



SECRETARY OF DEFENSE
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WASHINGTON, DC 20301-1000

MAY 27 2025

MEMORANDUM FOR SENIOR PENTAGON LEADERSHIP
COMMANDERS OF THE COMBATANT COMMANDS
DEFENSE AGENCY AND DOD FIELD ACTIVITY DIRECTORS

SUBJECT: Implementation of Executive Order 14222 - Department of Government Efficiency
Cost Efficiency Initiative

The Department of Defense (DoD) is shifting its culture to a wartime footing, demanding unmatched efficiency, agility, and a laser focus on mission-priority warfighting capability and deterrence. While we rely on our vital industrial base to deliver cutting-edge technology and support, we must in-source more expertise and harness the unparalleled talent of our existing experts to drive financial efficiency and operational strength. We will become lean and mean, eliminating wasteful practices and reallocating resources to fortify our strategic edge. In accordance with Executive Order 14222, "Implementing the President's "Department of Government Efficiency" Cost Efficiency Initiative," this memorandum sets forth contract guidance to promote fiscal responsibility, streamline operations, and maximize our readiness and lethality. To achieve these objectives, I am introducing policies that leverage in-house capabilities and focus on mission-critical priorities.

Information Technology (IT) Consulting and Management Services: Components may not execute new IT consulting or management services contracts or task orders with integrators or consultants — defined as entities providing system IT integration, implementation, or advisory services (e.g., designing, deploying, or managing IT systems, or offering strategic or technical IT expertise) — without first justifying that no element of the contracted effort can be:

- (1) accomplished by existing DoD agencies or personnel; or
- (2) acquired from the direct service provider, whereby the prime contractor is not an integrator or consultant.

Prior to execution of a new IT consulting or management services contract or task order with an integrator or consultant, DoD Components must obtain approval from the Deputy Secretary of Defense (DSD) or his designee based on submission of a cost-benefit analysis, evidence of evaluation of alternatives, and justification that the efforts to be covered by the contract cannot be in-sourced anywhere within DoD or acquired from a direct service provider. Justifications and supporting documentation are to be submitted to the DSD or his designee at least 30 days prior to contract execution. Merely reclassifying integrator or consultant contracts to avoid the requirement to evade review is prohibited. The Under Secretary of Defense for Acquisition and Sustainment (USD(A&S)) will monitor compliance, and any contracts or task orders identified may be subject to termination. USD(A&S) will also review existing IT consulting or management services contracts or task orders for viability and alternatives under the above guidance.

Contracts in direct support to defense weapon system programs and directly associated program sustainment activities, or any contract or task order with a total value, including options, under \$10 million, are excluded from this requirement. Contracts may not be split into multiple efforts to stay under the threshold limit.

Advisory and Assistance Services Contracts: Components may not execute new contracts or task orders for consulting, advising, assisting, or any professional services performing similar functions without prior review and approval by the DSD or designee. This includes, but is not limited to, services providing expert advice, recommendations, studies, analyses, or support for management, strategic planning, policy development, organizational assessments, technical expertise, or operational decision-making. To maximize financial efficiency, Components must prioritize leveraging in-house expertise and existing DoD capabilities before pursuing external consulting, advisory, or assistance contracts. To obtain approval to execute such a contract, Components shall submit a description of the contract's purpose, deliverables, and a justification outlining existing expertise regarding the subject matter and demonstrating that in-house resources are insufficient or less cost-effective. Components that receive approval to execute consulting, advisory, or assistance service contracts stand to lose funding for in-house personnel with overlapping expertise of said contracts.

Excluded from this requirement are contracts for systems engineering and technical assistance, in support of systems architecture, systems engineering, acquisition program management and sustainment services when in support of major defense acquisition programs, or any contract or task order with a total value, including options, under \$1 million. Contracts may not be split into multiple efforts to stay under the threshold limit.

Merely reclassifying contracts to avoid the requirement is prohibited. The USD(A&S) will monitor compliance, and any contracts or task orders identified may be subject to termination. USD(A&S) will conduct quarterly reviews to verify compliance. Non-compliant contracts will be subject to termination pending DSD review.

Optimizing Civilian and Contractor Employee Utilization: DoD Components shall maximize employee utilization for broad functions (defined for example as analytical research, administrative support, human resources, IT, training and education, compliance, reporting, etc.) when such functions are being performed by a mix of DoD employees and contractor employees anywhere across the DoD, ensuring workforce growth aligns with authorized Full-Time Equivalent (FTE) limits and promotes transparency in headcount reporting, per 10 U.S.C. § 129a. Contractor employees should be used to augment such roles only when a workforce sufficiency analysis demonstrates that:

- (1) the role is determined to be not inherently governmental, after consultation with counsel as appropriate; and
- (2) no existing employees within the organization or any DoD support unit have the capacity or skills to fulfill the requirement; and

- (3) the organization cannot address the gap through hiring, training, technology, or other resourcing of the current workforce; and
- (4) better rates cannot be achieved by consolidating contracts, including with General Services Administration (GSA) contracting mechanisms, when applicable.

Such a workforce sufficiency analysis must accompany any contract submission which would increase contractor FTE for roles which employ both DoD civilian employees and contractor employees performing broadly similar roles anywhere across the DoD, and the workforce sufficiency must be retained by the Component for future review. Such a submission must also include:

- (1) a cost analysis comparing the cost per contractor FTE compared to DoD estimated fully burdened employee cost performing similar functions as guided by OPM and OMB rates. If no rates are readily available, the organization may use 35% as a default calculation rate for estimated employee overhead costs; and
- (2) a best effort review of the organization's civilian employee productivity within the associated job function compared to private sector best practices and key performance indicators (i.e. individuals in your workforce produce 10 units of output per year, but private sector counterparts produce 20 units per year; productivity should be increased before outsourcing, or a workforce has a ratio of 1 admin person supporting 10 employees, whereas in comparable working environments it is a ratio of 1 admin person supporting 15 employees).

Components shall submit to the Office of the Under Secretary of Defense for Personnel and Readiness a quarterly report, with the first due June 30, 2025, detailing civilian and contractor FTE positions by job category and location, along with demonstration of efforts to hire, train, or resource the department to maximize civilian workforce productivity through technology and skills training, and a cost analysis comparing fully burdened civilian versus contractor FTE costs when employed in similar job functions.

Consolidation of Non-Defense Specific Acquisition Efforts: In accordance with Executive Order (EO) "Eliminating Waste and Saving Taxpayer Dollars by Consolidating Procurement," dated March 20, 2025, Components will maximize use of the GSA procurement vehicles and GSA staff when financially more efficient, to support DoD requirements for common goods and services, consistent with the unified proposal USD(A&S) will submit on behalf of the Department to GSA per the EO, and consistent with the OMB's ultimate approval of that proposal.

A handwritten signature in black ink, appearing to be 'PDB', with the alphanumeric string 'SD29' written below it.