

GAO

Report to the Honorable
Tom Harkin, U.S. Senate

July 1998

ACQUISITION MANAGEMENT

Workforce Reductions and Contractor Oversight



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-279516

July 31, 1998

The Honorable Tom Harkin
United States Senate

Dear Senator Harkin:

In response to your request, we (1) compared the workforce reductions taken in the Department of Defense's (DOD) acquisition organizations¹ from fiscal year 1993 through fiscal year 1997 with the reductions taken in DOD's overall workforce during that time frame and (2) identified initiatives the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Command (DCMC) have taken in their contract oversight responsibilities to compensate for the reduction in their staff. We briefed your office previously. This report updates the information presented at those briefings. Additional information requested by your office regarding reductions in the number of computer specialists is contained in appendix II. We provided information that you requested regarding potential savings from workforce reductions in our June 1998 report.²

Background

In recent years, DOD has substantially reduced the size of its total and acquisition workforces. Many of these reductions were made pursuant to the National Defense Authorization Acts for Fiscal Years 1996 and 1997 (P.L. 104-106 and P.L. 104-201, respectively). Among other things, section 906 of the 1996 act required DOD to submit a plan on how it would restructure its acquisition organizations so that 25 percent of their personnel could be reduced over a 5-year period, beginning October 1, 1995. Section 902 of the 1997 act amended section 906 to require total reductions of 30,000 employees in fiscal years 1996 and 1997 combined. In addition, section 912 of the National Defense Authorization Act for Fiscal Year 1998 (P.L. 105-85) required a reduction of 25,000 employees in fiscal year 1998. The act allowed the Secretary of Defense to reduce as few as 10,000 employees on certification that cost-effective management and military readiness would be impaired. The Federal Workforce

¹DOD's 20 acquisition organizations employed roughly 270,000 civilian and military acquisition personnel at the end of fiscal year 1997 (see app. I for a complete list of these organizations). This total excludes civilians employed in maintenance depots, who are not included in the workforce reductions required by the National Defense Authorization Act for Fiscal Year 1998. Including these employees would increase the total to about 355,000.

²See Defense Acquisition Organizations: Status of Workforce Reductions (GAO/NSIAD-98-161, June 29, 1998).

Restructuring Act of 1994, passed in March 1994 and mandating governmentwide reductions of 272,900 full-time equivalent positions through fiscal year 1999, also affected DOD's acquisition workforce. DOD agencies responsible for contractor oversight, DCAA and DCMC, were not exempted from these reductions.

Results in Brief

DOD's acquisition workforce is decreasing slightly faster than DOD's overall workforce. From fiscal year 1993 through fiscal year 1997, the number of personnel in DOD's overall workforce decreased by 17.5 percent. During the same time frame, civilian personnel in DOD's acquisition workforce decreased by 24 percent, while the military personnel in the acquisition workforce decreased by 28 percent. Throughout this 5-year period, DOD's civilian acquisition workforce remained at roughly 30 percent of DOD's overall civilian workforce.

Since 1993, the two organizations directly associated with contractor oversight, DCAA and DCMC, have had personnel reductions of roughly 19 and 27 percent, respectively. According to DCAA and DCMC officials, the organizations have implemented a variety of risk-based initiatives and reengineering programs during this time frame as their respective workforces have been reduced. For example, DCAA has implemented risk assessment procedures based on contractor size (the dollar value of contracts) and process reengineering activities in the areas of contractor self-governance and contractor billing. Similarly, DCMC has instituted risk-based initiatives and initiatives aimed at improving efficiency. For example, DCMC's Performance-Based Assessment Model determines how often and to what extent contractors should be reviewed based on risk potential; the Single Process Initiative encourages the consolidation of common processes in facilities that produce commercial and DOD products.

DOD's Acquisition Workforce Is Decreasing

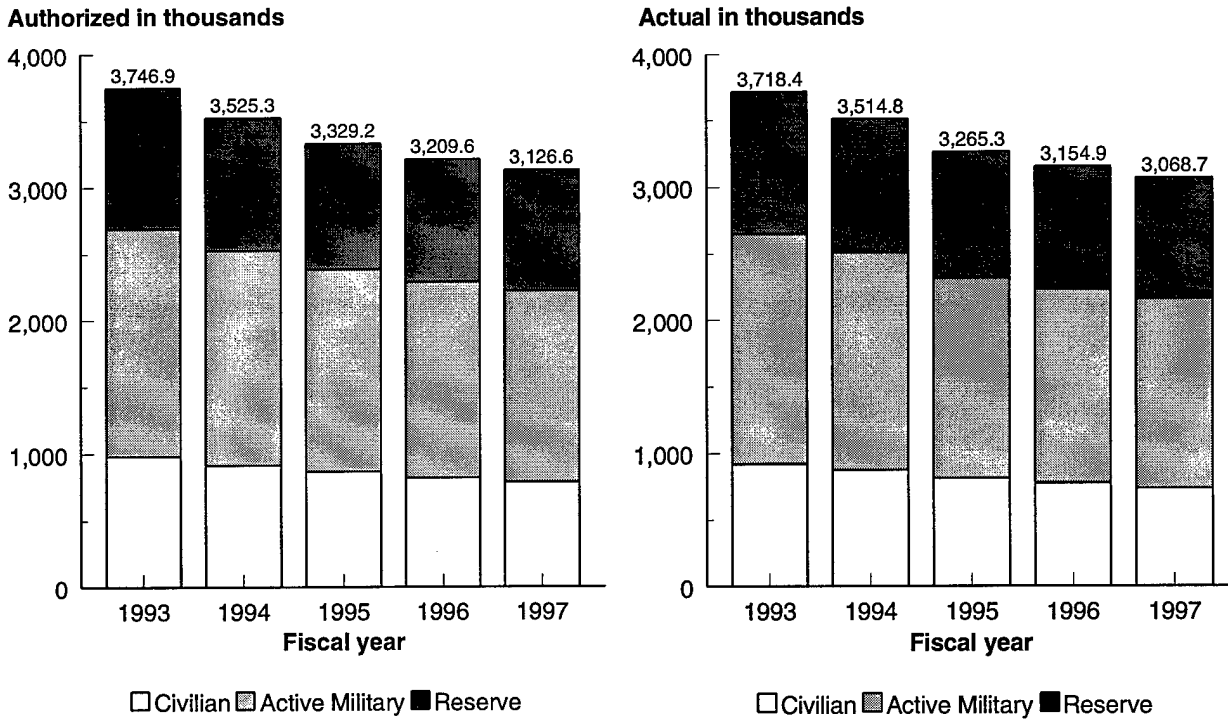
From fiscal year 1993 through fiscal year 1997, DOD has reduced steadily the number of authorized positions and the actual number of personnel in its workforce. During this period, DOD's acquisition workforce was reduced at a slightly faster rate than DOD's overall workforce, but civilians in the acquisition workforce remained at roughly 30 percent of DOD's overall civilian workforce.

DOD Has Steadily Reduced the Size of Its Overall Workforce

Both DOD's authorized positions and the number of personnel employed have decreased steadily since fiscal year 1993 (see fig. 1).³ For example, between fiscal years 1993 and 1997, the number of authorized positions decreased from 3,746,900 to 3,126,600 (by 620,300 or 16.6 percent) while the number of employees decreased from 3,718,400 to 3,068,700 (by 649,700 or 17.5 percent). By breaking these numbers down, we found that civilian and military positions were reduced by 198,300 (20.2 percent) and 422,000 (15.3 percent), respectively; while the number of civilian and military employees were reduced by 187,300 (20.3 percent) and 462,400 (16.5 percent), respectively.

³DOD's "authorized positions" refers to its annual workload requirement presented in the President's annual budget submission. DOD's "actual end strength" is the number of people employed at the end of a particular period.

Figure 1: DOD's Overall Workforce (Fiscal Years 1993-97)

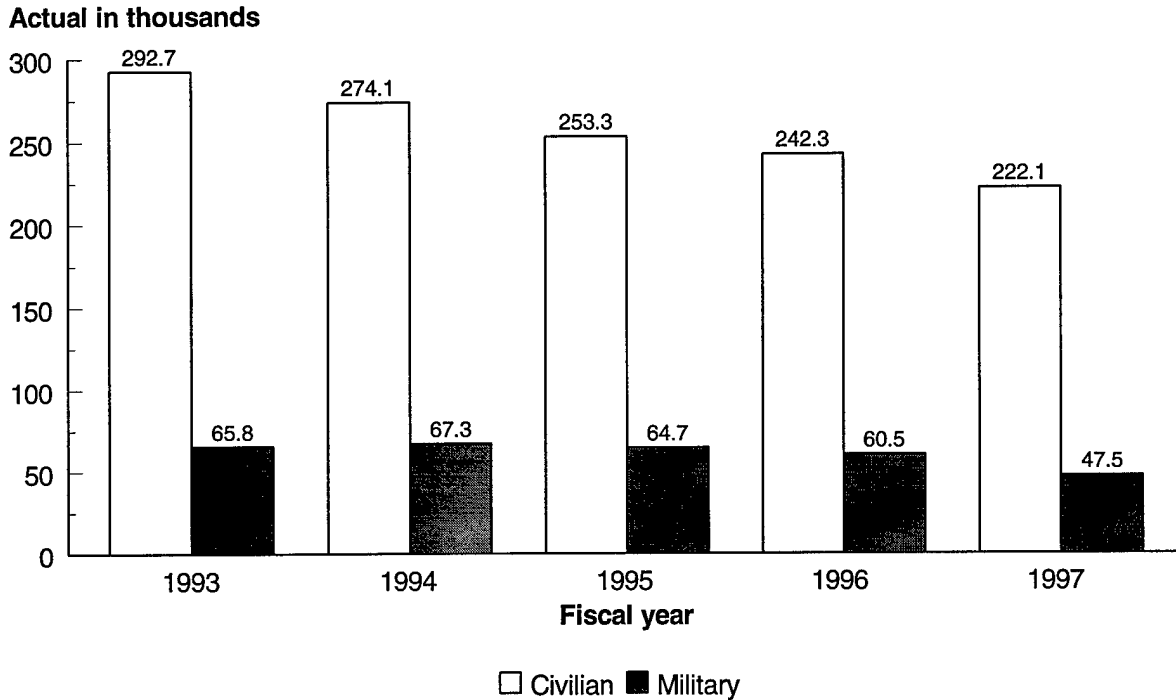


Sources: Office of the Secretary of Defense (Personnel & Readiness) and Defense Manpower Data Center.

DOD's Acquisition Workforce Has Experienced Slightly Greater Reductions Than DOD's Overall Workforce

From fiscal year 1993 through fiscal year 1997, DOD reduced the overall number of its employees by 649,700 (or 17.5 percent). During this period, DOD reduced the civilian and military personnel employed in acquisition organizations by 70,552 (about 24 percent) and 18,338 (about 28 percent), respectively (see fig. 2).

Figure 2: DOD's Acquisition Workforce (Fiscal Years 1993-97)



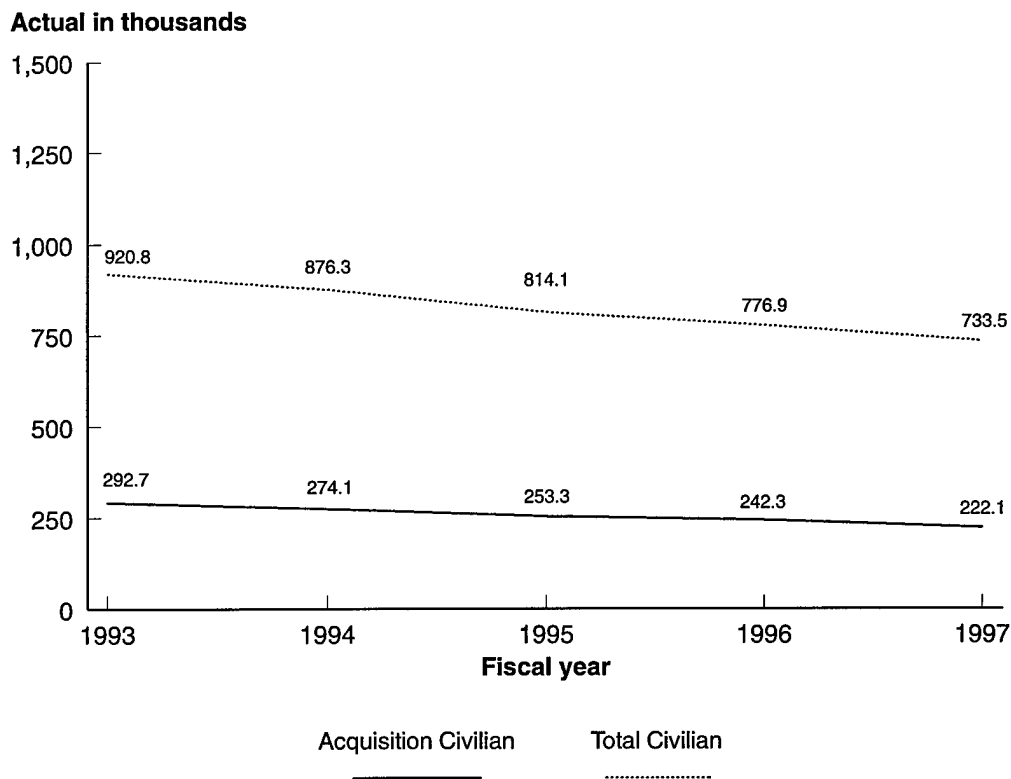
Note: Data excludes civilians in maintenance depots in accordance with section 912 of the 1998 Defense Authorization Act.

Source: Defense Manpower Data Center.

During fiscal years 1996 and 1997, DOD accomplished over one-half of the 25-percent reduction planned for its acquisition workforce pursuant to the 1996 National Defense Authorization Act. DOD does not expect to maintain this rate of acquisition workforce reduction throughout the next 3 years.

Our analysis of data provided by the Defense Manpower Data Center shows that DOD's civilian acquisition workforce represents roughly 30 percent of DOD's overall civilian workforce (see fig. 3). This ratio has remained relatively steady throughout the 5-year period. For example, it was at 31.8 percent in 1993 and at 30.3 percent in 1997.

Figure 3: DOD's Civilian Acquisition Workforce Compared With DOD's Total Civilian Workforce (Fiscal Years 1993-97)



Note: Data excludes civilians in maintenance depots in accordance with section 912 of the 1998 Defense Authorization Act.

Source: Defense Manpower Data Center.

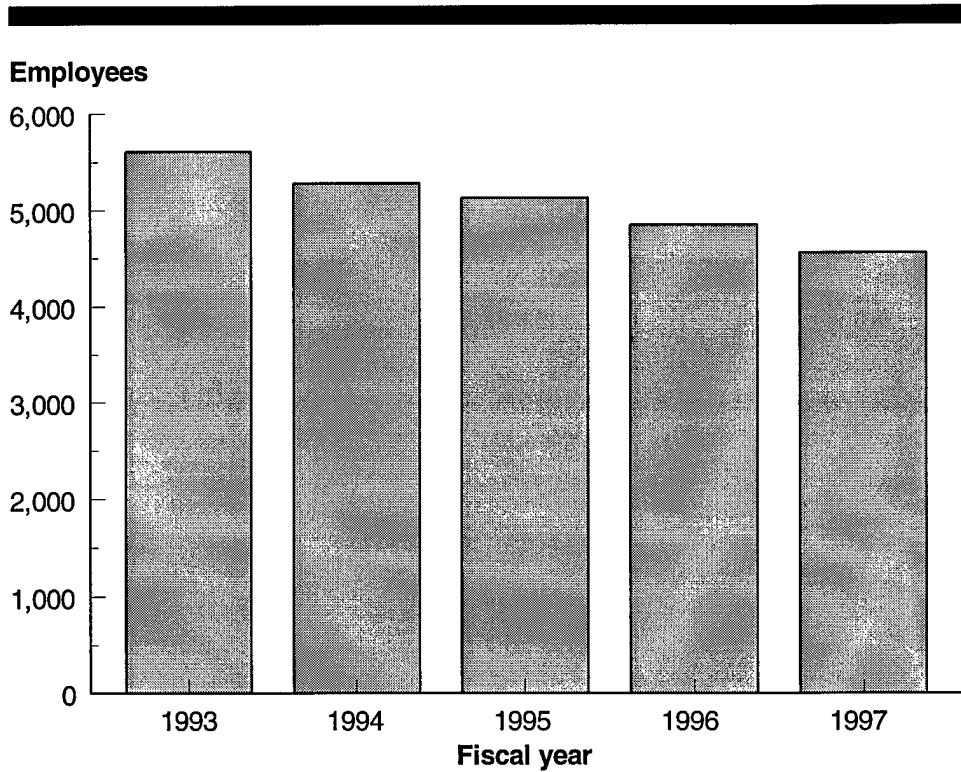
Contractor Oversight Agencies Are Implementing Risk Management Approaches

The workforces of DCAA, which performs defense contract audits and provides accounting and financial advisory services, and DCMC, which provides defense contract management services, have also been reduced substantially over recent years. At the same time, DOD has implemented various risk management approaches in the oversight of contractors..

DCAA Workforce Trends

DCAA is responsible for performing contract audits and providing accounting and financial advisory services on contracts for all DOD components responsible for procurement and contract administration. DCAA reports to the Under Secretary of Defense (Comptroller). DCAA's actual end strength decreased from 5,616 in fiscal year 1993 to 4,557 in fiscal year 1997, about a 19-percent reduction (see fig. 4).

Figure 4: Decrease in DCAA's Actual Workforce (Fiscal Years 1993-97)



Note: Totals are in actual end strength.

Source: DCAA.

DCAA projects continued work year reductions through fiscal year 2002.

Key DCAA Risk Management and Process Reengineering Activities

According to DCAA officials, in response to workforce reductions and acquisition reform initiatives, DCAA focused its efforts on implementing risk assessment procedures and process reengineering activities. For example, DCAA established risk assessment procedures for three categories of contractors:

- Major contractors. These contractors (roughly 250) have over \$70 million in DOD contracts. DCAA assesses them on their internal controls for such business systems as compensation, billing, labor, material, and purchasing. DCAA reviews and rates all major contractors at least once a year.
- Non-major contractors. These contractors (roughly 1,750) have between \$5 and \$70 million in DOD contracts. DCAA assesses them on an "as-needed basis." According to DCAA officials, risk factors such as evidence of budgetary control and indications of financial instability are used as criteria for determining the need for assessment.
- Small contractors. These contractors (roughly 2,000) have less than \$5 million in DOD contracts. They are assessed based on a random sample.

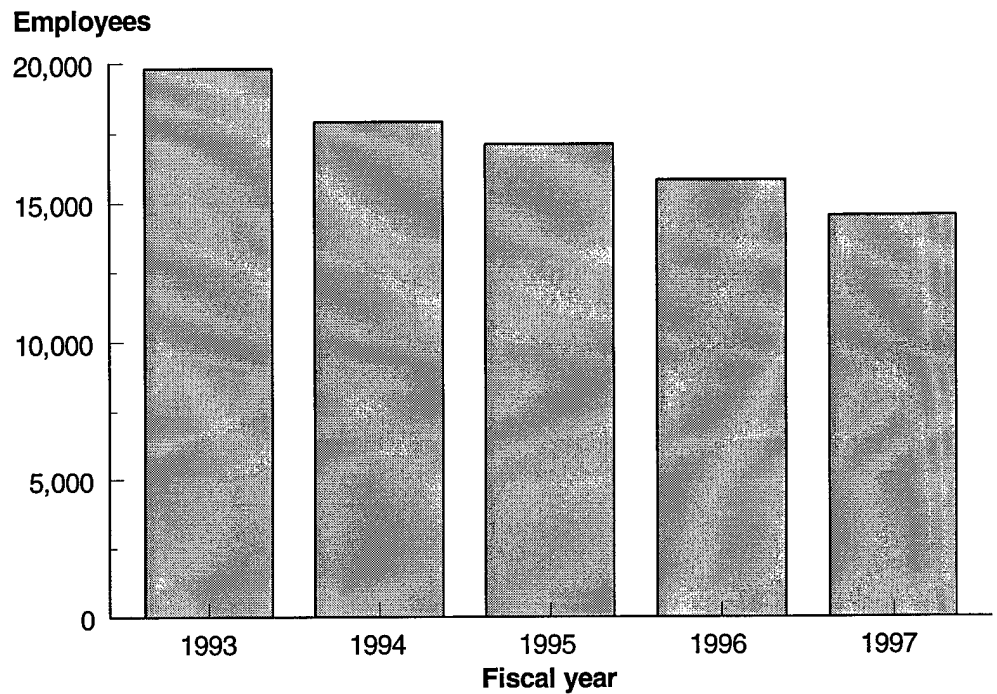
DCAA has also implemented process reengineering activities intended to improve the efficiency of its workforce, including the following:

- Integrated product teams. These teams are composed of DCAA and contractor personnel through which DCAA provides real-time advice and feedback on estimating methods, proposal reviews, and audit results.
- Contractor self-governance. These programs are designed to strengthen contractor internal controls and the government's reliance on related systems. These programs also promote reduced audit cycle time, reduced oversight, and improved communications and working relationships between DCAA and contractor personnel.
- Contractor direct billing. This program allows qualified contractors to submit public vouchers directly to paying offices rather than through DCAA. While DCAA will continue provide oversight by periodically reviewing contractors and examining a sampling of paid vouchers, this program is expected to substantially reduce audit time without putting accountability at risk.

DCMC Workforce Trends

DCMC provides contract management services for DOD contracting officers and program managers throughout the acquisition life cycle. DCMC is under the organizational umbrella of the Defense Logistics Agency. DCMC's actual end strength decreased from 19,822 in fiscal year 1993 to 14,523 in fiscal year 1997, about a 27-percent reduction (see fig. 5).

Figure 5: Decrease in DCMC's Actual Workforce (Fiscal Years 1993-97)



Note: Totals are in actual end strength.

Source: DCMC.

The period also saw decreases in the number of contract administration offices (34 percent) and the number of prime contracts (6 percent). DCMC projects a continual work year decrease through fiscal year 2002.

Key DCMC Risk Management and Workforce Efficiency Activities

In response to mandates requiring DCMC to reduce its workforce and promote acquisition reform, DCMC officials stated that they have focused their initiatives on managing risk and fostering efficient operations. The risk-based initiatives are designed to coincide with DCMC's focus on more process review and less product inspection. DCMC reduced its quality assurance specialist staff by 54 percent from fiscal year 1990 to fiscal year 1996. As a result, DCMC emphasized initiatives that are designed to promote risk management in order to better identify customer requirements, focus

on critical processes, and rely on data analysis. Risk management initiatives include the following:

- Contractor Self-Oversight. Contractor self-oversight is designed to make contractors more responsible for contract compliance and to reduce DCMC surveillance. Test cases have been completed for property, production surveillance, and quality assurance sites.
- Engineering Change Proposals. Because 98 percent of all Class II Engineering Change Proposals are accepted by the government,⁴ DCMC is questioning the necessity of the current review process and is looking to reduce the level of review in this arena. DCMC is also trying to resolve the contractual implications of reduced oversight of this issue.
- Performance-Based Assessment Model. This model is intended to determine the level and frequency of review on the basis of contractors' risk potential. The level of risk is based on the extent to which end products meet cost, schedule, and performance goals.

Acquisition reform initiatives intended to promote efficient operations include the following:

- Single Process Initiative. This initiative allows contractors to have existing contracts modified to replace multiple government-unique management and manufacturing systems with common, facilitywide systems. The initiative is designed to promote reductions in contractor operating costs by encouraging the consolidation of common processes in facilities that produce commercial and DOD products. DOD anticipates that these actions will result in cost, schedule, and performance benefits.
- Government Source Inspection. Government inspectors have been required to review stock items at a contractor's facility prior to acceptance and delivery. This inspection represents a significant cost. To eliminate unnecessary inspections, DCMC waived mandatory inspections for contractors that perform at quality levels higher than those specified in their contracts.
- Early Contract Administration Services. This initiative involves DCMC personnel in nontraditional contract administration services early in the acquisition process (typically in the pre-award stages). The purpose is to minimize downstream acquisition problems by helping buying offices select more capable contractors, construct more effective solicitations, and develop more executable contracts. Examples include developing and

⁴Class II Engineering Change Proposals are proposed changes that do not affect an item's form, fit, function, cost, schedule, or other critical characteristics.

reviewing solicitation packages and contracts, participating on source selection teams, and performing software capability evaluations.

Agency Comments

We provided DOD officials with a draft of this report. DOD concurred fully with its contents. DOD also provided technical comments that we incorporated into our final report, as appropriate. DOD's comments are included in appendix III.

Scope and Methodology

To compare DOD's acquisition workforce reductions from fiscal year 1993 through fiscal year 1997 to overall workforce reductions, we compared authorized work years to acquisition workforce actual end strengths. To determine DOD's authorized work years, which represent the annual workload requirement presented by the President's annual budget submission, we interviewed and obtained data from personnel in the Office of Under Secretary of Defense (Personnel and Readiness). To determine DOD's overall and acquisition workforce actual end strengths, which represent the actual inventory of people on the payroll at the end of a particular period, such as at the end of a fiscal year, we analyzed DOD documents and data provided by the Defense Manpower Data Center, which collects and maintains an archive of DOD's automated manpower, training, and financial databases. We also interviewed and obtained data from personnel in the Office of Under Secretary of Defense (Acquisition and Technology) and (Acquisition Reform) and in the military services.

To identify initiatives the DCAA and the DCMC have taken in their contract oversight responsibilities to compensate for the reduction in their staff, we obtained information from and interviewed officials at the headquarters of those agencies. We also reviewed other documents addressing DCAA and DCMC management and oversight issues.

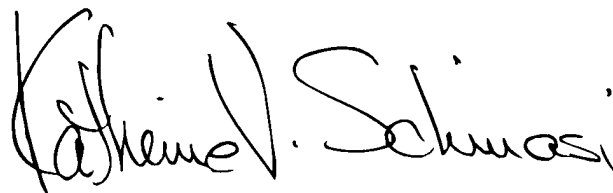
We did not independently review the reliability of the Defense Manpower Data Center's management information systems or databases. However, we discussed quality control procedures used to minimize sources and chances for error with Defense Manpower Data Center officials. Further, we independently obtained the data and compared the results of our analyses with those of other users of the same database. Checking and matching this independently derived information gave us assurance that the data were consistent. Lastly, we ascertained the extent to which DOD assessed the reliability of the Data Center's products.

We performed our work from February to May 1998 in accordance with generally accepted government auditing standards.

As arranged with your office, we plan no further distribution of this report until 30 days from its issue date unless you publicly announce the report's contents earlier. At that time, we will send copies to DOD and other interested parties.

Please contact me on (202) 512-4841 if you or your staff have any questions concerning this letter. Major contributors to this report were Raymond H. Denmark, Jr.; James L. Morrison; Arnett Sanders; and Clifton E. Spruill.

Sincerely yours,

A handwritten signature in black ink that reads "Katherine V. Schinasi". The signature is written in a cursive style with a large initial "K".

Katherine V. Schinasi
Associate Director,
Defense Acquisitions Issues

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Abbreviations

DCAA	Defense Contract Audit Agency
DCMC	Defense Contract Management Command
DOD	Department of Defense

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Defense Acquisition Organizations

The Department of Defense (DOD) Instruction 5000.58 states that the mission of an acquisition organization, with its subordinate elements, includes planning, managing, and/or executing acquisition programs that are governed by DOD Directive 5000.1 (reference [n]), DOD Instruction 5000.2 (reference [o]), and related issuances. Specifically, these organizations (and any successor organization of these commands) are as follows:

- Office of the Under Secretary of Defense (Acquisition and Technology)
- Army Information Systems Command⁵
- Army Materiel Command
- Army Strategic Defense Command (now the Army Space and Strategic Defense Command)
- Army Acquisition Executive
- Office of the Assistant Secretary of the Navy (Research, Development, and Acquisition)
- Naval Sea Systems Command
- Naval Air Systems Command
- Naval Supply Systems Command
- Naval Facilities Engineering Command
- Office of the Chief of Naval Research
- Space and Naval Warfare Systems Command
- Navy Program Executive Officers/Direct Reporting Program Manager Organization
- Marine Corps Systems Command
- Office of the Assistant Secretary of the Air Force (Acquisition)
- Air Force Systems/Air Force Logistics Commands (now the Air Force Materiel Command)
- Air Force Program Executive Organization
- Strategic Defense Initiative Organization (now the Ballistic Missile Defense Organization)
- Defense Logistics Agency
- Special Operations Command (now the Special Operations Command Acquisition Center)

⁵Disestablished as of October 1, 1996, and realigned as a major subordinate command under the Army Forces Command, a nonacquisition organization.

Information on Computer Specialists and Contracting for Computer-Related Support Services

In our October 1997 product on DOD's acquisition organizations, we reported that the largest concentration of reductions in DOD's civilian acquisition workforce were concentrated in seven occupational fields: electronics engineering, secretary, miscellaneous-clerk, computer specialist, contracting, management analyst, and miscellaneous-administration.⁶ In our June 1998 product on the status of workforce reductions, we reported that the overall dollar value of DOD's support services contract awards in areas related to some of those same occupational fields increased from fiscal years 1993 to 1997.⁷

Using data provided by the Defense Manpower Data Center and the Individual Contracting Action Report-DD Form 350 database for fiscal years 1993 through 1997,⁸ we more closely examined the reductions in the number of DOD's computer specialists and contracts for computer related support services. Although we did not correlate occupational fields to specific support services contracts, we found that while the number of civilian computer specialists in acquisition organizations decreased by about 28 percent from the end of fiscal year 1993 to the end of fiscal year 1997, the dollar value of contract awards for computer-related services increased steadily from 1993 through 1996 before declining slightly in 1997.

⁶See Defense Acquisition Organizations: Reductions in Civilian and Military Workforce (GAO/NSIAD-98-36R, Oct. 23, 1997).

⁷We have also reported that, where audited, projected savings from work contracted out generally have not been achieved and, in some cases, the work was more expensive. See Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs (GAO/T-NSIAD-97-110, Mar. 12, 1997) and Defense Depot Maintenance: Commission on Roles and Mission's Privatization Assumptions Are Questionable (GAO/NSIAD-96-161, July 15, 1996) for more details.

⁸DOD's procurement of commodities and services is reported on the Individual Contracting Action Report-DD Form 350. The form includes codes that describe or characterize various categories of procurements.

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

July 29, 1998

Ms. Katherine V. Schinasi
Associate Director, Defense Acquisition Issues
National Security and International
Affairs Division
United States General Accounting Office
Washington, DC 20548

Dear Ms. Schinasi:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report "ACQUISITION MANAGEMENT: Workforce Reductions and Contractor Oversight" dated July 6, 1998, (GAO Code 707333/OSD Case 1647). This Draft Report has been thoroughly reviewed and DoD concurs with its content. The process used by GAO to include DoD in the development of the report resulted in an exceptionally orderly review of the final draft. Additional technical comments were provided separately to the GAO staff. The DoD appreciates the opportunity to comment on the Draft Report.

If any additional actions are required, please contact my representative, Mr. Dale Fradley, at 697-8080, FAX 697-7078, fradledr@acq.osd.mil.

Sincerely,

Stan Z. Soloway
Deputy Under Secretary of Defense
(Acquisition Reform)

