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STATEMENT OF
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TO THE
SENATE SUBCOMMITTEE ON OVERSIGHT OF
GOVERNMENT MANAGEMENT, RESTRUCTURING AND
THE DISTRICT OF COLUMBIA
AND THE
HOUSE SUBCOMMITTEE ON CIVIL
SERVICE AND AGENCY ORGANIZATION
ON
NATIONAL SECURITY IMPLICATIONS
OF THE HUMAN CAPITAL CRISIS

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Chairmen and Members of the Committees:

I am pleased to be here today to discuss human capital management issues in the Department of Defense (DoD). My testimony today will focus on recent audit reports by my office on Defense programs with workforce issues. The condition of the DoD workforce is of particular concern to my office, because our auditing and investigative work constantly reinforces awareness that a properly sized, well-trained and highly motivated workforce is the best defense against fraud, waste and mismanagement. In addition, I have been privileged to serve in the Senior Executive Service for 21 years and currently manage about 1,200 civilian employees and about 30 military personnel, so I have personal experience on these matters. My opinions in this statement reflect those of the Office of the Inspector General, DoD, but not necessarily those of the Department.

I agree with the General Accounting Office, various recent internal DoD study groups, the U.S. Commission on National Security/21st Century, the Chief Information Officers Council, and other analysts that the Federal Government faces formidable civilian workforce challenges. For the DoD, human capital issues extend beyond the Civil Service workforce, affecting both active and reserve military personnel and many parts of the private sector on which we depend for national defense materiel and services. The issues that confront DoD pertain to the most basic elements of workforce management, including:

- determining the most efficient mix of outsourced versus in-house workload;
- determining the workforce size and skills composition needed to handle forecasted in-house workload;
- authorizing and funding sufficient positions to match workload;
- recruiting capable personnel;
- providing effective training throughout their careers;
- organizing the workforce efficiently;
- maintaining good morale;
- measuring and incentivizing productivity; and
- retaining skilled and experienced employees.

The seven audit reports that I am bringing to your attention today have a common theme, which is that eleven years of workforce downsizing, without proportionate workload reductions or productivity increases, have created or exacerbated mission performance problems across a wide spectrum of DoD organizations and civilian personnel specialties. In an age when organizational agility is the watchword for successful businesses, DoD has been anything but agile, when it comes to managing human capital. This is partially due to restrictive personnel management laws and regulations, but also to previous reluctance to innovate and lack of strategic planning regarding the civilian workforce.

Report D-2000-088, DoD Acquisition Workforce Reduction Trends and Impacts, February 29, 2000

We reported that the DoD cut its acquisition workforce from 460,156 people in September 1991 to 230,556 in September 1999, a reduction of 50 percent. (Further reductions were made in FY 2000 and 2001.) If workload had fallen proportionately, eliminating half of those positions would have been an unambiguously positive step.

Unfortunately, this has not been the case. From FY 1990 through FY 1999, the number of procurement actions per year increased about 12 percent, from 13.2 million to 14.8 million. The greatest amount of work for acquisition personnel occurs on contracting actions over \$100,000 and the annual number of those actions increased about 28 percent from FY 1990 to FY 1999, from 97,948 to 125,692.

We surveyed 14 of the 21 major acquisition organizations and found this growing imbalance between resources and workload to be a major concern. Acquisition personnel advised us that the adverse consequences included:

- skill imbalances (9 organizations),
- inability to manage requirements efficiently (9 organizations),
- increased program costs resulting from contracting for technical support versus using in-house technical support (7 organizations),
- difficulty retaining personnel (6 organizations),
- reduced thoroughness and timeliness in reviewing acquisition actions (4 organizations),
- increased backlog in closing out completed contracts (3 organizations), and
- lost opportunities to develop cost savings initiatives (2 organizations).

Our report contained examples of mission performance problems related to the reduced workforce. The following are illustrative:

- One command's lack of engineering and quality assurance presence in plants producing military space launch vehicles caused the command to express concern about potential quality problems. The command stated that, when it stopped inspections of all procedures in some plants, so did the contractor.

- A Defense agency stated that complaints about the quality of material received by its DoD customers have increased; however, it has placed less emphasis on responding to customer complaints because of workforce reductions.

- Reduced staffing in a procurement organization caused it to give little attention to reducing backlogs in processing quality deficiency reports and equipment improvement reports.

- Another organization said loss of expertise retarded efforts to develop price analysis in a timely manner, and reduced oversight increased the risk that contracting actions were not properly executed.

- Lack of in-house engineering staff at an acquisition organization caused an increase in customer costs of \$20,000 to \$50,000 per each work year of support services for weapons programs because of the need to hire contractors to perform the work at greater expense.

- Another organization stated it was missing opportunities for savings of \$20 to \$30 million annually because value-engineering workshops were drastically reduced by staffing reductions.

There was widespread agreement that, with additional cuts planned, these staffing problems and performance shortfalls would get worse.

Likewise, there was cause for serious concern in the likelihood of the DoD acquisition workforce losing about 42 percent of its personnel in key job series through attrition by FY 2005. Also, there were overall disconnects between workload forecasts, performance measures, productivity indicators, and plans for workforce sizing and training. It is particularly telling that the only DoD strategic management goal in the late 1990's related to human capital was to cut the acquisition workforce by arbitrary percentages. Congress shared this primary focus on reducing numbers of people, but without insisting on or measuring trends in workload simplification and productivity improvement.

Report D-2000-100, Contracts for Professional, Administrative and Management Support Services, March 10, 2000

In March 2000, we reported that every contract action in a sample of 105 items, which involved purchasing 104 million hours of services, had significant deficiencies. Problems included failure to obtain competition when required to do so and lack of government cost estimates. Insufficient training and staffing were root causes of these deficiencies. We found contracts with nobody assigned as the contracting officer, due to vacancies. In many cases, the workload assigned to individuals was unrealistic. For example, one Army civilian was assigned to manage and perform surveillance on 43 contracts, which he did not do because he was also assigned the full-time task of assisting in the award of 13 new contracts. At an Air Force site, one individual was assigned contract surveillance responsibility on 37 contract task orders in addition to his normal duties.

We also concluded that contracting personnel training was too heavily oriented on acquiring equipment and supplies, not services. Because DoD spends more than \$50 billion annually on services, we considered this to be a major concern.

Report D-2000-086, Assuring Condition and Inventory Accountability of Chemical Protective Suits, February 25, 2000

We reported in 1997 that the Defense Logistics Agency lost inventory control over about 1.1 million chemical protective suits at a Defense depot. A major cause was that the inventory assurance staff had been reduced by 74 percent. A follow-up audit indicated that the same problem developed at another Defense depot after the suits were transferred there. Again, the failure to properly manage these crucial readiness items was attributed to lack of resources.

Report D-2000-157, DoD Hazardous Waste Management and Removal Services in the U.S. European Command, June 28, 2000

Contractors were not performing as specified in contracts for hazardous waste management and removal at 10 of 14 audited installations in Europe. U.S. Contracting Officer Representatives had not been assigned to monitor on-site operations because the organization responsible for such support was undergoing a 28 percent staffing reduction at the same time that workload was increasing.

Report D-2000-111, Security Clearance Investigative Priorities, April 5, 2000

The ability of the Defense Security Service to handle its security clearance investigative workload virtually collapsed in 1998. The primary causes were a 42 percent staff reduction and failure of a new automated case control system. In addition, forecasted workload reductions did not materialize because more rigorous Federal security standards were implemented. As a result, there is a backlog of several hundred thousand initial security clearance investigations and periodic reinvestigations. This backlog increases the time required to bring new hires onboard, complicates transfers of employees, keeps contractors from performing, and increases security risks. About one third of the 2.1 million DoD and Defense contractor personnel needing or holding clearances are affected. The audit indicated that future workload projections remained questionable, complicating the formulation of viable corrective action plans and Defense Security Service resource requests. At present, DoD is about one fourth of the way through a planned 24 month effort to eliminate the backlog, but it will be difficult to achieve that goal.

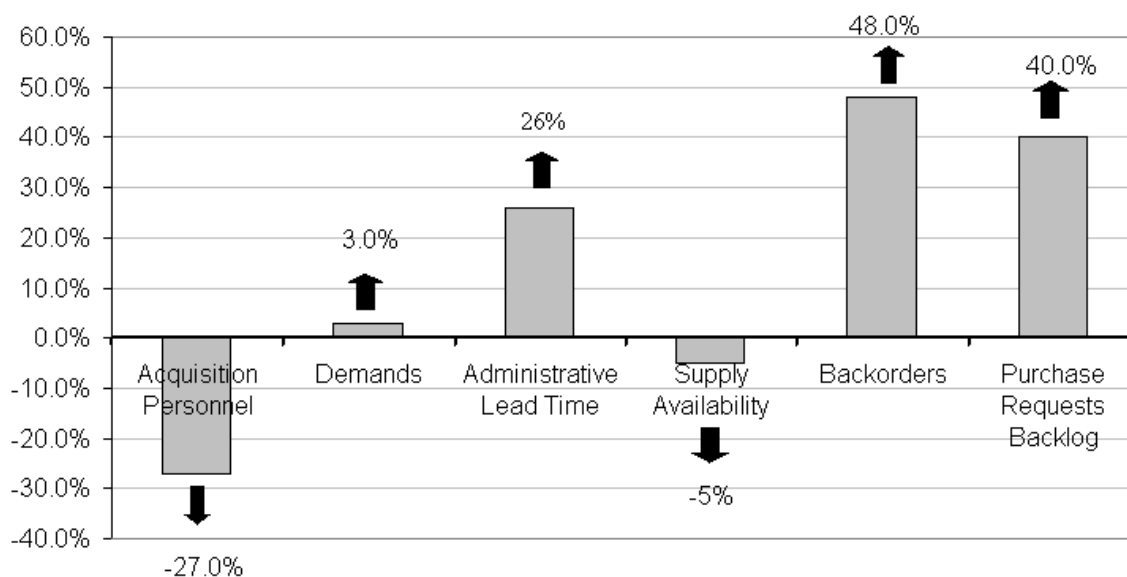
Report D-2001-008, DoD Adjudication Facility Requests, October 30, 2000

Another problem in the DoD personnel security clearance area was that the number of personnel security clearance cases requiring adjudication was rising faster than most adjudication facilities' ability to process cases in a timely manner, because workload projections were questionable and related staffing requirements had not been fully identified and budgeted. If not corrected, a second backlog will develop in the adjudication phase of the clearance process, offsetting hard won progress in decreasing the investigative backlog.

**Report No. 2001-076, Acquisition of General and Industrial Items,
March 13, 2001**

Supply effectiveness at a defense supply center decreased as the administrative lead-time for buyers to acquire parts and supplies rose from 85 to 107 days. Inadequate procurement support was largely responsible for about a 48 percent rise in backorders (137,929 in October 1998 to 203,663 in September 2000) of general and industrial items. Although customer demands (requisitions) increased only slightly for the 2-year period, the purchase requests backlog increased 40 percent at the center over the same time period. The time needed to place contract orders grew by 26 percent and overall supply availability dropped. These supply and acquisition problems occurred because, over a two-year period, the number of acquisition personnel declined from 581 to 378 (27 percent), without offsetting productivity increases or workload reductions.

Personnel and Workload Changes for General and Industrial Items



The Department agreed with all of those reports and initiated various corrective actions. For example, the Under Secretary of Defense (Acquisition, Technology and Logistics) acknowledged the need to level off or perhaps slightly increase the acquisition workforce after FY 2002. The Department also worked with Congress to gain expanded authority for pilot personnel programs for the acquisition corps.

I would like to close with some general observations. Significant downsizing was necessary to conform to post-Cold War Defense budget realities, but I believe the Department's performance in providing better information systems to enhance employee productivity and in genuinely streamlining administrative processes has fallen far short of the mark. Those failures to offset the impact of staffing cuts are widely evident. For example, another recent audit indicated that over half of the users of the new Standard Procurement System felt their productivity had not been improved under this \$3.7 billion program. This system was supposed to partially offset the impact of cutting the acquisition workforce in half, but it has failed to do so. In my view, the Department needs to step back and reassess what is actually happening in terms of process changes, productivity improvements and workload trends. Only then can meaningful strategic workforce planning be done. Such planning must apply to all segments of the Department, not just the acquisition corps.

The Department as a whole also lacks a comprehensive strategy in place for dealing with pending mass retirements of experienced managers and workers. Although some organizations, such as the Air Force, are moving aggressively, ways must be found across the DoD and in all disciplines to accelerate the normal "on the job" accumulation of knowledge by individuals and to substitute well crafted training, especially management development training, for experience. In addition, we need more emphasis on retaining the best and brightest middle managers, who will be tomorrow's senior managers, and junior personnel with managerial potential. Otherwise, there will be a general drop off in efficiency and productivity in many organizations toward the middle of this decade. Outsourcing may reduce the scope of the in-house personnel crisis somewhat, but it is not a panacea. Time for action is short.

Again, thank you for considering these views. This concludes my statement.