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Washington, DC 20548

May 19, 2014

The Honorable Carl Levin
Chairman
The Honorable James M. Inhofe
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Howard P. "Buck" McKeon
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

Defense Acquisitions: Update on DOD's Efforts to Implement a Common Contractor Manpower Data System

The Department of Defense (DOD), the federal government's largest purchaser of contractor-provided services, reported that it obligated about \$187 billion—more than half of its total contract obligations—on service contracts in fiscal year 2012. DOD relies on contractors to perform functions as varied as professional and management support, information technology support, medical services, and weapon system and intelligence support. In recent years, Congress has enacted legislation to improve DOD's ability to manage its acquisition of services; to make more strategic decisions about the right workforce mix of military, civilian, and contractor personnel; and to better align resource needs through the budget process to achieve that mix. For example, Section 2330a of title 10 of the U.S. Code requires DOD to annually compile and, for the military services and defense agencies to review, an inventory of services contracted for or on behalf of DOD during the preceding fiscal year, in part, to help provide better insight into the number of contractor full-time equivalents (FTE) providing services to the department. Further, the military services and defense agencies are required to use the inventory to inform strategic workforce planning decisions, and DOD is required to use the inventory to better align resource needs through the budget process. Within DOD, the offices of the Comptroller and the Under Secretaries of Defense for Acquisition, Technology, and Logistics (AT&L), and Personnel and Readiness (P&R) have shared responsibility for issuing guidance for compiling and reviewing the inventory.

We have previously reported on DOD's efforts to compile and review its inventory of contracted services, including initiatives to standardize contractor manpower data collection across the department.¹ In January 2011, we recommended that DOD develop a plan of action to facilitate

¹GAO, *Defense Acquisitions: Continued Management Attention Needed to Enhance Use and Review of DOD's Inventory of Contracted Services*, [GAO-13-491](#) (Washington, D.C.: May 23, 2013); GAO, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, [GAO-12-357](#)

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the department's stated intent to collect contractor manpower data and address other limitations.² DOD subsequently issued a plan in November 2011 to develop a common technology solution that would allow the department to collectively meet the inventory requirements. While the plan represented a step in the right direction, it did not contain milestones or resources needed, as we had previously recommended. In April 2012, we found that DOD faced challenges in developing a common technology solution given the different requirements of the military departments and the remaining defense components.³ As an interim step, DOD stated that it would establish a common data system for DOD components to begin reporting data in time for the department's fiscal year 2013 inventory submission, but did not expect that components would fully use the system for most of their contracts for services until fiscal year 2016. In May 2013, we found that the department had taken steps to implement interim data systems for the Air Force and Navy based on the Army's Contractor Manpower Reporting Application (CMRA), but had not implemented our 2011 recommendation.⁴ At that time, DOD noted that it expected to field an interim data system that would be shared by the remaining DOD components.

Section 951(b) of the fiscal year 2014 National Defense Authorization Act mandated GAO to report on DOD's contractor inventory submissions for fiscal years 2011 through 2015.⁵ This report (1) provides information on DOD's contractor inventory for fiscal year 2012 and (2) addresses the status of DOD's efforts to implement a common data system to capture contractor manpower data.

To provide data on the estimated contractor FTEs and dollars obligated for contracted services in fiscal year 2012, we reviewed DOD's July 16, 2013 submission of its fiscal year 2012 inventory and interviewed cognizant officials from P&R and the military departments who were responsible for compiling the inventory. Our previous work identified data limitations with DOD components using data from the Federal Procurement Data System-Next Generation (FPDS-NG) as the basis for their inventories.⁶ For example, FPDS-NG does not identify more than one type of service in a contract, thus limiting its utility for the purposes of compiling a complete and accurate inventory. However, we found the data sufficiently reliable for our purposes of providing information on the fiscal year 2012 inventory data DOD reported.

To determine the progress DOD has made in developing a common contractor manpower data system since our most recent report in May 2013, we reviewed DOD memoranda for compiling and reviewing its inventories, and planning documents and guidance for establishing a common system. We also interviewed officials from P&R and the Departments of the Army, Air Force, and Navy to discuss progress toward a common system and associated business processes. We focused on the military departments as they accounted for the majority of obligations and

(Washington, D.C.: Apr. 6, 2012); GAO, *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, [GAO-11-192](#) (Washington, D.C.: Jan. 14, 2011).

²[GAO-11-192](#).

³[GAO-12-357](#).

⁴[GAO-13-491](#).

⁵Pub. L. No. 113-66, § 951(b) (2013).

⁶ [GAO-13-491](#).

contractor FTEs DOD reported in the fiscal year 2012 inventory, which reflects the most current inventory data available.

We conducted this performance audit from March 2014 to May 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on audit objectives.

Results in Brief

Thirty-two DOD components submitted inventories for fiscal year 2012, collectively reporting an estimated 670,000 contractor FTEs providing services to DOD with obligations totaling about \$129 billion. Since our May 2013 report, DOD has taken additional steps to implement its November 2011 plan to collect contractor manpower data via a department-wide solution, but various challenges may hinder DOD's efforts to having a common system and associated processes fully in place to support its fiscal year 2016 inventory. In September 2013, DOD fielded a system based on the Army's CMRA system to support the other DOD components as it had previously done for the Air Force and Navy. Each of the four CMRA systems is independent, maintaining its own interface that requires a separate log-in, but all are accessible via a common webpage. DOD is weighing options on how to further refine the current CMRA configuration. These options include maintaining the four independent CMRA systems or developing a single, unified system. Further, DOD is determining the business processes and rules needed to standardize the department's approach to collecting and using inventory data. DOD officials noted that a key factor hindering resolution of these issues has been the lack of dedicated resources to develop and implement a common system and associated business processes. In March 2014, DOD approved plans to establish an office to support these implementation efforts, but the office's roles and responsibilities and how it will be staffed have not been fully determined.

Background

Section 2330a of title 10 of the U.S. Code requires the Secretary of Defense to establish a data collection system and to submit an annual inventory of the activities performed pursuant to contracts for services for or on behalf of DOD during the preceding fiscal year.⁷ The inventory is to include a number of specific data elements for each identified activity, including

- the function and missions performed by the contractor;
- the contracting organization, the component of DOD administering the contract, and the organization whose requirements are being met through contractor performance of the function;
- the funding source for the contract by appropriation and operating agency;
- the fiscal year the activity first appeared on an inventory;
- the number of contractor employees (expressed as FTEs) for direct labor, using direct labor hours and associated cost data collected from contractors;
- a determination of whether the contract pursuant to which the activity is performed is a personal services contract; and
- a summary of the information required by section 2330a(a) of title 10 of the U.S. Code.

⁷10 U.S.C. § 2330a.

As implemented by DOD, components are to compile annual inventories of activities performed on their behalf by contractors and submit them to AT&L, which is then required to formally submit a consolidated DOD inventory to Congress no later than the end of the third quarter of each fiscal year. Within 30 days after it is submitted to Congress, the inventory is to be made public. Within 90 days of the date on which the inventory is submitted to Congress, the secretaries of the military departments and heads of the remaining defense components are to complete a review of the contracts and activities for which they are responsible and ensure that any personal services contracts in the inventory were properly entered into and performed appropriately; that the activities in the inventory do not include inherently governmental functions; that to the maximum extent practicable, the activities on the list do not include any functions closely associated with inherently governmental functions; and that activities that should be considered for conversion to DOD civilian performance have been identified.⁸

Section 2330a of title 10 of the U.S. Code also requires the secretaries of the military departments or heads of the remaining defense components responsible for activities in the inventory to develop a plan, including an enforcement mechanism and approval process, to

- provide for the use of the inventory to make determinations regarding the most appropriate mix of military, civilian, and contractor personnel to perform its mission;
- ensure that the inventory is used to inform strategic workforce planning;
- facilitate the use of the inventory for budgetary purposes; and
- provide for appropriate consideration of the conversion of certain activities, to include those closely associated with inherently governmental functions, critical functions, and acquisition workforce functions, to performance by government employees.⁹

Section 2463 of title 10 of the U.S. Code requires the Secretary of Defense to make use of the inventory of contracted services to identify certain functions performed by contractors, to include closely associated with inherently governmental functions, critical functions and acquisition workforce functions, and ensure that special consideration is given to converting those functions to civilian performance.¹⁰

Further, section 115b of title 10 of the U.S. Code requires the biennial submission of a strategic workforce plan to shape and improve DOD's civilian workforce. Among other requirements, the plan is to include an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities. P&R is responsible for developing and implementing the strategic plan in consultation with AT&L. Section 235 of title 10 of the U.S. Code requires that the Secretary of Defense include (in the budget justification materials submitted to Congress) information that clearly and separately identifies both the amount requested for the procurement of contract services for each DOD component, installation, or activity, and the number of contractor

⁸10 U.S.C. § 2330a(e). Inherently governmental functions, as a matter of policy, are so intimately related to the public interest as to require performance by government employees and include functions that require discretion in applying government authority or value judgments in making decisions for the government. Section 7.503(c) of the Federal Acquisition Regulation provides examples of such functions. In addition, closely associated with inherently governmental functions are those that while not inherently governmental, may approach the category because of the nature of the function, the manner in which the contractor performs the contract, or the manner in which the government administers performance under a contract. Section 7.503(d) of the Federal Acquisition Regulation provides examples of such functions.

⁹10 U.S.C. § 2330a(f).

¹⁰10 U.S.C. § 2463(d).

employee full-time equivalents projected and justified for each DOD component, installation, or activity based on the inventory of contracts for services and associated reviews.¹¹

In addition, Section 129a of title 10 of the U.S. Code governs DOD's general policy for total force management, requiring the Secretary of Defense to establish policies and procedures for determining the most appropriate and cost efficient mix of military, civilian, and contractor personnel to perform the mission of the department. The law states that these procedures shall specifically require DOD to use, among other things, the inventory of contracted services compiled under section 2330a of title 10 of the U.S. Code, when making determinations regarding the appropriate workforce mix.

Collectively, these statutory requirements mandate the use of the inventory and the associated review process to enhance the ability of DOD to identify and track the services provided by contractors, achieve accountability for the contractor sector of its total workforce, help identify functions for possible conversion from contractor performance to DOD civilian performance, support the development of DOD's annual strategic workforce plan, and project and justify the number of contractor FTEs included in its annual budget justification materials.

Thirty-two DOD Components Submitted Contractor Inventories for Fiscal Year 2012

Thirty-two DOD components submitted inventories for fiscal year 2012, collectively reporting an estimated 670,000 contractor FTEs providing services to DOD with obligations totaling about \$129 billion, as shown in table 1.¹² DOD has submitted annual inventories for fiscal years 2007 through 2012, the most recent submitted on July 16, 2013, to reflect the fiscal year 2012 inventory.¹³

Table 1: Estimated Number of Contractor Full Time Equivalents (FTEs) and Obligations as Reported in DOD's Inventory of Contracted Services

Fiscal year	Estimated number of contractor FTEs	Total obligations (in billions) ^a
2008	655,000	\$127
2009	767,000	\$155
2010	623,000	\$121
2011	710,000	\$145
2012	670,000	\$129

Source: DOD's inventory of contracted services.

Note: The changes in DOD's overall approach, in particular how DOD as a whole reflected research and development services and the use of different formulas for estimating contractor FTEs, among other factors, affected the reported changes in inventory data from year to year. Consequently, we and DOD officials agree that caution should be exercised when making direct comparisons between fiscal years 2008 through 2012 inventory data. All FTE figures are rounded to the nearest thousand.

^aThe Army's inventory data reflects total invoiced dollar amounts rather than obligations.

¹¹10 U.S.C. § 235(b).

¹² As we previously reported, the service contract obligations reported in the inventory of contracted services for a given fiscal year may not match the amount of contract obligations from FPDS-NG, in part because the FPDS-NG obligation amount for services captures categories of services that are not reported in the inventory. See [GAO-13-491](#).

¹³The fiscal year 2007 inventory only represented Army services contracts.

According to P&R officials, for the fiscal year 2012 inventory DOD components generally used the same compilation processes they employed in the previous year to determine contractor FTEs, although the approaches varied by component. To compile its inventory, the Army relied on its CMRA system, a database that captures information on labor-hour expenditures by function, funding source, and mission supported on contracted efforts. CMRA captures data reported directly by the contractors on services performed at the contract line item level, including information on the direct labor dollars, labor hours, total invoiced dollars, and the functions and mission performed. For other data elements in its inventory, such as the funding source and contracting organization, the Army relied on the Army Contract Business Intelligence System (ACBIS) and updates from resource managers, contracting officer's representatives, and other officials. By contrast, the remaining components compiled their inventory information primarily using the Federal Procurement Data System-Next Generation (FPDS-NG), which is the federal government's central repository for contract-related information, but it does not capture data on contractor FTE information.¹⁴ To address this limitation, DOD issued guidance in February 2013 that identified five methodologies components could use—singularly or in combination—to estimate or calculate the number of FTEs in their fiscal year 2012 inventory. These varying approaches, which include reporting information collected from contract invoices and referencing independent government estimates, can result in inconsistent reporting on the number of contractor FTEs performing services on behalf of the department. DOD officials cautioned against comparing inventory data across fiscal years given the differences in the estimating formulas and other factors.

DOD Took Additional Steps to Establish a Common Contractor Manpower Data System, but Faces Challenges

DOD has taken additional steps to implement its November 2011 plan to establish a common data system to meet inventory requirements, but various challenges may hinder DOD's efforts to meet its goal of having the system and standardized business processes fully in place to support its annual inventory submission beginning with the fiscal year 2016 inventory.

DOD Has Taken Steps to Establish a Common Data System

In its November 2011 memorandum, DOD outlined plans to develop a common system for components to capture contractor manpower data on most of their services contracts. As an interim step, DOD noted that it expected the common system to be operational in time to support the fiscal year 2013 inventory but did not expect that components would fully use the system to collect and report data until fiscal year 2016. To achieve a uniform approach to collecting contractor manpower data, DOD issued additional guidance in November 2012 that reiterated its goal for all components to report contractor manpower data using a common system, which it termed the Enterprise-wide Contractor Manpower Reporting Application, to support the fiscal year 2013 inventory submissions. P&R officials told us that in September 2013, DOD fielded an additional CMRA system for the remaining DOD components as it had previously done for the Air Force and Navy. Each of the four CMRA systems—for the Departments of the Air Force, Army, and Navy, and the remaining defense components, respectively—is independent, has its own interface that requires a separate log-in, but all are accessible via a common webpage. The military departments have their own help desk support;

¹⁴We have previously found that FPDS-NG may not capture other statutorily-required data such as the requiring activity whose requirements are met through the contract and does not include the ability to identify more than one type of service in a contract, which limits its utility for the purposes of compiling a complete and accurate inventory. See [GAO-11-192](#).

however, P&R officials noted that the help desk for the remaining DOD components is not operational due to funding lapses.

Currently, each of the four independent CMRA systems captures over 20 reportable data elements that are grouped into four categories, though the sources vary for some elements depending on the DOD component (see table 2).

Table 2: DOD Contractor Manpower Reporting Application (CMRA) Data Categories and Sources by Military Department

CMRA data categories	Examples of information collected	Data Sources		
		Army	Air Force	Navy
Contract service	Non-labor direct costs, labor hours, and invoiced amounts	Contractor, sub-contractor	Contractor, sub-contractor	Contractor, sub-contractor
Contracting activity	Contracting office, whether the action was competed and number of offers received	Federal Procurement Data System-Next Generation (FPDS-NG), Army Contract Business Intelligence System (ACBIS)	FPDS-NG	ACBIS, FPDS-NG
Funding activity	Funding source	Defense Finance and Accounting Service, General Fund Enterprise Business Systems	Commanders Resource Information System, Contracting Officer Representative (COR)	ACBIS, FPDS-NG
Requiring activity	DOD component for whom work is performed	Resource Manager	COR	Contractor, COR

Source: GAO analysis of DOD data.

Note: According to DOD officials, the military departments use accounting systems, contracting officer representatives and other systems and acquisition personnel to corroborate the accuracy of the data entered into CMRA. We did not include information on the fourth CMRA for the other DOD components in this table, as we focused on the three military departments.

While the Army has been reporting based on CMRA since 2007, P&R officials stated that the remaining DOD components are now using CMRA to varying degrees to collect data for the fiscal year 2013 contractor inventory.¹⁵ To measure the extent to which components are reporting data in these systems, DOD's March 2014 guidance for the fiscal year 2013 inventory submission required components to specify the percentage of their total contracts reported by contractors in their respective CMRA systems and the extent to which the components used these data to support their inventory submissions. DOD expects to report on this usage beginning with the fiscal year 2013 inventory, due by June 30, 2014.

Challenges May Hinder DOD's Efforts to Meet Its Goal

In its November 2012 guidance, DOD expressed its commitment to improving visibility into and accountability of contracted services in accordance with legislative requirements by developing a common system. However, the department faces challenges as it considers options on the capability and features of the common system. For example,

¹⁵The four defense intelligence agencies—Defense Intelligence Agency, National Geospatial-Intelligence Agency, National Security Agency, and National Reconnaissance Office—are excluded from the DOD requirement to report contractor manpower data in CMRA as the system does not have the capability to securely capture classified data.

- DOD officials stated their goal is to establish an enterprise-wide solution that consists of common hardware and software, but they continue to weigh options on what the solution entails. For example, DOD officials expect to begin transitioning to a single interface in fiscal year 2015 so that users may access all four CMRA systems using a single log-in. According to DOD officials, the department is still considering whether to maintain the four existing CMRA systems or develop a single, common system. Either approach will integrate information from components' existing contract writing, financial, and other business information systems, which may pose further challenges.
- DOD officials described another goal is to establish standardized business processes and rules for collecting, reporting, and fully utilizing inventory data. However, DOD is determining the processes and rules needed to govern the use of the common system. For example, the Army collects data for contracted services from both service contracts and contracts for supplies that have services provided under such contracts, but P&R officials cited system limitations and other factors as hindrances that limit the other DOD components' ability to do so. AT&L and the Office of the Comptroller are taking steps to address these limitations, according to P&R officials. Further, DOD officials noted that they are in the early stages of developing guidance on how the data will be used to prepare its annual contractor inventory submission to Congress, to support the components' inventory review process, and to help inform budget and workforce planning decisions. The Army has a centralized approach to review its inventory and inform its projections of contracted services, but a similar approach has not yet been adopted across DOD. As DOD moves forward with implementing the common data system, the department plans to incorporate these business processes within a forthcoming DOD Instruction on services acquisition; however, the department has not yet established a timeframe for doing so.

DOD officials noted that a key factor hindering resolution of these issues has been the lack of dedicated resources to develop and implement a common system and associated business processes. P&R officials stated that there is a working group comprised of members from P&R, AT&L, the Office of the Deputy Chief Management Officer, and other stakeholders. They noted, however, the need for dedicated support for the effort. To ensure sustained management attention, in September 2013 P&R prepared a request to establish the Total Force Management Support Office, which DOD approved in March 2014. According to P&R officials, this office is authorized and funded for six FTEs and the department is in the process of finalizing a memorandum of agreement that broadly outlines the office's roles and responsibilities. DOD officials anticipate that the new office will coordinate the department's efforts to define business processes for compiling, reviewing, and using the inventory.

P&R officials noted that the ability to achieve the department's goal of having all components report using the common data system is predicated upon their assumptions that the office will be staffed by June 2014 by experts within the Army's Office of Manpower and Reserve Affairs, who currently manage the Army's CMRA system as well as its inventory review process and added that if the Army experts do not transfer, the new office would need to hire new staff who may lack the desired expertise. According to DOD officials, further delays in reaching agreement on the roles and responsibilities of the new office may jeopardize the department's plan to implement the common system in support of DOD's goal of full implementation by fiscal year 2016.

DOD continues to make headway in its efforts to develop a common data system, but it is also encountering challenges that may adversely affect its ability to achieve its goal of having all

components collect and report data using the system by fiscal year 2016. DOD's current solution to these challenges is to create a new office to help provide additional management attention and dedicated resources, but it has not yet reached agreement on the office's roles and responsibilities and it is uncertain when the office will be fully staffed. Doing so in a timely fashion will be key to successfully implementing the common data system. Further, DOD does not have a comprehensive plan with timeframes and milestones to measure its progress toward developing a common contractor manpower data system that includes associated business processes. Developing such a plan, as we previously recommended, would provide a tangible step in implementing a common data system and using contractor manpower data as part of workforce planning and budgeting decisions.

Agency Comments

We are not making any recommendations in this report. In written comments on a draft of this report, DOD agreed with our assessment that challenges remain in establishing a common system to collect contractor manpower data and reiterated the importance of establishing a centralized office to manage the effort. DOD's written response is reproduced in the enclosure.

We are sending copies of this report to the Secretary of Defense and interested congressional committees. This report will also be available at no charge on our Web site at <http://www.gao.gov>.

Should you or your staff have questions concerning this report, please contact me at (202) 512-4841 or at dinapolit@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report include Candice Wright, Assistant Director; MacKenzie Cooper, Susan Ditto, Jessica Drucker, John Krump, Caryn E. Kuebler, and Jean McSween.



Timothy J. DiNapoli
Director, Acquisition and Sourcing Management

Enclosure



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5/2/14

Mr. Timothy J. DiNapoli
Director, Acquisition and Sourcing Management
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. DiNapoli,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-14-491R, 'Defense Acquisitions: Update on DOD's Efforts to Implement a Common Contractor Manpower Data System,' dated April 11, 2014 (GAO Code 121210). The Department appreciates the GAO's work on this engagement, as well as the opportunity to review and comment on this draft report.

The Department agrees with the GAO's assessment that, while substantial progress has been made over the past year, significant challenges persist. The importance of standing up a dedicated, fully resourced and staffed office with the appropriate subject matter expertise and historical implementation knowledge base cannot be understated. The Department's long-term plan for integration of the Inventory of Contracts for Services requirement and subsequent workload alignment reviews into the overarching statutory framework for Total Force Management, as highlighted by the GAO (specifically 10 USC 129a, 10 USC 115, 10 USC 235, and 10 USC 2463), is predicated on such capability being established and fully operational as soon as possible.

The Department looks forward to working with the GAO over the next several years on the multiple engagements relative to our efforts in this critical area as directed by section 951 of the FY14 NDAA. Should you have any questions, please contact the primary action officers for this engagement, Ms. Amy Parker (703-697-1735 or amy.l.parker26.civ@mail.mil) and Mr. Thomas Hessel (703-697-3402 or thomas.j.hessel.civ@mail.mil).

Sincerely,

Rich Robbins
Director, Total Force Planning &
Requirements

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