

USAWC STRATEGY RESEARCH PROJECT

CONSOLIDATING DEFENSE
LOGISTICS SUPPORT CONTRACTING

by

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ABSTRACT

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The focus of this research project is the transformation of defense contracting activities associated with supporting logistics organizations. For purposes of this research paper, logistics contracting support is defined as being those contracting activities associated with supporting the organizations providing logistics support to the services, to include base operating support services for deployed elements in a combat theatre. It does not include logistics contracting support for post, camp or station in the continental United States, or permanently deployed units overseas (i.e. – Europe, Korea or Japan). In particular, this paper will look at the logistics support contracting activities within the Department of Defense, the Department of the Air Force, the Department of the Navy (including the Marine Corps), and the Department of the Army, and make recommendations for providing more efficient contracting support to the service logistics organizations through a joint logistics contracting support organization. This will eliminate redundancies, improve the effectiveness and efficiency of the contracting support activities and save operating and procurement costs which can be reprogrammed to support equipment modernization.

TABLE OF CONTENTS

ABSTRACT.....	iii
CONSOLIDATING DEFENSE LOGISTICS SUPPORT CONTRACTING.....	1
PROBLEMS WITH DEFENSE BUSINESS TRANSFORMATION.....	1
DOD SERVICE CONTRACTING ACTIVITIES	3
DEFENSE LOGISTICS AGENCY	3
AIR FORCE.....	3
NAVY/MARINE CORPS.....	4
ARMY	5
SUCCESS STORIES	6
DEFENSE CONTRACTING MANAGEMENT AGENCY	6
ARMY CONTRACTING AGENCY.....	8
U.S. CONTRACTING COMMAND – IRAQ	9
PARADIGM FOR A NEW JOINT CONTRACTING ORGANIZATION.....	10
ENABLERS	12
A STANDARDIZED PROCUREMENT SYSTEM.....	12
CENTRALIZED POLICY-MAKING.....	13
NATIONAL SECURITY PERSONNEL SYSTEM	14
MEASURING SUCCESS.....	15
CONCLUSION	15
ENDNOTES	17
BIBLIOGRAPHY.....	21

CONSOLIDATING DEFENSE LOGISTICS SUPPORT CONTRACTING

The focus of this research project is the transformation of defense contracting activities associated with supporting logistics organizations. For purposes of this research paper, logistics contracting support is defined as being those contracting activities associated with supporting the organizations providing logistics support to the services, to include base operating support services for deployed elements in a combat theatre. It does not include logistics contracting support for post, camp or station in the continental United States, or permanently deployed units overseas (i.e. – Europe, Korea or Japan). In particular, this paper will look at the problems of logistics support contracting within the Department of Defense, the Department of the Air Force, the Department of the Navy (including the Marine Corps), and the Department of the Army, and make a recommendation for the creation of a new contracting organization to provide more efficient contracting support to the service logistics organizations through a joint logistics contracting support organization. This will eliminate redundancies, improve the effectiveness and efficiency of the contracting support activities and save operating and procurement costs which can be reprogrammed. This is supported by the Quadrennial Defense Review strategy for revitalizing the Department of Defense business establishment by *“transforming the Department of Defense’s business processes and infrastructure to support warfighting and the transformation of military capabilities.”*¹

PROBLEMS WITH DEFENSE BUSINESS TRANSFORMATION

There are many business processes employed by the Department of Defense in the execution of its responsibilities. In the Transformation Planning Guidance issued by the Secretary of Defense in April 2003, Secretary Rumsfeld spoke of a culture of continual transformation and makes reform of the acquisition process a priority element of Defense transformation.² The Department of Defense has been under scrutiny by the General Accounting Office since the early 1990s to improve its business practices. Several Department of Defense business practices are on the General Accounting Office’s high risk list; including Supply Chain Management, Weapon Systems Acquisition, Contract Management, Financial Management, Business Systems Modernization, Support Infrastructure Management, and the Department’s approach to Business Transformation.³ The General Accounting Office’s High Risk Series identifies high-risk areas that indicate a need to focus on broad-based transformations to address major economic, efficiency or effectiveness challenges. In the 2005 update the General Accounting Office added the Department of Defense’s approach to Business Transformation to the list of high-risk areas. The General Accounting Office found the

“Department of Defense’s current and historical approach to business transformation has not proven effective in achieving meaningful and sustainable progress...For the Department of Defense to successfully transform its business processes, it will need a comprehensive, integrated business transformation plan.”⁴ Two areas of the Department of Defense’s business transformation plan, improving the acquisition process and business systems modernization, are of key interest here because any efficiencies, procurement cost savings or reductions in overhead costs that can be achieved by streamlining these processes can be applied to service or departmental priorities, such as procuring modernized equipment, maintaining reduced budgets or other transformation costs.

Within the acquisition process, logistical support and its attendant procurement process are of particular concern for providing timely support to deployed elements. Under the direction of the Secretary of Defense, the Under Secretary of Defense for Acquisition Technology & Logistics is the principal staff assistant and advisor to the Secretary of Defense for all matters relating to the Department of Defense Acquisition System: specifically research and development, production, logistics, military construction and procurement.⁵ Within the Under Secretary of Defense for Acquisition organization, the Assistant Secretary of Defense for Production & Logistics has authority, direction and control over the logistics and contracting organizations.⁶ Within the individual services, there are mirror organizations at the Assistant Secretariat level that provide authority, direction and control over service specific logistics and contracting organizations. For the Air Force,⁷ it is the Office of the Assistant Secretary of the Air Force (Acquisition). For the Navy and Marine Corps, it is the Assistant Secretary of the Navy (Research, Development and Acquisition),⁸ and for the Army it is the Assistant Secretary of the Army for Acquisition, Logistics and Technology.⁹ In an October 2003 report on Assessing the Strengths and Weaknesses of Federal Agencies’ Procurement Structures, the then U.S. General Accounting Office (recently renamed “Government Accountability Organization”) found “the appropriate placement of the procurement function in an agency can facilitate effective management and execution of procurement activities.”¹⁰ Each Service has contracting activities that support their logistics organizations. Due to this stove-piped structure, there are redundancies across the Services in providing this logistical contracting support. While redundancy is not necessarily bad, and within the Services the contracting support process is working, it is feasible to achieve economies of scale and improve the efficiency and effectiveness of the logistics contracting support within the Department through joint logistics contracting support.

DOD SERVICE CONTRACTING ACTIVITIES

A contracting activity for the Department of Defense means an element designated by the director of a defense agency that has been delegated contracting authority through its agency charter.¹¹ There are 62 contracting activities within the Department of Defense.¹² Within those 62 contracting activities, hundreds of contracting field activities provide contracting support to defense logistics organizations. In the Department of Defense, the Defense Logistics Agency is chartered to provide the logistics support for the services.

DEFENSE LOGISTICS AGENCY

The Defense Logistics Agency is a Combat Support Agency of the Department of Defense under the authority, direction and control of the Assistant Secretary of Defense (Production and Logistics). The Defense Logistics Agency provides worldwide logistics support for the missions of the Military Departments and the Unified and Specified Combatant Commands under conditions of peace and war. It also provides logistics support to other Department of Defense components and certain Federal agencies, foreign governments, international organizations, and others as authorized. It provides logistics services directly associated with the supply management function and provides contracting services in support of the Military Departments, other Department of Defense components, Federal civil agencies and, when authorized, to foreign governments and others.¹³ The Defense Logistics Agency provides contracting support for logistics through its Defense Supply Centers located in Philadelphia, PA, Richmond, VA, and Columbus, OH. Contracting support is structured by commodity with Defense Supply Center Philadelphia purchasing food, clothing, textiles, medicines, medical equipment, general industrial supplies, and supporting U.S. humanitarian and disaster relief efforts. Defense Supply Center Richmond is the lead center for aviation weapon systems environmental logistics support. Defense Supply Center Columbus procures weapon systems spare parts and manages construction and electronic spare parts.¹⁴ This provides an efficient logistics contracting support structure as only one contracting activity is responsible for each commodity eliminating redundancy in contracting support. For example, the Defense Logistics Agency contracts for all the services uniform requirements, eliminating the need for each service to independently contract for their uniform requirements.

AIR FORCE

The Office of the Assistant Secretary of the Air Force (Acquisition) provides authority, direction and control for Air Force contracting activities¹⁵. Contracting activities that provide contracting support for "other contracting" defined as contracting actions, not in a Program

Executive Officer portfolio, taken to support acquisition programs, maintain and repair fielded weapons systems, and supporting Air Force operations. This includes contracts for local purchase and other operational support, replenishment spares, programmed depot maintenance, weapon system modifications which do not involve significant development, *logistics support*, manpower and support, and science and technology.¹⁶ The Air Force contracting activities that provide “other contracting” (i.e. - logistics) support are not organized in a regional manner, but on a functional basis and are located within the following Air Force organizations: Air Combat Command, Air Education and Training Command, Air Force Reserve Command, Air Mobility Command, Air Force Materiel Command, Air Force Space Command, Pacific Air Forces, and United States Air Forces in Europe.¹⁷ Organizing logistics contracting support this way creates redundancy across the Air Force as each command provides its own logistics contracting support (see definition at the beginning of this paper). For example, each Air Force Command has repair depots and the contracting support for procuring the parts needed by the depots is provided by each command.

NAVY/MARINE CORPS

The Assistant Secretary of the Navy (Research, Development and Acquisition) provides authority, direction and control for Navy and Marine Corps contracting activities.¹⁸ There are eleven naval contracting activities, and nine of those provide contracting support to naval logistics organizations. There are three providers of contracting logistics support: Naval Supply Systems Command, Naval Inventory Control Point, and Marine Corps Logistics Command.

The Naval Supply Systems Command is responsible for contracting for supplies and services throughout the Department of the Navy (excluding the Marine Corps) for which no other contracting activity, office or command is delegated contracting authority. Logistics contracting support within the Naval Supply Systems Command is provided by six Fleet and Industrial Supply Centers positioned regionally throughout the continental United States, Hawaii, Japan and Europe.¹⁹ The Fleet and Industrial Supply Centers are collocated with the Navy regional commanders and provide cradle to grave contracting services for all the regional needs, to include logistics support contracting. This contracting organizational structure creates redundancy within the Navy by providing contracting services for the same logistics requirements at all the Fleet and Industrial Supply contracting organizations. The Naval Inventory Control Point provides logistics support for all naval activities and has two contracting support activities located in Philadelphia, PA and Mechanicsburg, PA. The Philadelphia location procures spare parts and repair services for aviation weapons systems, while the

Mechanicsburg, PA location procures spare parts and repair services for maritime platforms.²⁰

The two Naval Inventory Control Point contracting organizations are collocated with their logistics organizations and provide the contracting support for their logistics requirements. In this way, redundancy is eliminated as only aviation support is provided out of Philadelphia, and only maritime support is provided out of Mechanicsburg; and there is minimal, if any, overlap in spare parts between the aviation and maritime platforms.

Marine Corps logistics contracting support is provided by the Marine Corps Logistics Command. There are two Marine Corps Logistics Bases; one in Albany, GA and one in Barstow, CA. Each base also has a maintenance center and both bases perform full spectrum logistics support. Marine Corps Systems Command also provides contracting support; however, this contracting support is for major weapon systems and not logistics. The consolidation of logistics contracting support at the two Marine Corps Logistics Bases provides both regional (East and West Coast) and efficient logistics contracting support.

ARMY

The Assistant Secretary of the Army for Acquisition, Logistics and Technology provides authority, direction and control for Army contracting activities²¹. In October 2002 the Army reorganized its contracting organizations by establishing the Army Contracting Agency. This reorganization realigned a significant portion of the Army's contracting resources and actions into one organization. The Army Contracting Agency is one of the three largest contracting organizations in the Army in terms of dollars obligated and personnel assigned. It is the base to deploy contingency contracting operations support to the warfighter worldwide. The Agency also directly supports the Installation Management Activity providing the Base Operations contracting support for all training and warfighter Army installations both in the continental United States and outside the continental United States. The Army Contracting Agency also supports the Army component of the warfighting Combatant Commanders and provides direct mission support to three Army Major Commands: Training and Doctrine Command, Forces Command, and the Military District of Washington.²²

The contracting functions within the following specialty commands are not incorporated into the Army Contracting Agency: Army Materiel Command (less installation contracting transferring to the Army Contracting Agency), Military Traffic Management Command, United States Army Corps of Engineers, National Guard, Medical Command (less installation contracting transferring to the Army Contracting Agency), Medical Research and Materiel Command, Space and Missile Defense Command, and Intelligence and Security Command.

The Defense Contracting Command-Washington is a specialized contracting agency and not currently part of the Army Contracting Agency. Specialty commands retained their assigned contracting functions (including contingency contracting) with the exception of Information Technology commercial products. The Information Technology, E-Commerce, and Commercial Contracting Center provides commercial off-the-shelf information technology equipment, general-purpose hardware, software, and associated support services, and common-user product support to all Major Commands within the Army.²³

The Army Contracting Agency has two regions in the continental United States and five overseas contracting activities located with the Army component commands. In the continental United States, the two Army Contracting Agency Northern and Southern Regions are organized to support the Installation Management Activity realignment. The Northern Region supports the Northeast and Northwest Installation Management Activity regions, and the Southern Region supports the Southeast and Southwest Installation Management Activity regions. The overseas contracting activities support their respective Installation Management Activity region.²⁴ The structure of the Army Contracting Agency reduces redundancy within that organization and will be discussed later in this research project as one of the contracting consolidation success stories.

In addition to the Army Contracting Agency, two other success stories demonstrate joint contracting is possible, effective and efficient: the Defense Contracting Management Agency, and the United States Contracting Command – Iraq.

SUCCESS STORIES

DEFENSE CONTRACTING MANAGEMENT AGENCY

The Defense Contracting Management Agency is an independent combat support agency within the Department of Defense. The Defense Contracting Management Agency is the Defense Department's contract manager, responsible for ensuring Federal acquisition programs, supplies and services are delivered on time, within cost and meet performance specifications. The Defense Contract Management Agency works directly with Defense suppliers both during the initial stages of the acquisition cycle and throughout the life of the contract. Before contract award, the Defense Contract Management Agency provides advice and service to help build effective solicitations, identify potential risks, select the most capable contractors and write contracts that meet the needs of customers in the Department of Defense, Federal and allied government agencies. After contract award, the Defense Contract Management Agency monitors contractors' performance and management systems to ensure

cost, product performance and delivery schedules are in compliance with the terms and conditions of the contract.²⁵

The Defense Contract Management Agency has been the sole provider of post-award contract administration services for contracting actions issued by all the services for many years. The Defense Federal Acquisition Regulations at 242.202 (a)(i) directs that "Department of Defense activities shall not retain any contract for administration that requires performance of any contract administration function at or near contractor facilities"...because the Defense Contract Management Agency is responsible for post-award contract administration functions except for specific contracting actions as noted in the Defense Federal Acquisition Regulations. What is unique about the Defense Contract Management Agency is that they perform the post-award contract administration on contracts issued by all the services, the Defense Logistics Agency, and other Federal and allied governments. Contract administration services for other Federal and allied governments are provided on a cost reimbursable basis with some exceptions.²⁶ The reason the Defense Contract Management Agency is a success story is for the very same reason. All post-award contract administration is performed by this one organization and executed in compliance with the individual service or agency contract regulations. Because of their unique proximity to Defense contractors and their extensive knowledge of the many unique contracting regulations specific to each service or agency, the Defense Contracting Management Agency has developed extensive knowledge and insight that they share with both contractors and customers to provide value-added service to the defense industry.²⁷ If one defense agency can perform the post-award contract administration on any contract issued by any service or defense agency, then it is feasible that a joint defense agency could award logistics support contracts (see definition at the beginning of this paper) for all the services and defense agencies and maintain the unique contracting requirements of each service or defense agency. Notably the Federal Republic of Germany has adopted a similar approach to providing logistics support to their services. In transforming their military, the German business model of efficiency can be seen in the new Bundeswehr structure where layers of reporting have been eliminated and only five separate reporting organizations report to the Defense Minister for Armed Forces Staff: the Army, the Air Force, the Navy, the Joint Support Service, and the Medical Service. Within the Joint Support Service is the logistical and contracting support for the Army, Air Force and Navy. There was a lot of resistance from the services in giving up their individual support structures; however, the change was made and the services are receiving the support they need through the Joint Support Service.²⁸

ARMY CONTRACTING AGENCY

The Army Contracting Agency became operational in October 2002 and reports to the Assistant Secretary of the Army for Acquisition, Logistics and Technology. The purpose for establishing the Army Contracting Agency was to consolidate similar and common use contracts, to reduce redundancy, to leverage economies of scale, to reduce management overhead and to realign personnel to maximize efficient and effective contracting operations.²⁹ To accomplish the mission of the Army Contracting Agency, two regional service-contracting centers and one Electronic Commerce/Commercial Contracting Center for non-tactical/strategic information technology and commercial items were established.

There were five goals envisioned for the Army Contracting Agency. First was to consolidate requirements and centralize the awarding of contracts over \$500K (total contract value including options) in accordance with established policies and guidance. Contracts with similar requirements would be centralized in regional centers except when a business case analysis did not support attainment of efficiencies. Installations would maintain a local contracting capability along with the specialized core competencies that exist at an installation, e.g. mission-unique, safety, emergency requirements, etc. The second was to integrate and synchronize with the Installation Management Agency to reshape in a manner that was transparent to the customer. The third was to exploit current technology to the greatest extent possible, including the Army Mart Shopping On-Line and reverse auctioning. The fourth goal was to centralize the management of the personnel and processes involved in contingency contracting. The fifth goal was to ensure compliance with small business statutes and guidance.³⁰

In addition to the five goals mentioned above, the management of the contracting personnel was also improved. In a 2 June 1993 memo, the then Under Secretary of Defense, John M. Deutch, emphasized the importance of the functional independence of contracting officers stating "expertise in the contracting field requires a knowledge of a large number of laws, regulation directives and instructions, and the skill and experience to operate successfully in a contractual business environment. The proper exercise of this expertise requires the ability to act independently without improper influence on business decisions."³¹ In standing up the Army Contracting Agency, the Director of Contracting is now a direct report in the Army Contracting Agency chain of command. Prior to this the Director of Contracting reported directly to a garrison commander, who by virtue of his position was also a generator of requirements. This reporting structure presented a conflict of interest in many cases as the ability of the

Director of Contracting to act independently was potentially impacted by his concern for receiving a good performance rating from his customer, the garrison commander.

The Army Contracting Agency has achieved several measures of success by this consolidation. The Agency awarded 40% more dollars with 5% less staff in the first year of operation, and 20% more in its second year of operation. It achieved procurement cost efficiencies by consolidating actions, exceeded small business goals, supported Operations Enduring Freedom and Iraqi Freedom, and enjoys a 93% customer satisfaction rating.³² Similar savings can be achieved by consolidating contracting across the services.

U.S. CONTRACTING COMMAND – IRAQ

In a 19 January 2005 brief to the U.S. Army War College, the Director of Logistics and Engineering, USCENCOM cited contracting issues not being truly joint as one of the eight things that kept him awake at night.³³ To mitigate this problem in the Iraqi theater, the United States Contracting Command – Iraq was established to merge Multi-National Forces - Iraq and other Procurement Contracting Officers (including two Principal Assistants Responsible for Contracting) under one Head of Contracting Activity. This new command was modeled after United States Forces Korea Contracting Command and combines the two largest joint contracting organization in the Iraqi theater.³⁴ Consolidation of the contracting function under the Department of the Army Head of Contracting Activity provided many benefits for logistics contracting support in the Iraqi theater: it standardized compliance with laws, rules and regulations; consolidated placement and staffing of offices; it ensured only warranted contracting officers executed contracts; and it streamlined acquisitions, the approval of procurement decision and the authorization of waivers and deviations. It encouraged innovative contracting, and facilitated resolution of differences between contracting offices and other functional elements. It also eliminated duplication of contracts for the same supply or service and ensured compliance with applicable socio-economic requirements. In addition to ensuring consistency in use of best contracting practices and achieving operating efficiencies, it also facilitated coordination with the Defense Contracting Management Agency on post-award contract administration issues.³⁵ Because this is a recent initiative, metrics are still being gathered to evaluate the level of success. Even though it is too early to have sufficient data to determine metrics, it is extremely likely that successes such as awarding more dollars with less staff, achieving procurement cost efficiencies by consolidating actions, reducing operating costs due to efficiencies associated with having only one legal review entity and centralized policy making will be repeated here. Centralized policy making streamlined the contracting process

and eliminated disagreements over which policy should be used in placing contracts in theatre. While there are legitimate reasons why each service implements defense procurement policy differently, those reasons could be incorporated into a single procurement policy. The Defense Procurement and Acquisition Policy office in the Office of the Under Secretary of Defense for Acquisition Technology and Logistics is currently looking at this initiative to evaluate lessons learned and determine its exportability.³⁶ If this type of contracting consolidation success story can be repeated in the daily contracting process across the services, then the Department of Defense would have truly developed a comprehensive and integrated logistics contracting support process. What would the new joint contracting agency look like?

PARADIGM FOR A NEW JOINT CONTRACTING ORGANIZATION

Today logistics contracting support activities are scattered throughout the Department of Defense with each service organizing, establishing policy and manning their own contracting organizations. The result is a very disparate logistical contracting support network that does not communicate, implements contracting policy differently and prioritizes logistics requirements differently. Consolidating the logistics contracting support organizations across the Department of Defense will create an efficient logistics contracting support network that communicates effectively, uses the same procurement systems and policies, and has the ability to staff its contracting support organization quickly and with quality personnel. This logistics contracting support network would report to a single entity in the Office of the Secretary of Defense Under Assistant Secretary of Defense for Acquisition, Technology and Logistics. The contracting personnel would be collocated with the field activities they support; however, it would be a direct reporting chain to the Joint Contracting Agency. The Joint Contracting Agency would pay their salaries, provide policy support, etc. (similar to the Army Contracting Agency structure). The net effect would be that no personnel would physically move but would relocate in place (see Figure 1 below).

Operating and maintenance funding associated with the contracting personnel would be a budget-based transfer to the new joint organization. This shift of contracting personnel from the services to a centralized defense organization does not change the services Title 10 responsibilities to train and equip the troops. The services would still retain their procurement budgets and generate their logistics requirements. Requirements would be sent to the joint contracting organization via the standard procurement system which is explained later as one of the enablers for this new organization. It should not matter which contracting support organization places the contract for the requirement. There are circumstances that exist today,

where the services utilize contracting activities other than their own to contract for their requirements. For example, if a service has a requirement for which their own contracting organization does not have the capability to contract; Inter-Service Support Agreements (ISSAs) are used or contracts are placed by other contracting organizations under the Economy Act.

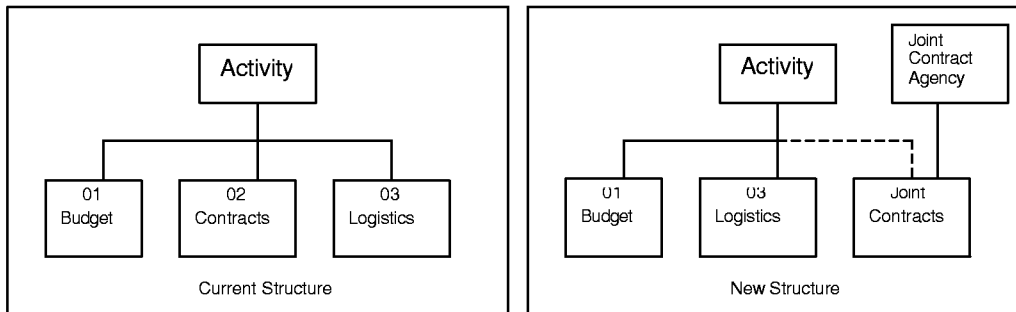


FIGURE 1.

This recommendation is supported by the 2001 Quadrennial Defense Review strategy to revitalize the Department of Defense establishment by streamlining the overhead structure and flattening organizations. This strategy seeks to align and consolidate overlapping functions to eliminate redundancy.³⁷ Like the Bundeswehr, there would be great resistance on the part of the services to give up their logistics contracting support organizations. However, in centralizing this function, the services operating budgets would be leaner because the operating and overhead costs for contracting labor would shift to the new contracting organization. There would be a savings here also since consolidating the function would also reduce the number of personnel needed, and the services could take those savings on the front end. For example, suppose today ten contracting personnel procured logistics support for depot A. By consolidating that contracting logistics support with the contracting logistics support for depots B, C, and D, and achieving labor economies, only eight contracting personnel are needed from the depot A contracting logistics support activity, then activity A could take a two person savings and reprogram that labor savings into equipment modernization or other transformation needs. Similar savings could accrue to activities B, C and D. There will be resistance from the services to give up their logistics contracting support activities, but the benefits of lower operating cost and reduced procurement costs that could be reprogrammed at the activity level for other needs should outweigh the cost of doing business as usual. Each of the services is looking for ways to save money because of reduced budgets, and this recommendation would provide an opportunity to save money at the activity level.

Despite the success of these three contracting organizations in creating operating efficiencies by reducing redundancies within their organizations and leveraging economies to reduce contracting costs, more tools will need to be provided before logistics contracting support organizations can be consolidated across the Defense department and still be viable support organizations. A standardized system of procurement will need to be developed to ensure all contracting activities are generating and tracking contracts the same way. In addition, an automated procurement system needs to be developed where contracts can be viewed and used by all contracting organizations. To ensure consistency of implementation, there needs to be a single office for establishing contracting policy, and finally there needs to be a single personnel system in place that will facilitate the hiring, training, and movement of contracting personnel. Establishing consolidated logistics contract support organizations cannot be affected without these enablers.

ENABLERS

A STANDARDIZED PROCUREMENT SYSTEM

The 2001 Quadrennial Defense Review strategy calls for creating a Department of Defense-wide blueprint that will prescribe how the Department's business information systems will interact.³⁸ A consolidated logistics contracting support organization will need a standardized procurement system to write, administer and track logistics contracts. The Department of Defense has been developing an automated contracting system that standardizes the contracting process across the Department within the Acquisition Domain. The system is currently a client-server system that facilitates the entire procurement process. It was hoped this standard procurement system would dramatically change defense contracting and bring efficiency and improved processes to the warfighter around the world. However, progress has been dramatically impeded in implementing a single system due to difficulties in standardizing procurement processes across the services. Currently the Army, Navy, Air Force, Marines and 13 other defense agencies use the Standard Procurement System at over 800 locations around the world, each with its own version, tailored to meet service needs. New functionality and enhancements to existing functions will be provided over the next few years. The next increment will be web-based and is currently in development and testing.³⁹

At a recent e-Business conference in Houston, TX, the Under Secretary of Defense (Acquisition, Technology & Logistics) announced his intention to conduct an analysis of alternatives for an end-to-end procurement system. This system would replace the current Standard Procurement System and would go beyond just the procurement process to include

capturing requirement documents, pre and post award contract management, purchase card and assistance agreements.⁴⁰

The development of this new acquisition system is encouraging and badly needed. However, capturing the service specific requirements may prove to be as overwhelming as the experience with the current Standard Procurement System. As was encountered with the development of the current standard procurement system, the many different processes developed by each service created problems in developing a pure "standard" procurement system. By consolidating the logistics contracting support function in a joint agency, many of the service specific requirements would be rolled into a single procurement system and this would eliminate the problems experienced today with trying to standardize procurement systems across the Department of Defense, and will serve as a model for developing future procurement systems that can accommodate all services procurement requirements in a single procurement system .

CENTRALIZED POLICY-MAKING

One of the greatest efficiencies to be realized by consolidating logistics support contracting will be centralized policy making. A single organization will establish policy across the logistics support contracting activities which will eliminate redundancy in policy making shops across the services and also eliminate discrepancies in policy interpretation thereby standardizing the implementation of policy. Today the Under Secretary of Defense (Acquisition, Technology & Logistics) serves as the Defense Acquisition Executive charged with the full responsibility for supervising the performance of the Department of Defense Acquisition System.⁴¹ Within the office of the Under Secretary of Defense (Acquisition, Technology & Logistics) is the office of Defense Procurement and Acquisition Policy whose mission is to identify and develop best acquisition policies, integrate policy creation, training and communication, provide timely and sound acquisition advice, and leverage the use of technology to provide the best possible tools for the acquisition community.⁴²

Today, when the Defense Procurement and Acquisition Policy office issues policy, each of the services and defense agencies then writes implementing policy for their field activities. For the Army it is the Deputy Assistant Secretary of the Army for Procurement,⁴³ for the Navy and Marine Corps it is the Deputy Assistant Secretary of the Navy (Acquisition),⁴⁴ for the Air Force it is the Chief, Contract Policy & Implementation Division, Deputy Assistant Secretary of the Air Force (Contracting).⁴⁵ By consolidating the logistics contracting support function under one Head of Contracting Activity, only one procurement policy office would issue policy. As was

seen in Iraq with the establishment of the Joint Contracting Command, this streamlined the contracting process and eliminated disagreements over which policy should be used in placing contracts in theatre. There are certainly legitimate reasons why each service implements defense procurement policy differently. However, these reasons could be incorporated into a single procurement policy.

NATIONAL SECURITY PERSONNEL SYSTEM

Another goal of the 2001 Quadrennial Defense Review is to encourage talent to enter and stay in the military and civilian service.⁴⁶ To achieve this goal, a human resources approach includes: modernizing recruiting techniques, creating more flexible compensation approaches, enhancing training and knowledge management, and updating career planning and management tools.⁴⁷ In response to this approach, as part of the National Defense Authorization Act for Fiscal Year 2004, the National Security Personnel System is being developed. This personnel system will establish the framework for the new Department of Defense personnel system. Department of Defense working groups are developing implementing procedures based on best business practices. This new personnel system will be flexible, agile and effective. It should improve readiness by tying performance to mission, and improve the quality of the civilian workforce through performance feedback. It is intended to reward excellent performance, simplify the personnel hiring and retention process, and increase organizational effectiveness.⁴⁸

This new personnel system will continue to be a merit-based system based on existing statutory Merit System principles and will continue to protect veterans. Employee representatives and the Office of Personnel Management are involved in the development and deployment of the new system. Pay bands will replace 15 grades with 10 steps in each grade. Some highlights of the new system include pay for performance; more flexible hiring practices, reassignments, promotions and workforce shaping; and the ability to manage personnel costs better. Changing from a culture of entitlement to performance will not be easy. Annual pay increases will not be guaranteed. However, performance evaluations need to be specific and defensible, and must provide professional feedback to the employee on their performance. Flexible hiring practices will include the ability to hire experts for up to five years, hiring annuitants with no offset to retirement pay, and on-the-spot hiring ability. Employees may be reassigned within band without competition or by alternate forms of competition. The workforce will be able to be better shaped by having permanent early retirement and separation incentive authority. Personnel costs will be better managed through controlling pay increases within the

pay bands and ensuring performance is tied to business results. A system to document and track performance is being developed for use throughout the Department.⁴⁹

The General Accounting Office has weighed in on the proposed personnel system because of its precedent-setting implications. One of the biggest concerns is the lack of infrastructure within the Department of Defense to effectively implement the new personnel system.⁵⁰ In his testimony before Congress, David M. Walker, Comptroller General of the United States stated: the Department of Defense's National Security Personnel System recognizes that...strategic human capital management must be the centerpiece of any serious government transformation effort.⁵¹ This new system will give the Joint Contracting Agency the ability to hire and retain skilled contracting professionals, shift resources across geographic areas as needed, and hire short term resources. These capabilities which are not available under the current personnel system. What would be the measure of success for the new organization?

MEASURING SUCCESS

A new organization armed with these enablers should expect to see reductions in labor costs by reducing the number of personnel, procurement savings from consolidating contracting actions and shortened procurement lead times by eliminating layers of review and centralizing legal review and policy development. For example, in a study performed by Booz-Allen-Hamilton for the Secretary of the Navy in 2002, consolidating or centralizing services contracts within or across the service were listed as potential efficiency and effectiveness opportunities within the Navy contracting community. A potential savings of 40% in direct labor fees across the 30 Navy sites was projected.⁵² A similar study could be conducted for the Department of Defense to identify savings associated with consolidating logistics support contracting across the services. The identified savings opportunities could be used as the measures of success for the new joint activity. Based on the Navy study, at a minimum, savings opportunities in reduced operating and procurement costs could be expected to accrue.

CONCLUSION

This research paper looked at the problem of logistics support contracting among the services within the Department of Defense. Three success stories show that effectiveness and efficiency can be improved by consolidating logistics contract support. Labor and procurement savings were realized by the Army Contracting Agency when they consolidated contracting activities within the Army. By consolidating logistics contracting support through a joint contracting center in Iraq, process efficiencies were immediately realized. This paper

recommends the consolidation of logistics support contracting across the services to provide more efficient and effective contracting support to the service logistics organizations. If accepted, this recommendation will eliminate redundancies, improve the effectiveness and efficiency of the contracting support activities and save operating and procurement costs which can be reprogrammed to support equipment modernization or other transformation needs. To accomplish this consolidation three enablers will be needed: a standard procurement system, centralized policy, and implementation of the National Security Personnel System. If this recommendation is implemented, look for labor savings from reductions in personnel costs; procurement savings resulting from contract consolidation which will realize economies of scale, reduce redundant contracting, and reduce time to award contracts by streamlining the contracting process with a single legal review and centralized policy making organization.

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² Donald H. Rumsfeld, *Transformation Planning Guidance* (Washington, D.C.: The Pentagon, April 2003), 6-7.

³ General Accounting Office, *High-Risk Series: An Update* (Washington, D.C.: U.S. General Accounting Office, January 2005), 5.

⁴ *Ibid.*, 21-22.

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⁶ *Ibid.*, 14.

⁷ Department of the Air Force, *Air Force Federal Acquisition Regulation Supplement*, AFFARS Part 5301.101 (Washington, D.C.: U.S. Department of the Air Force, 22 November 2004), 2.

⁸ Department of the Navy, Office of the Assistant Secretary (Research, Development and Acquisition), *Navy Marine Corps Acquisition Regulation Supplement*, NMCARS 5201.103 (Washington, D.C.: Department of the Navy, November 2003), 1.

⁹ Department of the Army, *Army Federal Acquisition Regulation Supplement*, AFARS Part 5102.101 (Washington, D.C.: Department of the Army, October 2001), 18.

¹⁰ General Accounting Office, *A Guide for Assessing Strengths and Weaknesses of Federal Agencies' Procurement Structures* (Washington, D.C.: U.S. General Accounting Office, October, 2003), 10.

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¹² *Ibid.*

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¹⁶ Department of the Air Force, AFFARS Part 5302.101, 1.

¹⁷ Department of the Air Force, AFFARS Part 5301.601, 6.

¹⁸ Department of the Navy, NMCARS 5201.103, 1.

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²¹ Department of the Army, AFARS Part 5102.101.

²² Assistant Secretary of the Army, Acquisition, Logistics, and Technology, "*Implementation Plan Consolidation of U.S. Army Contracting*," Draft – Pre-decisional, 15 March 2002, 1.

²³ Ibid., 1-2.

²⁴ Ibid., 4.

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²⁶ Department of Defense, DFARS Part 242.202, 459-460.

²⁷ "About Defense Contracting Management Agency," available from <<http://www.dcm.mil>>; Internet; accessed 6 January 2005.

²⁸ Gerd Brandstetter, "German Security Perspectives," briefing, Carlisle Barracks, PA, U.S. Army War College, 23 February 2005, cited with permission of COL Brandstetter.

²⁹ U.S. Army Contracting Agency, available from <<http://aca.saalt.army.mil>>; Internet; accessed 30 January 2005.

³⁰ Assistant Secretary of the Army, Acquisition, Logistics, and Technology, 2.

³¹ Under Secretary of Defense John M. Deutch, "Functional Independence of Contracting Officers," memorandum for Secretaries of the Military Departments, Washington, D.C., 2 June 1993.

³² Sandra Sieber, "*Army Contracting Agency*," Mrs. Sieber, Director, Army Contracting Agency briefing slides, 8 March 2005.

³³ William Mortensen, "USCENTCOM Operations Enduring & Iraqi Freedom," lecture, Carlisle Barracks, PA, U.S. Army War College, 19 January 2005, cited with permission of MG Mortensen.

³⁴ David S. Glowacki, "U.S. Contracting Command – Iraq (USCC-I)," COL Glowacki, USAF, briefing slides, 27 August 2004.

³⁵ Ibid.

³⁶ Vincent Feck, Director, Operations, Defense Procurement and Acquisition Policy, telephone interview by author, 7 March 2005.

³⁷ Donald H. Rumsfeld, *Quadrennial Defense Review Report*, 52.

³⁸ Donald H. Rumsfeld, *Quadrennial Defense Review Report*, 55.

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⁴³ Department of the Army, AFARS Part 5101.301(c)(i)

⁴⁴ Department of the Navy, NMCARS 5201.691-1, 3.

⁴⁵ Department of the Air Force, AFFARS Part 5301-201-1-90, 4.

⁴⁶ Donald H. Rumsfeld, *Quadrennial Defense Review Report*, 50.

⁴⁷ *Ibid.*, 51.

⁴⁸ "National Security Personnel System," available from <<http://www.cpms.osd.mil/nsps>>; Internet; accessed 12 October 2004.

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⁵⁰ General Accounting Office, *Testimony before the Subcommittee on Oversight of Government Management, the Federal Workforce and the District of Columbia, Senate Committee on Governmental Affairs*, GAO-03-493T (Washington, D.C.: U.S. General Accounting Office, May 2003).

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