

AIR WAR COLLEGE

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Contract Overhead Reduction
Across the Department of Defense

by

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Biography

Colonel John Jones is assigned to the Air War College, Air University, Maxwell AFB, AL. He received his commission in Army Aviator in 1990 after graduating from the United States Military Academy. He holds a Masters of Arts from Webster University.

His assignments include leadership positions in operational Chinook units supporting global deployments. He commanded for two years as a Captain in Germany in an Air Traffic Service company in 1996-1998. He later served as a Battalion Standardization Officer in an Air Traffic Service Battalion. He then attended Command and General Staff College from 2000-2001. After attending Naval Test Pilot School in 2001, he tested and served in various leadership positions at the Aviation Technical Test Center in Fort Rucker. He then commanded Defense Contract Management Agency (DCMA), Aircraft Integrated Maintenance Operations Enterprise, Alabama from 2008-2012. He deployed to Kabul, Afghanistan and commanded DCMA Afghanistan from 2012-2013. Colonel Jones then commanded Defense Contract Management Agency, Dallas from 2013-2015 until he attended the Air War College.



Abstract

The Department of Defense has become critically dependent on services, programs, and equipment contracted by government personnel. In an increasingly resource constrained environment, the allowed profit, overhead costs, excessive expenses, and ways to eliminate fraud within contracting deserve a careful analysis on behalf of the American taxpayers. Areas such as subcontracting, unnecessary requirements, fraudulent goods all lead to increased costs. Budgetary constraints juxtaposed with increasing material costs and ballooning appetites for robust solutions and high tech approaches versus “good enough” continue to chip away at government resources. Additionally, the questions of balance to preserve the nation’s industrial base and bolster the defense industry and economy or need for inherently government production and repair depots continues to be a choice for contracting officers to make. This analysis will endeavor to address these issues and propose solutions for reducing costs associated with contracts, ensuring that adequate resources remain for the Services to allocate to the most critical needs throughout the Department of Defense.

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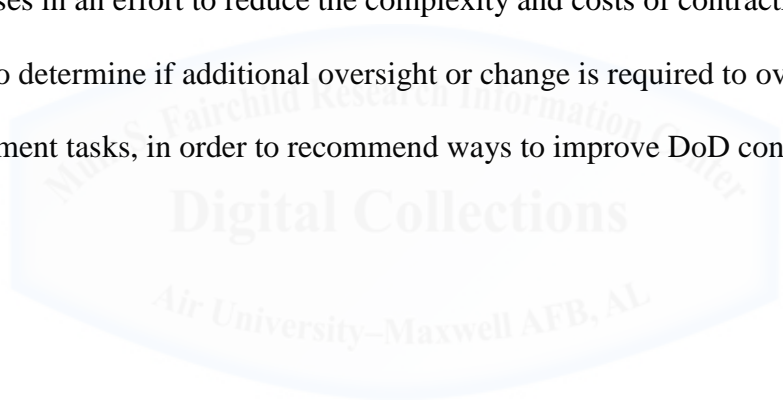
Introduction

The Department of Defense structures contracts to give vendors an opportunity to make a profit with respect to risk to the government. Generally, riskier contracts should offer the opportunity for more profit whereas; well-understood procurements should require less profit as an incentive to perform. That balance of profit and risk has always been a challenge for our government to manage and determine. This paper will take a close look at contract structure and efforts prior to contract origination to determine if additional scrutiny is required regarding overhead costs associated with Department of Defense contracts.



Thesis

Within the Department of Defense (DoD), contract acquisition, origination, and structuring are complex tasks conducted at a very high volume, costing billions of defense dollars annually. There are different parts of the contracting process that lend themselves to corruption, such as loosely defined accounting and non-value added functions (waste). If the hidden costs within a contract can be found, eliminated, and non-value added functions reduced, the DoD could be able to extract greater buying power across the enterprise and increase the affordability of individual contracts. This thesis will explore the contract origination and oversight processes in an effort to reduce the complexity and costs of contracting across the DoD industrial base, to determine if additional oversight or change is required to oversee these contract management tasks, in order to recommend ways to improve DoD contracting and reduce those costs.



Background

Since the beginning of our Nation, there has been a desire to have contractors supporting our armed forces. Initially, the government considered support personnel as civilians rather than contractors, but the roles then, were the same as contractors now. An early example is from George Washington's Continental Army where civilians performed non-combat tasks. Washington used civilians to drive wagons, provide engineering and carpentry services, obtain foodstuffs, and provide medical services.¹ Armies have always had a need for logistics support, and our Nation's founding fathers were no exception. Department of the Army Civilian Robert Friedman noted, "The Continental Congress believed that these tasks could best be accomplished using officers to purchase these goods and services from civilians as it relieved soldiers from performing what were considered menial and non-soldierly duties while allowing them to focus on their primary mission, their war fighting responsibilities."² In essence, a system that relieved soldiers of non-combat duties, provided a vital service, and continues today with the same intent.

As with any business, establishment that provides goods or services, or autonomous organization, there is a requirement to make profit in order to exist. As part of providing services, businesses must make enough from the sales of items or provision of services to pay for direct costs such as material and labor, but also indirect expenses such as infrastructure, insurance, bonding, licensing, taxes, repairs, supplies, advertising, and myriad of other intrinsic costs. Accountants and the Federal Acquisition Regulation (FAR) label these indirect costs as overhead costs. In a business strategy, a business adds a portion or representative share of overhead costs to the sales price of items or overall price of services in order to sustain the business.

¹ Robert M. Friedman, "Civilian Contractors on the Battlefield: A Partnership with Commercial Industry or a Recipe for Failure?," (Carlisle Barracks, PA: US Army War College, 2002), 1.

² Ibid.,2.

With respect to business by contract with the United States Government, the FAR is the governing document. The FAR 31.201-2 specially defines what can be charged as part of the government contract only if the cost is: 1) A reasonable amount 2) Allocable to government contracts 3) Compliant with Generally Accepted Accounting Principles and standards promulgated by the Cost Accounting Standards Board (when applicable) 4) Compliant with the terms of the contract, and 5) Not prohibited by any of the FAR Subpart 31.2 cost principles.³ Furthermore, the FAR defines what can be charged as a direct and indirect charge. Overhead charges in FAR Subpart 31.2 are specifically restricted in certain areas that deviate from general business. Some of those items are advertising, bad debts, contributions, personal use of company vehicles, fines, lobbying and political activities, interest expenses, and alcoholic beverages.⁴

Types of Contracts

Department of Defense guidance to contracting officers directs them to consider time and risk when determining contract type. Specifically, the FAR 16.101 states, “Contract types vary according to -- (1) The degree and timing of the responsibility assumed by the contractor for the costs of performance; and (2) The amount and nature of the profit incentive offered to the contractor for achieving or exceeding specified standards or goals.”⁵ There are two broad category types of contracts – fixed price and cost reimbursement contracts. In the first category, in the cases of a product having stable build characteristics, well-known supply chains, or a longer history of product pricing, then the FAR recommends that the contracting officer utilize fixed price contracts. Fixed price contracts can be firm, have economic price adjustments, or even award fee or performance incentives.

³ Federal Acquisition Regulation (FAR), “FARSITE,” Hill AFB, accessed 3 October 2015, http://farsite.hill.af.mil/reghtml/regs/far2afmcfars/fardfars/far/31.htm#P224_43729, Subpart 31.2

⁴ Ibid., Subpart 31.205.

⁵ Ibid., Subpart 16.101(a).

A fixed price contract places performance risk entirely on the vendor or contractor. The contractor must control cost and any profit or possible loss is born by the contractor. In these cases, profit on these contracts is generally moderate to low. If a contractor is innovative and efficient, they may be able to obtain greater profit. Oversight of these contracts is generally minimal. Contracting officers typically ensure that independent government estimates or comparative pricing are available and then apply a process to ensure best value. The contracting officer considers a myriad of factors such as past performance as well as lowest priced technically acceptable bid. The only remaining oversight of these contracts is the acceptance of product to ensure that the product is defect free and procured according to the contract.

The FAR defines the second category of contracts as cost reimbursement contracts. In situations where there is urgency or when there is uncertainty, high risk, uncertainty, or new technology, then the government assumes the risk in a non-fixed price contract. Examples of the two contracts with the greatest risk to the government where the contractor has limited risk are cost plus contracts or time and material contracts. The contractor has minimum responsibility for performance costs and the profit is fixed. The FAR further explains the multitude of contracts within this category as, “In between are the various incentive contracts (see [Subpart 16.4](#)), in which the contractor’s responsibility for the performance costs and the profit or fee incentives offered are tailored to the uncertainties involved in contract performance.”⁶ It is this second category that requires the most significant oversight to determine overheads associated with those contracts, the validity, and the potential disadvantage to the United States government.

Unfortunately, understanding the overhead items and cost accounting on a contract is complicated. Significant insight and transparency is required for a contracting officer to

⁶ Ibid., Subpart 16.101 (b).

determine fairness to the government. In order to incentivize technical performance or schedule, cost sharing and award fees are often used. Examples of these contracts are award fee, cost fee, performance fee, and delivery fee awards.

Profit

As part of every business model, to sustain a financial livelihood, a business must make a degree of profit in order to exist. Within the purview of the FAR, profit should be a direct reflection of the risk ratio between the contractor and the government. In those cases where risk is high to the contractor, the contractor should have the opportunity for greater profit. In the case where risk is low, profit should be modest. In Department of Defense Contracting, there is only one place in the FAR that states a limit on profit and it applies specifically to Firm Fixed Price contracts with incentive fee.

The FAR states, “the maximum allowable profit of 15% for experimental, developmental, or research and 10% for other cost plus fixed fee contracts.”⁷ Other contracts do not have a limit. The FAR and Defense FAR (DFAR) only provide guidelines for contracting officers. According to a study from the Institute for Defense Analysis, “For cost-plus contracts, this risk has minimal effect on the contractor except for short-term working capital since the costs are regularly and fully reimbursed using payment vouchers—the guideline range of profit for this category is between 0 percent and 1 percent. The risk is unbounded for firm-fixed-price (FFP) contracts where the guideline range is 4–6 percent.”⁸

In general, most profit controls are in place for contracts. Statistics on contracts also indicate that, in general, the predominant types of contracts are fixed price contracts, with cost plus remaining only a small percentage. Data from FY2005, extracted from Defense

⁷ Ibid., Subpart 15.404-4(b)(4)(i)

⁸ Scot A. Arnold et al., Institute for Defense Analysis, “Defense Department Profit and Contract Finance Policies and Their Effects on Contract and Contractor Performance,” February 2009, 9-10.

Procurement Data System for contracts valued at over \$250,000 is presented in Figure 1. Data suggests that FFP contracts compose 58% of Federal Contracts. Data also suggests that there is room for improvement in contract choice in two key areas, ships and missiles and space systems. However, without context of the contract, it is not possible to determine if those efforts were for high-risk, research and development efforts.

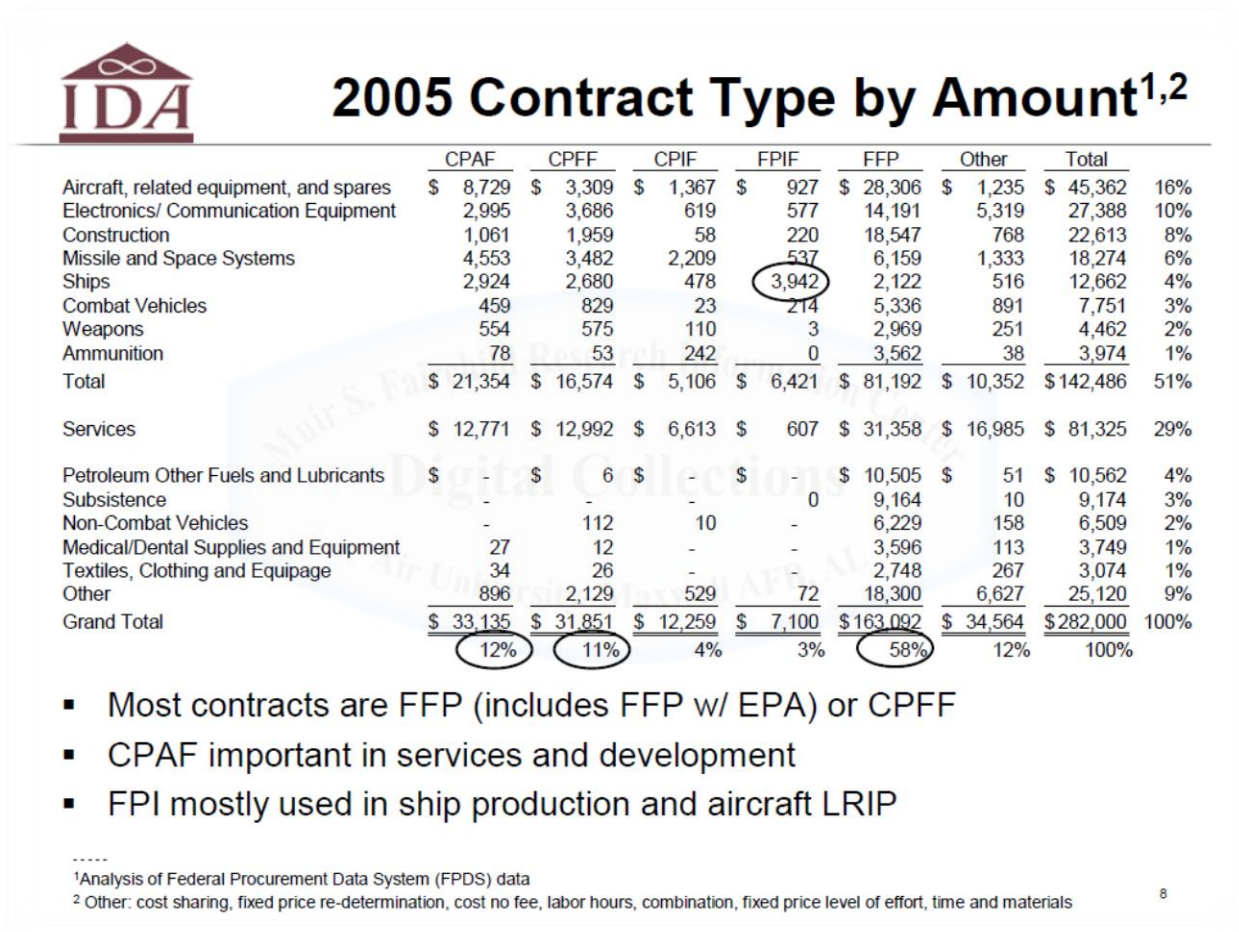


Figure 1

It should be clear that contract choice plays a significant portion of contract cost to the government. Profit is only one of the many elements that add to the funding costs of contracts. This paper will discuss the other significant elements for consideration in the following sections of this paper.

Areas that Lead to Risk and Costs

Many elements make up the overhead cost of a contract. The FAR gives numerous examples of what is allowable and what is expressly unallowable. Most of those items of cost are hidden within the fine areas of cost of money, financing, general and administrative expenses, labor relations costs, plant protection, patent costs, proposal costs, and operating costs, and a myriad of others in FAR Subpart 31.205.⁹ Although further scrutiny could chip away at minor increments of those costs, those costs are largely the same by which a firm operates under United States Tax Code. The FAR is a much tighter and restrictive regarding unallowable categories. Contracting officers should consider other issues that affect contracts when reducing the price associated with contracting. When contractors exploit those items of risk and fail to perform, contracted personnel must perform contracted services again, must replace items, or compensate entities. In all cases, extra contract dollars are required to replace said services and items that the vendor did NOT supply to the war fighter. The remainder of this paper has a focus to understand items that may lead to higher contract costs.

Fraud within deployed areas is rampant. The General Accounting Office, the Department of Defense Inspector General (DODIG), individual Armed Services, and numerous congressional commissions have studied the problem. The International Contract Corruption Task Force (ICCTF) conducted a focus on fraud and corruption as they researched and documented numerous anecdotal stories wasted money. The ICCTF believes, "This is the front line of defense for combating fraud in the AOR, where exemplary investigations make a real impact. ICCTF is an ever-expanding task force that is essential in protecting our tax dollars and

⁹ FAR, Subpart 31.205.

protecting the war fighter from sub-par equipment and services."¹⁰ Every time fraud occurs, in any increment, it adds cost to the contract, making the cost higher and higher with less value for dollars spent. Instances of fraud could be in fuel stolen or false amounts delivered, services not performed, counterfeit goods, and stolen assets. In Afghanistan from 2006 through January 2011, ICCTF agents charged approximately 143 U.S. individuals with fraud and recovered more than \$161 million.¹¹

In my own combat experience in Afghanistan as the Defense Contract Management Agency (DCMA) Theater Commander for Contracting in July 2012 – July 2013, I experienced numerous instances of fraud. One area was fuel pilfering. One such example is when a contracted company provides a service to deliver fuel from one forward operating base (FOB) to another FOB. In transporting fuel from FOB A to FOB B, the driver would pilfer fuel and sell it to people along the route despite the US Government's best efforts to defeat theft. As the driver approached FOB B, he found himself with a pocket full of money but with an empty truck. In extreme cases the truck hit an explosive device or was attacked by a rocket-propelled grenade, leaving a burning hulk on the side of the road. The driver generally survived, but forensics revealed that the burning truck was not full of fuel, but rather full of fumes. In most cases, because of the provisions of the contract, the US Government was also required to pay for the cost of the truck, and relieve them of responsibility for delivery of the fuel. Overall, this not only added extra cost to the fuel contract for the fuel not delivered, but also for the cost of a fuel truck. Because of the insurgent threat, it was often impossible to investigate many of the highly suspicious incidents just as the one described. Therefore, contracting officers expended contract dollars by rewarding bad actors for fraudulent behavior. Contracting officers eventually

¹⁰" SPECIAL AGENTS SUPPORT THE INTERNATIONAL CONTRACT CORRUPTION TASK FORCE," 2011, *US Fed News Service, Including US State News*, Jul 14, <http://search.proquest.com/docview/876197593?accountid=4332>

¹¹ Ibid.

restructured contracts to ensure that the contractor bore full responsibility for providing their own equipment.

Corruption is another area that leads to increased contract cost. Because of the prevalence of fraud, the National Contract Management Association seeks to prohibit dishonest government and contractor representatives from purposely engaging in quid pro quo exchanges of cash, goods, or services for favorable treatment. They also believe that the government needs reforms to transform existing ethical policies and practices that have proven inadequate.¹² In the example of fuel corruption from Afghanistan, the company would have multiple occurrences of those events. In either case, corruption was no doubt in play.

In Kyrgyzstan, there was significant high-level corruption in fuel at a very broad level. A House of Representatives investigation pointed out that at the highest level of government, corruption was rampant. The Kyrgyzstan President was involved in directing the United States to recently formed state-owned fuel supplier. President Otunbayeva stated that she thought such an arrangement would add transparency and get rid of the middleman so that Kyrgyzstan could reap the profit.¹³ A report of the Majority Staff, they noted, “Mina and Red Star set up a complicated arrangement in which Kyrgyz authorities, including two prime ministers, were engaged to issue false official end-user certifications in order to evade a perceived Russian ban on export of fuel for military use.”¹⁴

Instead, the report pointed out how the Kyrgyzstan government down to the Prime Minister level, controlled the corruption and delivered payouts to control the operation in its entirety in order to exploit the United States for fuel. The fallout was epic regarding the strategic

¹² Curry, Williams, and Sims, Transforming Ethics in Government Contracting, National Contract Management Association, Contract Management 50.4 , Apr 2010, 48-52,54-57.

¹³ “Mystery at Manas, Strategic blind spots in the Department of Defense's fuel contracts in Kyrgyzstan,” Washington, DC: U.S. House of Representatives, 2010, 19.

¹⁴ Ibid., 1.

requirement and diplomacy. The report stated, that within Kyrgyzstan, there were “widespread public perceptions– shared by interim President Rosa Otunbayeva and much of the political elite – that the United States has deliberately and illicitly used the fuel contracts to bribe Kyrgyzstan’s two past presidents.”¹⁵

In addition to corruption with contracted vendors and their actions, in some cases, corruption occurs from within the US Government. In cases highlighted within the Gansler Commission Report, a report called for by the Secretary of the Army, some government contracting officials were corrupt and lacked sufficient training or ethics awareness and culture. The Gansler Report called for higher levels of accountability from the Army contingency contracting operations. The commission pointed out that, “Government oversight was under resourced, lacked sufficient policy, was susceptible to corruption, and lacked professional cadre to oversee the operations, with less than three percent active duty contracting officers.”¹⁶ It charged DOD and the Army specifically, to overhaul their way of doing business. The final overarching recommendation was to obtain legislative, regulatory, and policy assistance to enable contracting effectiveness in expeditionary operations.¹⁷ In a hard-hitting directive to the Army, the report stated, “These key failures encumber the Army acquisition system’s performance and have significantly contributed to the waste, fraud, and abuse in-theater by Army personnel.”¹⁸

¹⁵ Ibid., 2.

¹⁶ Dr. James S. Gansler et al., *Urgent Reform Required: Army Expeditionary Contracting*. Report of the “Commission on Army Acquisition and Program Management in Expeditionary Operations,” 2007, 1.

¹⁷ Antonio Brown, “Procurement Ethics: have we resolved the Army's expeditionary contracting?,” (Carlisle Barracks, PA: U.S. Army War College, 2011), 27.

¹⁸ Gansler Report, 1.

Contract or Not to Contract

Contracts often have loosely defined justification that leads to unnecessary cost or even unnecessarily justified contracts. In an *Air Force Journal of Logistics* Article by Lt Col (Ret) Stephen Russell, he points out flaws in the logic justifying the use of contractors vs the use of organic service member support or Department of the Air Force Civilians. Russell draws attention to the additional requirements imposed by contractors and the additional force protection required for them in contingency environments. He notes, "Prior federal outsourcing contract studies indicate that, while cost savings in the 20-30 percent range are predicted, these savings are often based on initial estimates rather than long-term savings. The actual savings are often considerably lower or, in some cases, nonexistent."¹⁹ This is clearly just one example where the calculus used to justify a contract is inaccurate. Contracting officers should give full consideration when determining the need to contract.

Contracting officers should further consider the decision to outsource when considering the capability to preserve the Department of Defense's organic internal industrial base. In the case of the Army, depots serve valuable functions in that realistic cost estimates for work can be accurately calculated, projects expedited due to expedited funding agreements, and proximate location to government program managers, engineers and contracting officers. The 20-30% of costs predicted on outsourced training could also be gained by other tangible commodities such as observed quality or expedited schedule due to streamlined internal government funding. This also would prevent Original Equipment Manufacturers (OEM's) from monopolizing capabilities.

¹⁹Stephen Hays Russell LtCol, Ret, "Logistics Crime: Knowing and Managing the Risks," *Air Force Journal of Logistics*, vol 24 no 1, Spring 2000, 16-22.

Subcontracting

Many contracts require a subcontracting plan as directed by the FAR. In other cases sub- is required to increase efficiency in areas of sub-contracted expertise. Unfortunately, small business functions sometimes add limited value to the contract. The FAR tries to limit this by requiring “a contractor to demonstrate value added by a subcontractor and limiting subcontracted work performed to exceed 70% of the contract value.”²⁰ Mark Holbrook conducted an investigation for the Air Force to determine if value to contracts increased after acquisition reform regarding sub-contracting transparency. He noted, “It was discovered that cost performance for contracts completed after reform initiative implementation was no different than cost performance on contracts completed before implementation.”²¹ Unnecessary and non-value subcontracting simply add to unnecessary contract cost.

Non-value Added Set Asides

Contracting officers use small business set asides to stimulate small businesses. Small business efforts might include contractors that have small or maturing infrastructure. In those cases higher level of profit may be required. Even on FFP contracts where risk is low, small businesses will generally require more profit to continue operation, due to limited volume. In these cases, small businesses may charge 10% profit where a larger company may have only needed 4-6 % profit on lower technical risk efforts as evidenced by data from top five defense contractors.²² Small Business set-asides may not be contributing to reducing contract cost and may not be the lowest price in the effort to stimulate the economy. This evidence points out that the FAR itself often leads to increased cost by requiring sub-contracting.

²⁰ FAR, Subpart 52.215-23(a)(c)(e).

²¹ Mark A. Holbrook, An Analysis of the implementation of Acquisition Reform Initiatives and Contract Cost Variance, Department of the Air Force, Air University, Air Force Institute of Technology, Wright Patterson AFB, Ohio, March 2003, xi.

²² Arnold, “Defense Department Profit,” 10.

Complexity

The complexity of a contract is a driving factor for cost. Generally, complex contracts have a myriad of contract clauses to be enforced, which requires more overhead effort of both the government and the vendor. Unless there is a compelling reason, contracting officers should eliminate unnecessary clauses. They should also ensure that the chosen contract is efficient, correct for the effort, and does not add non-value added requirements, processes, or certifications in order to avoid government contract cost.

Costs of Contracting

Increased certification standards drive contract costs. One such way of certifying quality assurance within a company is to require a certification from the International Organization for Standards (ISO) that defines standards and processes for industries that do manufacturing or perform services. Companies must use ISO standards, follow those processes and be audited and certified by an outside organization. According to the 9000Store, even with a good quality management system in place, achieving ISO 9001 certification for a company with less than 25 people is at least \$1000 plus auditor fees, travel per diem, and registration fees. Scaling the size of the company up and with a less mature quality system can cost \$14,000 - \$100,000 depending on requirements of mentors.²³ When contracts require such certifications as ISO9000 or Aerospace Quality System Standards (AS9100) for quality management certification within the aerospace industry, vendors pass along overhead costs of these certifications. Another certification used by the Army to ensure traceability of critical characteristics of flight safety parts is QE-STD1. In most cases, these certifications make sense regarding high risk, critical

²³ "How Much Does ISO 9001 Certification Cost," accessed 28 Jan 2016, <http://the9000store.com/ISO-9000-Tips-How-Much-Does-it-cost.aspx>.

safety, or complex products, however simple tasks that do not require such certifications, particularly on FFP contracts, only lead to more cost to the government.

Another factor that may increase contract cost is for a Quality Management System (QMS). A QMS is generally required in order to achieve an ISO or AS certification. As a follow on to companies with a QMS, the contracting officer often inserts a Higher Level Quality (HLQ) clause into contracts. Contracting Officers must use the HLQ sparingly because the clause will drive oversight labor and cost. When contracting officers understand this, that is when subcontracting should be utilized to modularize the effort and pay for certified processes only when necessary, making the contract cheaper in total.

One Cost Leads to Another

When contracts must be changed or modified, contracting officers expend labor hours, adding to oversight cost. As with any part of the acquisition process, actions happening upstream at the initial phase of a project result in less ripples and repercussions downstream. For example, doing a one-time modification to a contract template (boilerplate) in a buying activity would be highly effective and result in less downstream recurring modifications made by numerous people. These recurring costs and efforts lead to increased costs of government contracting with respect to government labor downstream or labor and certification costs charged back to the government by vendors.

Sources of Contract Problems and Conclusions

It is my determination and opinion that the largest contract costs trace back to origination. Rather than significant sources of contract cost being hidden and exploited areas of allowable items contained and exploited by contractors as first hypothesized, it is the choice of contract and items contained within the contract which are all controlled by the government. The team of

users, program managers, engineers, and contracting officers ultimately determines the composition of the contract that accounts for the greatest cost to the government. Those myriad origination costs stem from many factors to include: failure to utilize the most appropriate or efficient contract, failure to determine the appropriate certification of the company, failure to require the appropriate acceptance of the product, the failure to set realistic or appropriate time lines or delivery schedules, and failure to adequately detail the scope of work. These prioritized origination issues individually, and in a worst-case scenario, collectively equate to inefficient contracting from the government perspective. Inefficient contracting leads to wasted money.

Identifying the appropriate contract and most efficient contract is a task that requires experience. Education, training, supervision, and sufficient staffing of buying activities will reduce the likelihood of poor contract utilization and result in more efficient contract utilization. Finally, correcting poor templates will eliminate the perpetuation of wasteful or inefficient contracts generated over and over by buying activities, saving money along the way.

Over-requirements on the part of certifications, the acceptance procedures for product, and the appropriate delivery schedules also lead to increased government costs. Unnecessary certifications on low risk items require companies to obtain non-value added certifications that the companies ultimately pass back to the government. Increased surveillance and stop points can cause delays, increased delivery costs, or unnecessary warehousing costs in a world of just in time logistics. Program Managers (PM's) and government engineers should have a voice and a responsibility to add practicality, when determining schedules and cost, and must be part of the process to control cost.

A final and significant factor responsible for escalating contract cost is unrealistic requirements in the scope of the contracts. Whether it is a panacea solution on a defense system

in lieu of the “good enough” solution or a vendor over-servicing the government on a services contract, these types of costs the government can prevent such costs through more deliberate contract consideration. The path to prevent excessive requirements, gold plated solutions, and excessive over servicing, is a two-part solution. The first solution is on the part of the requirements generator, the user of the product. Customers and benefactors of contracts should ensure that they ask for what they need rather than what they want when cost is a factor. When contracting officers allow better to be the enemy of good enough, costs rise and defense contractors find ways to satisfy the growing requirements every time.

The second part of the solution in which the government can prevent excessive requirements and avoid excessive costs of contracts is through vigilant and frugal contracting officers. When contracting officers apply extra scrutiny and question costs, demands, quantities and timelines, they can save significant dollars. A contracting officer that will specifically tailor a contract to the situation rather than using a possibly improper template, using unnecessary or unrealistic certifications, and by setting realistic delivery schedules will save the government money. In this process, contracting officers must be willing to make these decisions when they see excess cost. Efficiency up front and originating better documents will result in administrative contracting officers having less workload during the life of the contracts. All of these up front efforts directly save cost in the form of less contract dollars or indirectly with less government labor for oversight and administrative oversight via modifications and corrections.

Recommendations

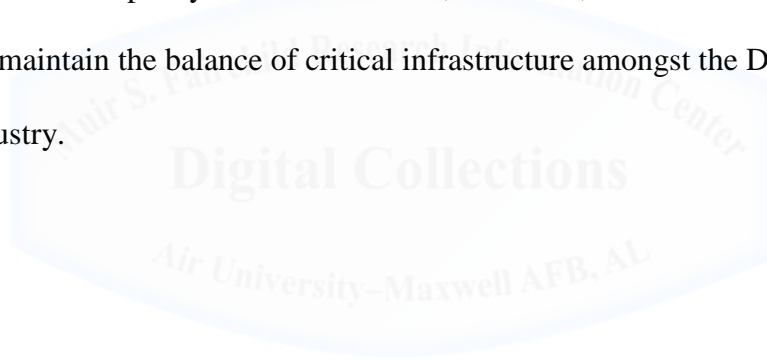
The most important recommendation is to get the thought process correct up front when determining the type of contract in order to save the Department of Defense and ultimately the United States government money. The government can improve the process in three ways. The first and most important way to ensure that money is not wasted is realistic requirements and appetite suppression among users requiring contracted solutions. The second essential improvement is to utilize the correct personnel that are properly educated and trained to develop the contract. The third way is to provide sufficient numbers of people and sufficient time to staff contracted requirements in order to make proper determinations on what to contract, subcontract, and to retain as inherently government.

It is the discretion of the requirements community or the users of contracts that will ultimately lead to less wasteful contract dollars. Requiring what is good enough, needed versus what is great, and wanted will drive down dollars spent on contracts. Because the urgency of the contract adds to contract cost if the time is critical, realistic time frames should be requested. Lastly, demanding high levels of certification or oversight for low risk tasks may not be worth the cost required to perform the tasks that yield limited enhanced value. Companies pass cost to the government when companies are required to obtain non-value added certifications.

In an effort to ensure buying activities utilize proper contracts for the task, the Department of Defense should resource contract origination cells with not only sufficient people, but with the adequate training and knowledge to determine the most efficient contract types up front. Experience and knowledge should allow the contracting officer to become the key member of any acquisition strategy or integrated team. Knowledge of contract vehicles from an experienced savvy contracting officer could avoid making learning curve type mistakes every

few years as experienced government contracting officers move out of technical jobs and into management and other higher paying jobs.

Finally, the Department of Defense should also scrutinize contract types as well as modifying the various software programs that have contract templates that are propagated forward. Many contracts contain generic, non-specific, non-applicable, and in the extreme cases, contract language that adds extra administrative requirements to the contract. Contracting officers should scrutinize sub-contracting decisions as well. Lastly, contracting officers should team with government engineers, program managers and manufacturing commands to determine when to contract and when to retain functions essential to the Nation's government manufacturing base and depot system. Well-trained, sufficient, and well-thought contracting will save money and maintain the balance of critical infrastructure amongst the Department of Defense and Industry.



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