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Testimony

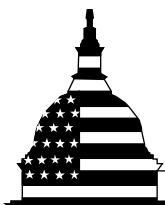
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House Armed Services Committee

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DOD CIVILIAN WORKFORCE

Observations on DOD's Efforts to Plan for Civilian Workforce Requirements

Statement of Brenda S. Farrell
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Highlights of [GAO-12-962T](#), a testimony before the Subcommittee on Readiness, Committee on Armed Services, House of Representatives.

Why GAO Did This Study

DOD's workforce of 783,000 civilians performs a wide variety of duties, including some traditionally performed by military personnel, such as mission-essential logistics support and maintenance, as well as providing federal civilian experts to Afghanistan and other theaters of operations.

With the long-term fiscal challenges facing the nation, reductions to the civilian workforce may be considered to achieve cost savings. Human capital has remained a critical missing link in reforming and modernizing the federal government's management practices, even as legislation and other actions since 1990 have been put in place to address major management areas. In the past, GAO has observed that the federal government has often acted as if people were costs to be cut rather than assets to be valued. DOD previously experienced significant downsizing in the 1990s where it did not focus on reshaping the civilian workforce in a strategic manner. Particularly as decision makers consider proposals to reduce the civilian workforce, it will be critical to DOD's mission for the department to have the right number of federal civilian personnel with the right skills.

This testimony discusses DOD's 1) prior experience with civilian workforce downsizing, and 2) current strategic human capital planning efforts.

This testimony is based on GAO reviews issued from March 1992 through June 2012.

View [GAO-12-962T](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov

July 26, 2012

DOD CIVILIAN WORKFORCE

Observations on DOD's Efforts to Plan for Civilian Workforce Requirements

What GAO Found

Prior Department of Defense (DOD) civilian workforce downsizing efforts in the 1990s were not oriented toward shaping the makeup of the workforce, resulting in significant imbalances in terms of shape, skills, and retirement eligibility. Specifically, in a series of reviews GAO found that DOD's efforts in the 1990s to reduce its federal civilian workforce to levels below that of 1987 were hampered by incomplete data and lack of a clear strategy for avoiding skill imbalances and other adverse effects of downsizing. For instance, in 1992, GAO found that DOD used incomplete and inconsistent data related to workers, workload, and projected force reductions. Further, the approaches DOD has relied on to accomplish downsizing have sometimes had unintended consequences. The use of voluntary attrition, hiring freezes, and financial separation incentives allowed DOD to mitigate some adverse effects of civilian workforce reductions, but were less oriented toward shaping the makeup of the workforce than was the approach the department used to manage its military downsizing. For DOD, this was especially true of the civilian acquisition workforce. The department, which in 2011 obligated about \$375 billion to acquire goods and services, was put on the verge of a retirement-driven talent drain in this workforce after 11 consecutive years of downsizing, according to a DOD report. Finally, GAO has found that the use of strategies such as financial separation incentives makes it difficult to document or estimate the actual cost savings of government downsizing efforts, especially in cases where the work previously performed by the eliminated personnel continues to be required. For example, if the work continues to be required, it may need to be contracted out to private companies and contract costs should be considered in determining whether net savings resulted from workforce reductions.

DOD has taken positive steps towards identifying its critical skills, but there are opportunities to enhance the department's current strategic workforce plans. GAO and the Office of Personnel Management have identified leading principles to incorporate into effective workforce plans, such as the need to identify and address critical skills and competencies. DOD has been required to have a civilian strategic workforce plan since 2006. Currently, DOD is required to develop a strategic workforce plan that includes, among other things, an assessment of the skills, competencies and gaps, projected workforce trends, and needed funding of its civilian workforce. GAO has found improvements in DOD's efforts to strategically manage its civilian workforce. For instance, GAO reported in 2010 that DOD's 2009 strategic workforce plan assessed critical skills and identified 22 mission-critical occupations, such as acquisition and financial management. However, DOD's plan only discussed competency gap analyses for 3 of its 22 mission-critical occupations, which GAO has reported is key to enabling an agency to develop specific strategies to address workforce needs. For example, GAO found that DOD had not conducted a competency gap analysis for its financial management workforce, and GAO remains concerned that DOD lacks critical information it needs to effectively plan for its workforce requirements. GAO is currently reviewing DOD's latest strategic workforce plan, which was released in March 2012. The results of this review are expected to be released in September 2012.

Chairman Forbes, Ranking Member Bordallo, and Members of the Subcommittee:

Thank you for providing me the opportunity to be here today to discuss GAO's observations on the Department of Defense's (DOD) civilian workforce requirements. Having the right number of federal civilian personnel with the right skills is critical to achieving the DOD mission—particularly as the department faces the current and emerging challenges of the 21st century. DOD's civilian workforce performs a wide variety of duties and responsibilities, including mission-essential combat support functions, such as logistics support and maintenance, which traditionally have been performed by the uniformed military. A key component of this workforce also provides federal civilian experts to Afghanistan and other theaters of operation. Moreover, career civilian personnel possess "institutional memory," which is particularly important in DOD because of the frequent rotation of military personnel and the short tenure of the average political appointee. During its downsizing in the early 1990s, our prior work¹ found that DOD did not focus on reshaping the civilian workforce in a strategic manner. That downsizing resulted in skills imbalances and a workforce characterized by a growing gap between older, experienced employees and younger, less experienced ones. At the time of this downsizing, a common concern often voiced by Defense managers was that workforce constraints were driving workload rather than workload requirements being used to define workforce levels.

With the long-term fiscal challenges facing the nation, reductions to the civilian workforce may be considered to achieve cost savings. Our prior work has noted that an organization's people—its human capital—are its most critical asset in managing for results. However, human capital has remained a critical missing link in reforming and modernizing the federal government's management practices, even as legislation and other actions since 1990 have attempted to address most major management areas. Further, GAO's reports have noted that the federal government has often acted as if people were costs to be cut rather than assets to be valued. In 2001, after a decade of government downsizing and curtailed investments in human capital, we reported that federal human capital strategies were not appropriately constituted to adequately meet the

¹GAO, *Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed*, [GAO/T-NSIAD-92-19](#) (Washington, D.C.: March 18, 1992).

current and emerging needs of the government and the country's citizens in the most effective, efficient, and economical manner possible. That same year, we designated strategic human capital management across the entire federal government as a high-risk area² because of the long-standing lack of leadership in the area and, in part, because critical skill gaps could undermine agencies' abilities to accomplish their missions. While significant progress has been made—for example, through the various authorities and flexibilities provided to agencies for managing the federal workforce—the area remains high risk governmentwide³ because of a need to develop and implement plans to address current and emerging critical skill gaps that are undermining agencies' abilities to meet their vital missions. The federal government's current budget and long-term fiscal pressures underscore the importance of a strategic and efficient approach to human capital management—an approach that would help ensure the recruitment and retention of individuals with the needed critical skills. Specifically, with regard to DOD, our subsequent work has emphasized that effective planning can enable the department to have the right people, with the right skills, doing the right jobs, in the right places, at the right time by making flexible use of its internal workforce and appropriately using contractors. Particularly as decision makers consider proposals to reduce the civilian workforce, it will be critical to DOD's mission for the department to have the right number of federal civilian personnel with the right skills.

My testimony today will discuss our observations on (1) DOD's prior experience with civilian workforce downsizing, and (2) its current strategic human capital planning efforts. For this testimony, we relied on our prior work on a range of governmentwide and human capital-related issues. We conducted the work supporting our prior reports, which were issued from March 1992 through June 2012, in accordance with generally accepted government auditing standards.

²GAO, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

³GAO, *High-Risk Series: An Update*, [GAO-11-278](#) (Washington, D.C.: February 2011).

Prior Civilian Workforce Reductions Demonstrate the Importance of Strategic Workforce Planning

GAO's body of work related to prior workforce reductions at DOD and other organizations demonstrates the importance of strategic workforce planning, including a consideration of costs, to help ensure that DOD has a fully capable workforce to carry out its mission. According to GAO's *Standards for Internal Control*,⁴ management should ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills that match those necessary to achieve organizational goals. Section 322 of the National Defense Authorization Act for Fiscal Year 1991 directed DOD to establish guidelines for reductions in the number of civilian workers employed by industrial or commercial type activities. The act also directed certain DOD agencies or components to submit 5 year master plans for those workers, providing information on workload, demographics, and employee furloughs and involuntary separations, with the materials submitted to Congress in support of the budget request for fiscal year 1991.⁵ Subsequently, in 1992, we reported that DOD intended to undertake a multiyear downsizing effort aimed at reducing the civilian workforce by nearly 229,000 positions, or to 20 percent below its fiscal year 1987 levels. However, in 2000, we reported that DOD's approach to prior force reductions was not oriented toward shaping the makeup of the workforce, resulting in significant imbalances in terms of shape, skills, and retirement eligibility.

In a series of subsequent reviews,⁶ we found that the department's efforts were hampered by incomplete data and the lack of a clear strategy for avoiding the adverse effects of downsizing and minimizing skills imbalances. For instance, we reported in 1992 that DOD's 1991 downsizing plan developed in response to section 322 had a number of data gaps and limitations, including incomplete and inconsistent data related to workload, workers, and projected force reductions. More specifically, DOD pointed out that the plan's data limitations were partly due to uncertainty about the results of a pending Base Closure and

⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

⁵The National Defense Authorization Act for Fiscal Year 1991, Pub. L. No. 101-510, §322 (1990).

⁶GAO, *Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed*, [GAO/T-NSIAD-92-19](#) (Washington, D.C.: March 18, 1992); and *Defense Force Management: Challenges Facing DOD as It Continues to Downsize Its Workforce*, [GAO/NSIAD-93-123](#) (Washington, D.C.: February 12, 1993).

Realignment round and the impacts of Operations Desert Shield and Desert Storm. We concluded that broader assessments were needed to determine the magnitude of civilian workforce reductions and their potential impact on given areas and regions, as well as the impact of hiring constraints on the ability of all DOD civilian organizations to efficiently and effectively accomplish their missions.

We also have reported⁷ that the approaches DOD has relied on to accomplish past civilian workforce downsizing have sometimes had unintended consequences, such as workforce skills imbalances. For instance, DOD's approach to past civilian downsizing relied primarily on voluntary attrition and retirements and varying freezes on hiring authority to achieve force reductions, as well as the use of existing authorities for early retirements to encourage voluntary separations at activities facing major reductions-in-force. The National Defense Authorization Act for Fiscal Year 1993 authorized a number of transition assistance programs for civilian employees, including financial separation incentives—"buyouts"—to induce the voluntary separation of civilian employees.⁸ DOD credited the use of these separation incentives, early retirement authority, and various job placement opportunities in its avoidance of nearly 200,000 involuntary demotions and separations. The tools available to DOD to manage its civilian downsizing helped mitigate some adverse effects of force reductions. However, DOD's approach to civilian workforce reductions was less oriented toward shaping the makeup of the workforce than was the approach it used to manage its military downsizing and resulted in significant imbalances in terms of shape, skills, and retirement eligibility. We also reported⁹ that, while managing force reductions for its uniformed military, DOD followed a policy of trying to achieve and maintain a degree of balance between its accessions and losses in order to "shape" its uniformed forces in terms of rank, years of service, and specialties. In contrast, we did not see as much attention devoted to planning and managing civilian workforce reductions.

⁷GAO, *Human Capital: Strategic Approach Should Guide DOD Civilian Workforce Management*, GAO/T-GGD/NSIAD-00-120 (Washington, D.C.: March 9, 2000).

⁸The National Defense Authorization Act for Fiscal Year 1993, Pub. L. No. 102-484, §4465 (1992).

⁹[GAO/T-NSIAD-92-19](#).

Moreover, the Acquisition 2005 Task Force's final report¹⁰ found, for instance, that this was especially true of the civilian acquisition workforce, which from September 1989 to September 1999 was reduced by almost 47 percent. This rate of reduction substantially exceeded that of the rest of the DOD workforce. Eleven consecutive years of downsizing produced serious imbalances in the skills and experience of the highly talented and specialized civilian acquisition workforce, putting DOD on the verge of a retirement-driven talent drain.

Our work on the downsizing conducted by other organizations adds further perspective on some challenges associated with certain strategies and the need to conduct effective planning when downsizing a workforce. In 1995, we conducted a review¹¹ of downsizing undertaken by 17 private companies, 5 states, and 3 foreign governments, generally selected because they were reputed to have downsized successfully. We reported that a number of factors may constrain organizations' downsizing strategies, such as public sentiment, budget limitations, legislative mandates to maintain certain programs, and personnel laws. Moreover, we found that using attrition as a sole downsizing tool can result in skills imbalances in an organization's workforce because the employees who leave are not necessarily those the organization determined to be excess. Further, we also found that attrition is often not sufficient to reduce employment levels in the short term. In addition, some workforce reduction strategies have been found to slow the hiring, promotion, and transfer process and create skills imbalances. However, we found that one key theme emerged from such downsizing efforts. Specifically, most organizations found that workforce planning had been essential in identifying positions to be eliminated and pinpointing specific employees for potential separation. In organizations where planning did not occur or was not effectively implemented, difficulties arose in the downsizing. For example, we reported that a lack of effective planning for skills retention can lead to a loss of critical staff, and that an organization that simply reduces the number of employees without changing work processes will likely have staffing growth recur eventually.

¹⁰The Acquisition 2005 Task Force, *Final Report: Shaping the Civilian Acquisition Workforce of the Future* (October 2000).

¹¹GAO, *Workforce Reductions: Downsizing Strategies Used in Select Organizations*, [GAO/GGD-95-54](#) (Washington, D.C.: March 13, 1995).

We have also identified the potential cost implications of downsizing in our prior work. In 1995, we reported that the savings realized from government downsizing efforts are difficult to estimate. Payroll savings attributed to workforce reductions would not be the amount of actual savings to the federal government from the personnel reductions because of other costs associated with such efforts—for example, separation incentives— or, in the case of reductions-in-force, severance pay. In addition, the ultimate savings would depend on what happened to the work previously performed by the eliminated personnel. For example, if some of the work was contracted out to private companies, contract costs should be considered in determining whether net savings resulted from workforce reductions.

In 2001, we concluded that, considering the enormous changes that DOD's civilian workforce had undergone and the external pressures and demands faced by the department, taking a strategic approach to human capital would be crucial to organizational results. As I will discuss further, this is no less true today than it was in 2001.

Opportunities Exist for DOD to Enhance Its Strategic Human Capital Planning

I turn now to opportunities we have identified for DOD to enhance its strategic human capital planning. Since the end of the Cold War, the civilian workforce has undergone substantial change, due primarily to downsizing, base realignments and closures, competitive sourcing initiatives, and DOD's changing mission. For example, between fiscal years 1989 and 2002, DOD's civilian workforce shrank from 1,075,437 to 670,166—about a 38 percent reduction. According to the department, as of January 2012, DOD's total civilian workforce had grown to include about 783,000 civilians.¹² As I have noted, the achievement of DOD's mission is dependent in large part on the skills and expertise of its civilian workforce, and today's current and long-term fiscal outlook underscore the importance of a strategic and efficient approach to human capital management. The ability of federal agencies to achieve their missions and carry out their responsibilities depends in large part on whether they can sustain a workforce that possesses the necessary education, knowledge, skills, and competencies. Our work has shown that successful public and private organizations use strategic management

¹²This workforce total is based on Defense Civilian Personnel Data Service data as of January 31, 2012 obtained from the Defense Civilian Personnel Advisory Service monthly update briefing entitled *DOD Demographics as of Jan. 31, 2012*,

approaches to prepare their workforces to meet present and future mission requirements. Preparing a strategic human capital plan encourages agency managers and stakeholders to systematically consider what is to be done, how it will be done, and how to gauge progress and results. While the department has made progress adopting some of these approaches, we remain concerned that some missing key elements of strategic workforce planning will hinder DOD's ability to most effectively and efficiently achieve its mission.

As we have reported in the past, federal agencies have used varying approaches to develop and present their strategic workforce plans. To facilitate effective workforce planning, we and the Office of Personnel Management have identified six leading principles such workforce plans should incorporate, including:

- aligning workforce planning with strategic planning and budget formulation;
- involving managers, employees, and other stakeholders in planning;
- identifying critical skills and competencies and analyzing workforce gaps;
- employing workforce strategies to fill the gaps;
- building the capabilities needed to support workforce strategies through steps to ensure the effective use of human capital flexibilities; and
- monitoring and evaluating progress toward achieving workforce planning and strategic goals.

The application of these principles will vary depending on the particular circumstances the agency faces. For example, an agency that is faced with the need for a long lead time to train employees hired to replace those retiring and an increasing workload may focus its efforts on estimating and managing retirements. Another agency with a future workload that could rise or fall sharply may focus on identifying skills to manage a combined workforce of federal employees and contractors.

Over the past few years, Congress has enacted a number of provisions requiring DOD to conduct human capital planning efforts for its overall civilian, senior leader, and acquisition workforces and provided various

tools to help manage the department's use of contractors, who augment DOD's total civilian workforce. For example, the National Defense Authorization Act for Fiscal Year 2006 directed DOD to create and periodically update a strategic human capital plan that addressed, among other things, the existing critical skills and competencies of the civilian workforce as well as projected needs, gaps in the existing or projected civilian workforce, and projected workforce trends.¹³ Subsequent acts established additional requirements for the human capital plan, including requirements to assess issues related to funding of its civilian workforce.¹⁴

We have closely monitored DOD's efforts to address the aforementioned requirements. In our September 2010 review of DOD's 2009 update to its human capital strategic plan¹⁵ we found that, although DOD had demonstrated some progress in addressing the legislative requirements related to its Civilian Human Capital Strategic Workforce Plan, several key elements continued to be missing from the process—including such elements as competency gap analyses and monitoring of progress. Our work found that DOD's plan addressed the requirement to assess critical skills. Specifically, the overall civilian workforce plan identified 22 mission-critical occupations¹⁶ that, according to the department, represent the results of its assessment of critical skills. According to DOD, mission-critical occupations are those occupations that are key to current and future mission requirements, as well as those that present a challenge regarding recruitment and retention rates and for which succession

¹³The National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163, § 1122 (2006).

¹⁴See, for example, The John Warner National Defense Authorization Act for Fiscal Year 2007, Pub. L. No. 109-364, § 1102 (2006); The National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 851 (2008); The National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 1108 (2009); and The National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81, §935 (2011). See also 10 U.S.C. §115b, for the current requirements.

¹⁵GAO, *Human Capital: Further Actions Needed to Enhance DOD's Civilian Strategic Workforce Plan*, [GAO-10-814R](#) (Washington, D.C.: September 27, 2010).

¹⁶DOD has identified 24 enterprisewide mission-critical occupations; 22 of these occupations are associated specifically with the overall civilian workforce and are discussed in the strategic workforce plan, while, the remaining 2 are acquisition-related occupations—contracting and quality assurance—and are discussed in the *Defense Acquisition Workforce Improvement Strategy* (published as a separate report).

planning is needed. Examples of mission-critical occupations include (1) contracting, (2) accounting, and (3) information technology management.

However, as noted, DOD's plan lacked such key elements as competency gap analysis and monitoring of progress. Our prior work¹⁷ identified competency gap analyses and monitoring progress as two key elements in the strategic workforce planning process. Competency gap analyses enable an agency to develop specific strategies to address workforce needs and monitoring progress demonstrates the contribution of workforce planning to achieving program goals. For example, at the time of our review, because the plan discussed competency gap analyses for only 3 of the 22 mission-critical occupations and did not discuss competency gaps for the other 19 mission-critical occupations, we determined that the requirement was only partially addressed. Moreover, DOD was in the initial stages of assessing competency gaps for its senior leader workforce, but it had not completed the analysis needed to identify gaps. Without including analyses of gaps in critical skills and competencies as part of its strategic workforce planning efforts, DOD and the components may not be able to design and fund the best strategies to fill their talent needs through recruiting and hiring or to make appropriate investments to develop and retain the best possible workforce. Further, DOD leadership may not have information necessary to make informed decisions about future workforce reductions, should further reductions to its workforces become necessary.¹⁸ We currently have ongoing work assessing DOD's 2010 Strategic Workforce Plan, which the department released in March 2012. The results of this review are expected to be released in September 2012.

In light of the challenges DOD has faced in its strategic workforce planning, we support the department's participation in efforts being made across the federal government to address governmentwide critical skills gaps. Currently, the Office of Personnel Management and DOD are

¹⁷GAO, *DOD Civilian Personnel: Comprehensive Strategic Workforce Plans Needed*, [GAO-04-753](#) (Washington, D.C.: June 2004).

¹⁸In May 2010, the Secretary of Defense directed DOD to undertake a department-wide efficiency initiative to assess how the department is staffed, organized, and operated; the goal was to reduce excess overhead costs and to reinvest the resulting savings in sustaining the force structure and modernizing the weapons portfolio of the department. As part of this initiative, the Secretary directed the department to freeze the number of Office of the Secretary of Defense, defense agency, field activity, Joint Staff, and Combatant Command billets at the fiscal year 2010 levels for the next three years.

leading a working group comprised of members of the Chief Human Capital Officers Council tasked with (1) identifying mission-critical occupations and functional groups, (2) developing strategies to address gaps in these occupations and groups, and (3) implementing and monitoring these strategies.

Our reviews of DOD's acquisition, information technology, and financial management workforces—which include a number of DOD's identified mission-critical occupations—amplifies some of our overarching observations related to strategic workforce planning. In fiscal year 2011 alone, DOD obligated about \$375 billion to acquire goods and services to meet its mission and support its operations in the United States and abroad. As noted, our prior work found that the significant reductions to the acquisition workforce in the 1990s produced serious imbalances in the skills and experience of this highly talented and specialized workforce. The lack of an adequate number of trained acquisition and contract oversight personnel has, at times, contributed to unmet expectations and placed DOD at risk of potentially paying more than necessary. Our February 2011 high-risk report noted that DOD needs to ensure that its acquisition workforce is adequately sized, trained, and equipped to meet department needs. We further reported in November 2011 that the department has focused much-needed attention on rebuilding its acquisition workforce and made some progress in terms of growing the workforce, identifying the skills and competencies it needed, and used such information to help update its training curriculum.

While DOD has acknowledged that rebuilding its acquisition workforce is a strategic priority, our most recent review¹⁹ of the Defense Acquisition Workforce Development Fund found that DOD continues to face challenges in strategic workforce planning for its acquisition workforce.²⁰

¹⁹GAO, *Defense Acquisition Workforce: Improved Processes, Guidance, and Planning Needed to Enhance Use of Workforce Funds*, [GAO-12-747R](#) (Washington, D.C.: June 20, 2012).

²⁰In section 852 of the National Defense Authorization Act for Fiscal Year 2008, Congress established the Defense Acquisition Workforce Development Fund to help alleviate some long standing challenges and provide additional funds for the recruitment, training, and retention of acquisition personnel. In authorizing the Defense Acquisition Workforce Development Fund, Congress noted that its intention was to ensure that the DOD acquisition workforce has the capacity—both in personnel and skills—needed to properly perform its mission, provide appropriate oversight of contractor performance, and ensure that the department receives the best value for the expenditure of resources.

Specifically, we found that DOD lacks an overarching strategy to clearly align this fund with its acquisition workforce plan. The department has also not developed outcome-related metrics, such as the extent to which the fund is helping DOD address its workforce skills and competencies gaps. Moreover, we remain concerned that the acquisition workforce continues to face challenges in terms of the age and retirement eligibility of its members. According to the most recent reported data from the Federal Acquisition Institute, as of December 2011, the average age of the acquisition workforce ranged from 47 years to 51.7 years, with at least 36 percent of the workforce becoming eligible to retire over the next 10 years.

We have also identified a number of challenges associated with DOD's workforce planning for its financial management and information technology workforces. With regard to the financial management workforce, we reported²¹ in July 2011 that DOD's financial management has been on GAO's high-risk list since 1995 and, despite several reform initiatives, remains on the list today. Specifically, we noted that effective financial management in DOD will require a knowledgeable and skilled workforce that includes individuals who are trained and certified in accounting. DOD accounting personnel are responsible for accounting for funds received through congressional appropriations, the sale of goods and services by working capital fund businesses, revenue generated through nonappropriated fund activities, and the sales of military systems and equipment to foreign governments or international organizations. According to DOD's fiscal year 2012 budget request, the Defense Finance and Accounting Service²² processed approximately 198 million payment-related transactions and disbursed over \$578 billion in fiscal year 2010. However, we also reported in July 2011 that DOD's strategic workforce plan lacked a competency gap analysis for its financial management workforce, thus limiting the information DOD has on its needs and gaps in that area and the department's ability to develop an effective financial management recruitment, retention, and investment strategy to address other financial management challenges. With regard

²¹GAO, *DOD Financial Management: Numerous Challenges Must Be Addressed to Improve Reliability of Financial Information*, [GAO-11-835T](#) (Washington, D.C.: July 27, 2011).

²²The Defense Finance and Accounting Service was created on November 26, 1990 as DOD's accounting agency to consolidate, standardize, and integrate finance and accounting requirements, functions, procedures, operations, and systems.

to DOD's information technology workforce, we reported²³ in November 2011 that, as threats to federal information technology infrastructure and systems continue to grow in number and sophistication, the ability to secure these infrastructure and systems will depend on the knowledge, skills, and abilities of the federal and contractor workforce that implements and maintains these systems. We noted that DOD's information assurance workforce plan—which addresses information technology—incorporates critical skills, competencies, categories, and specialties of the information assurance workforce, but only partially describes strategies to address gaps in human capital approaches and critical skills competencies.

DOD's workforce is comprised of military personnel, civilians, and contractors. DOD has acknowledged, however, that with approximately 30 percent of its workforce eligible to retire by March 31, 2015, and the need to reduce its reliance on contractors to augment the current workforce, it faces a number of significant challenges. Our September 2010 review of DOD's strategic workforce plan found that the department had issued a directive stating that missions should be accomplished using the least costly mix of personnel (military, civilian, and contractors) consistent with military requirements and other needs. However, the department's workforce plan did not provide an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities. More recently, the House Report²⁴ accompanying a proposed bill for the National Defense Authorization Act for Fiscal Year 2013 directs GAO to assess what measures DOD is taking to appropriately balance its current and future workforce structure against its requirements. Specifically, we plan for our review to include: (1) the process by which DOD identified its civilian workforce requirements, taking into consideration the withdrawal from Iraq and impending withdrawal from Afghanistan; and (2) the analysis done by DOD to identify core or critical functions, including which of those functions would be most appropriately performed by military, civilian, or contractor personnel. Our report is due to the Armed Services Committees of the House and Senate by March 15, 2013.

²³GAO, *Cybersecurity Human Capital: Initiatives Need Better Planning and Coordination*, [GAO-12-8](#) (Washington, D.C.: November 29, 2011).

²⁴H.R. Rep. No. 112-479, at 196-197 (2012), which accompanies H.R. 4310, 112th Cong. (2012).

In conclusion, DOD has a large, diverse federal civilian workforce that is key to maintaining our national security. However, as we have noted, DOD's workforce also includes military and contractor personnel and changes made to one of these groups may impact the others. As such, we are currently assessing the measures the department is taking to appropriately balance its current and future workforce structure and its requirements.

Chairman Forbes, Ranking Member Bordallo, this concludes my prepared remarks. I would be happy to respond to any questions that you or other Members of the Subcommittee may have at this time.

Contacts and Acknowledgments

For future questions about this statement, please contact Brenda S. Farrell, Director, Defense Capabilities and Management, at (202) 512-3604 or farrellb@gao.gov. In addition, contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Individuals who made key contributions to this statement include Margaret Best, Assistant Director; Spencer Tackill; Jennifer Weber; Erik Wilkins-McKee; Nicole Willems; and John Van Schaik. In addition, Penny Berrier, Mark Bird, Timothy DiNapoli, Gayle Fischer, Steven Lozano, Belva Martin, Carol Petersen, and Rebecca Shea made contributions to this report.

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