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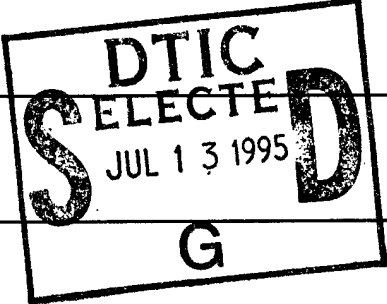
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Section 2461(c) of Title 10, United States Code, requires that the Secretary of Defense submit a written report to the Congress by February 1 of each fiscal year "describing the extent to which commercial and industrial type functions were performed by Department of Defense contractors during the preceding fiscal year." Section 2461(c) further requires that the Secretary include in each report "an estimate of the percentage of commercial and industrial type functions of the Department of Defense that will be performed by Department of Defense civilian employees, and the percentage of such functions that will be performed by private contractors, during the fiscal year during which the report is submitted."

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**Report on the
Performance of Department of Defense
Commercial Activities**

(Fiscal Year 1994)

Prepared by

**The Office of the Assistant Secretary of Defense
(Economic Security)**

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OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
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ECONOMIC SECURITY

ASD(ES)IM

30 JAN 1995

Honorable Albert Gore, Jr.
President of the Senate
Washington, DC 20510

Dear Mr. President:

Section 2461(c) of Title 10, United States Code, requires that the Secretary of Defense submit a written report to the Congress by February 1 of each fiscal year "describing the extent to which commercial and industrial type functions were performed by Department of Defense contractors during the preceding fiscal year." Section 2461(c) further requires that the Secretary include in each report "an estimate of the percentage of commercial and industrial type functions of the Department of Defense that will be performed by Department of Defense civilian employees, and the percentage of such functions that will be performed by private contractors, during the fiscal year during which the report is submitted."

This report, titled "Report on the Performance of Department of Defense Commercial Activities," is forwarded.

A similar letter has been sent to the Speaker of the House of Representatives.

Sincerely,

Robert E. Bayer
Deputy Assistant Secretary of Defense
(Installations)

Enclosure

cc: Honorable Tom A. Daschle
Senate Minority Leader



INTRODUCTION

Section I. In accordance with section 2461(c) of Title 10, United States Code, the report on the performance of commercial activities within the Department of Defense is submitted.

A. Reporting Requirement

Section 2461(c) of Title 10, United States Code, states that:

"--Not later than February 1 of each fiscal year, the Secretary of Defense shall submit to Congress a written report describing the extent to which commercial and industrial type functions were performed by Department of Defense contractors during the preceding fiscal year. The Secretary shall include in each such report an estimate of the percentage of commercial and industrial type functions of the Department of Defense that will be performed by Department of Defense civilian employees, and the percentage of such functions that will be performed by private contractors, during the fiscal year during which the report is submitted."

B. Commercial Activities

OMB Circular A-76, "Performance of Commercial Activities," established policies and procedures to determine whether needed commercial or industrial work should be done by contract with private sources or in-house using government facilities and personnel. Within the Department of Defense, DoD Directive 4100.15, "Commercial Activities Program," and DoD Instruction 4100.33, "Commercial Activities Program Procedures," address the commercial activities program. The Department of Defense commercial activities program encompasses the United States, its territories and possessions, the Commonwealth of Puerto Rico, and the District of Columbia. DoD Instruction 4100.33 defines functional areas of the Department of Defense commercial activities. Data for this report are provided by the Department of Defense Components. The major categories of the Department of Defense commercial activities are as follows:

MAJOR CATEGORIES OF DEPARTMENT OF DEFENSE COMMERCIAL ACTIVITIES

Social Services
Health Services
Maintenance and/or Repair of Equipment
(Intermediate/Direct/General)
Maintenance and/or Repair of Equipment (Depot/Indirect)
Base Maintenance/Multi-function
RDT&E Support
Installation Services
Other Nonmanufacturing Operations
Education and Training
Automatic Data Processing
Products Manufactured/Fabricated In-House
Maintenance, Repair, Alteration, and Minor Construction of
Real Property

C. Content and Organization of the Report

The remainder of this report is organized into the following sections:

Section II. This is "The Performance of Department of Defense Commercial Activities by Department of Defense Contractors in Fiscal Year 1994" that describes the extent commercial activities were performed by contractors. The first table displays an estimate of the commercial activities workyear equivalents. The second table displays the commercial activities workyear estimates by major category. These data were extracted from the Fiscal Year 1994 annual inventory of commercial activities. In-house workload that meets national defense requirements are not included in the tables.

Section III. This is "An Estimate of the Fiscal Year 1995 Department of Defense Commercial Activity Workload -- In-House versus Contract" that provides an estimate of the commercial activities workyears that will be performed by the Services and Defense Agencies and by private contractors during Fiscal Year 1995.

**THE PERFORMANCE OF DEPARTMENT OF DEFENSE COMMERCIAL
ACTIVITIES
BY DEPARTMENT OF DEFENSE CONTRACTORS IN FISCAL YEAR 1994**

DEPARTMENT OF DEFENSE SUMMARY

Section II. During Fiscal Year 1994, contractors performed 193 thousand workyear equivalents for commercial activities. The contractors that provide support services are not required to report actual workyears of effort. The workyear figures are estimates of the additional in-house labor force that would have been required to perform the contracted work. During Fiscal Year 1994, the Department of Defense performed 274 thousand workyears of commercial and industrial type work. Overall, 59 percent of the workload associated with commercial activities was performed in-house and 41 percent performed by contractors. Table 1 breaks out the estimates by major Department of Defense Component.

TABLE 1

**FISCAL YEAR 1994 DEPARTMENT OF DEFENSE COMMERCIAL
ACTIVITY WORKYEARS - BY SERVICE AND DEFENSE AGENCIES**

Services/Agencies	In-House		Contract	
	Actual Workyears (000s)	(%)	Estimated Workyears (000s)	(%)
Army	110	67	55	33
Navy/Marine Corps	48	48	53	52
Air Force	53	40	79	60
Defense Agencies	<u>63</u>	91	<u>6</u>	9
Total	274	59%	193	41%

Table 2 breaks out the estimates by major categories of commercial activities. This table shows that installation services and other nonmanufacturing functions accounted for the largest portion of the commercial activities during Fiscal Year 1994.

TABLE 2

FISCAL YEAR 1994 DEPARTMENT OF DEFENSE COMMERCIAL ACTIVITIES BY MAJOR FUNCTIONAL CATEGORY

Major Functions	In-House		Contract	
	Actual Workyears (000s)	(%)	Estimated Workyears (000s)	(%)
Social Services	22	85	4	15
Health Services	39	87	6	13
Maintenance & Repair	17	59	12	41
Depot Maintenance & Repair	18	51	17	49
Base Maint./Multi-function	*	1	25	99
RDT&E Support	5	46	6	54
Installation Services	86	69	38	31
Other Nonmanufacturing	47	54	40	46
Education and Training	8	73	3	27
Automatic Data Processing	10	53	9	47
Products Manufactured	4	24	13	76
In-House Maintenance of Real Property	<u>18</u>	47	<u>20</u>	53
Total	274	59%	193	41%

Note: The * indicates less than 500.

**AN ESTIMATE OF THE FISCAL YEAR 1995 DEPARTMENT OF DEFENSE
COMMERCIAL ACTIVITY WORKYEARS -- IN-HOUSE VERSUS CONTRACT**

Section III. The Department of Defense estimates that the total Fiscal Year 1995 contract workyears associated with commercial activities will be approximately 192 thousand workyears. The portion performed by in-house is estimated to be 57%. Based on schedules provided by the Services and Defense Agencies, it is anticipated that the Department of Defense will complete cost comparisons involving about 1,700 workyears in Fiscal Year 1995. Table 3 estimates the total Fiscal Year 1995 commercial activities workyears by major Department of Defense Component.

TABLE 3

**FISCAL YEAR 1995 DEPARTMENT OF DEFENSE COMMERCIAL ACTIVITY
WORKYEARS -- ALL FUNCTIONS**

Services/Agencies	Estimated Workyears			
	Workyears (000s)	In-House (%)	Contract Workyears (000s)	(%)
Army	105	66	56	34
Navy/Marine Corps	45	47	50	53
Air Force	51	39	81	61
Defense Agencies	<u>49</u>	91	<u>5</u>	9
Total	250	57%	192	43%