services and services that are closely associated with inherently governmental functions—and the associated labor. As such, the ICS does not serve as a complete inventory of all DOD contractors.

Some observers have questioned the value of the ICS report in facilitating congressional oversight. A 2017 RAND Corporation study described the ICS report as including data that are “unprocessed, retrospective, and can largely be found elsewhere,” assessing that this potentially limits the utility of the report to Congress and DOD. Other experts, such as the Section 809 Advisory Panel, have

recommended repealing or modifying the underlying statutory requirement to obtain more relevant data and analysis suitable for use by policymakers in Congress and DOD.

Contractors’ Role in Overseas DOD Operations

Operations over the past 30 years have highlighted the central role that contractors play in supporting U.S. servicemembers, both in terms of the number of contractors and the type of work being performed. During U.S. military operations in Iraq and Afghanistan between 2001 and 2020, contractors frequently accounted for 50% or more of the total DOD presence in country.

Since 2008, U.S. Central Command (USCENTCOM) has published quarterly contractor census reports providing aggregated data on contractors employed through DOD-funded contracts who are physically located within the USCENTCOM area of responsibility, which includes Afghanistan, Syria, and Iraq. Prior to August 2021, these reports included data associated with DOD-funded contractor personnel in Afghanistan. Following the August 2021 withdrawal of U.S. military forces from Afghanistan and the Taliban takeover of the country, USCENTCOM has reported that no DOD-funded contractor personnel remain in Afghanistan.

During the second quarter of FY2024, USCENTCOM reported approximately 21,000 contractor personnel working for DOD within its area of responsibility (AOR), with a reported 5,455 contractor personnel located in Iraq and Syria. As of the second quarter of FY2024, about 48% of DOD’s reported individual contractors in the CENTCOM AOR were U.S. citizens. Approximately 47% were third-country nationals, and roughly 1% were local/host-country nationals.

In Iraq, armed and unarmed security contractors have been employed to provide services such as protecting fixed locations; guarding traveling convoys; providing security escorts; and training police and military personnel. The number of security contractor employees working for DOD in Iraq and Syria has fluctuated significantly over time and is dependent on a variety of factors, including current force management levels in-country and U.S. operational needs.

Relevant Statutes

10 U.S.C. Part V to Subtitle A: Acquisition.

Other Resources

Defense Pricing and Contracting, *Inventory of Services Contracts*, <https://www.acq.osd.mil/asda/dpc/cp/policy/service-contract-inventory.html>.

Office of the Assistant Secretary of Defense for Sustainment, *CENTCOM Quarterly Contractor Census Reports*, https://www.acq.osd.mil/log/LOG_CSD/CENTCOM_reports.html.

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