



May 2013

# HUMAN CAPITAL

## Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce

# GAO Highlights

Highlights of [GAO-13-470](#), a report to congressional committees

## HUMAN CAPITAL

### Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce

#### Why GAO Did This Study

The federal government's growing fiscal challenges underscore the importance of DOD employing a strategic approach to determining the appropriate mix of its military, civilian, and contractor personnel to perform its mission, and determining the functions that are critical for the department to achieve its missions. A committee report accompanying the National Defense Authorization Act for Fiscal Year 2013 directed GAO to assess the measures DOD is taking to balance its workforce against its requirements. GAO examined (1) historical and projected workforce trends, (2) the actions DOD has taken to determine an appropriate workforce mix, (3) the analysis DOD performs to identify core or critical functions, and (4) how DOD used its inventory of contracted services to inform budget submissions. GAO performed trend analysis to determine historical and future workforce levels. GAO also reviewed relevant statutes, DOD and military department guidance, and budgetary submissions, and interviewed officials from DOD and the Office of Management and Budget (OMB).

#### What GAO Recommends

GAO recommends that DOD revise its policies and procedures to incorporate (1) legislative requirements for workforce planning and (2) federal requirements for the identification of critical functions. GAO also recommends that DOD provide better information regarding contractor FTEs used in budget submissions. DOD noted actions that it has underway or planned to respond to these recommendations.

View [GAO-13-470](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or [farrellb@gao.gov](mailto:farrellb@gao.gov) or Timothy J. DiNapoli at (202) 512-4841 or [dinapolit@gao.gov](mailto:dinapolit@gao.gov)

#### What GAO Found

Since fiscal year 2001, the Department of Defense's (DOD) military and civilian workforces peaked in fiscal year 2011 at 3.1 million personnel combined, and is projected to decrease over the next five years to below the fiscal year 2001 level of 2.9 million. Comparable historical data on DOD's contractor workforce are not available. In fiscal year 2011, DOD reported that it contracted for services performed by an estimated 710,000 contractor full time equivalents (FTEs)—a workforce equal to about 90 percent of the size of DOD's civilian workforce of 807,000 FTEs. Using fiscal year 2013 constant dollars, GAO's analysis of DOD spending on contracted services shows obligations peaked in fiscal year 2010 at about \$195 billion, more than twice the amount spent in fiscal year 2001. This spending decreased to about \$174 billion in fiscal year 2012.

DOD has taken some steps to improve its understanding and management of its total workforce; however, several shortcomings remain. Specifically, DOD has yet to assess the appropriate mix of its military, civilian, and contractor personnel capabilities in its strategic workforce plan as required by law. Further, DOD has not updated its policies and procedures to reflect current statutory requirements to use its civilian strategic workforce plan and the inventory of contracted services to determine the appropriate mix of personnel to perform DOD's mission. Moreover, DOD's strategic human capital plan does not contain certain required elements and information and several factors limit the accuracy of its inventory of contracted services. As a result, the department is hampered in making more informed strategic workforce mix decisions, which is crucial to meeting DOD's congressional mandate to manage its total workforce.

Although DOD is not required to perform analysis to identify a list of core or critical functions across the department as a whole, DOD has identified broad core mission areas of the department. However, its current policies do not fully reflect federal policy concerning the identification of critical functions. Office of Federal Procurement Policy Policy Letter 11-01 requires agencies to identify and ensure that they retain control over critical functions that are core to the agency's mission, but may be contracted out to the private sector. DOD's policies and procedures predate the publication of this requirement, and consequently contain no reference to it. Absent specific policies and procedures on this process, DOD may lack assurance that it retains enough government employees to maintain control over these important functions.

DOD components used various methods and data sources, including their inventories of contracted services, to estimate contractor FTEs for budget submissions, but GAO's analysis found that the contractor FTE estimates have significant limitations and do not accurately reflect the number of contractors providing services to DOD. Components encountered challenges, to include the use of estimating techniques based on inventory data that may not be accurate and the lack of a crosswalk between the inventory and specific budget codes. While the Army has a process that addresses these challenges, it may be several years before the remaining DOD components are able to do the same. DOD is taking steps to help the remaining components address these challenges, but, in the meantime, the budget does not provide an explanation of how the contractor FTE estimates are derived and what limitations apply.

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## Abbreviations

CAPE	Cost Assessment and Program Evaluation
CIS	Comptroller Information System
CMRA	Contractor Manpower Reporting Application
DAWDF	Defense Acquisition Workforce Development Fund
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DOD	Department of Defense
FAIR Act	Federal Activities Inventory Reform Act of 1998
FPDS-NG	Federal Procurement Data System – Next Generation
FTE	Full time equivalent
FYDP	Future Years Defense Program
OFPP	Office of Federal Procurement Policy
OSD	Office of the Secretary of Defense
SAMAS	Structure and Manpower Allocation System

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May 29, 2013

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

The Department of Defense (DOD) is one of the largest and most complex organizations in the federal government, and it is consequently one of the nation's largest employers. DOD's total workforce consists of three main components: military personnel (including the active military and the reserve and guard forces<sup>1</sup>), civilians, and contractors providing support to the department. For fiscal year 2012, DOD budgeted for a military workforce of about 2.3 million active and reserve servicemembers and a civilian workforce of about 800,000 full time equivalents (FTEs),<sup>2</sup> including foreign nationals and indirect hires. The active military and reserve and guard forces are charged with implementing the National Military Strategy and performing military essential functions in support of DOD's various missions. DOD's civilian workforce performs a wide variety of responsibilities, including providing care for active duty personnel, their dependents, and wounded servicemembers; managing financial accounting systems; and providing mission-essential combat-support functions that traditionally have been performed by the uniformed military, such as logistics support, maintenance, and carrying out cyber and

<sup>1</sup>Within DOD's military personnel component of its total workforce, the reserve and guard forces are comprised of the Army, the Navy, the Marine Corps, and the Air Force reserves and the Army and Air Force National Guards.

<sup>2</sup>An FTE is a standard measure of labor that equates to one year of full-time work (labor hours as defined by the Office of Management and Budget Circular A-11 each year).

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intelligence efforts. In addition, a key component of this workforce also provides deployable civilian experts to Afghanistan and other theaters of operation. Augmenting the military and civilian workforces, DOD has increasingly relied on contractors both overseas and in the United States to perform many of the same functions as civilian employees, including management support, communication services, interpreters who accompany military patrols, base operations support (e.g., food and housing), weapon systems maintenance, and intelligence. In its inventory of contracted services, DOD reported that it spent about \$145 billion for contracted services in fiscal year 2011, provided by an estimated 710,000 contractor FTEs.<sup>3</sup> DOD's workforce management is governed by a complex statutory and regulatory framework, and each component of DOD's total workforce is governed by different rules that direct how the department manages its total workforce.

Presently, at the end of a decade that has seen two wars and growth in DOD's costs for military and civilian personnel as well as contracted services, DOD faces increasing competition for resources as the federal government confronts growing fiscal challenges. For example, we previously reported that in fiscal year 2012, DOD budgeted approximately \$72 billion for its civilian personnel<sup>4</sup>, an increase of approximately \$12.6 billion, or 21 percent, since fiscal year 2002.<sup>5</sup> In 2011, we reported that the active duty total compensation costs increased 32 percent from about \$143.8 billion in fiscal year 2000 to about \$189.4 billion in fiscal year 2008, and that the federal government's total estimated compensation for reserve and national guard members grew over 31 percent from about

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<sup>3</sup>DOD is required to annually compile an inventory of contracted services, pursuant to 10 U.S.C § 2330a, to include, among other data, the functions performed, the number of contractor FTEs performing the function, and the total dollar amount of the services purchased. For fiscal year 2011, we note that obligations reported for contracted services in budget justification materials and obligations reported in the inventory of contracted services differ. We have previously reported that a number of factors limit the accuracy and completeness of the inventory data, see, for example, GAO, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, [GAO-12-357](#) (Washington, D.C.: Apr. 6, 2012).

<sup>4</sup>Civilian personnel include foreign nationals, which can be hired directly by DOD or indirectly hired under agreement or contract with foreign governments to provide personal services to the United States government

<sup>5</sup>GAO, *Human Capital: Critical Skills and Competency Assessments Should Help Guide DOD Civilian Workforce Decisions*, [GAO-13-188](#) (Washington, D.C.: Jan. 17, 2013).

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\$17.8 billion in fiscal year 2001 to nearly \$23.5 billion in fiscal year 2008.<sup>6</sup> Further, DOD's obligations for contracted services more than doubled from fiscal years 2001 to 2009.<sup>7</sup> The sequestration as a result of the Budget Control Act of 2011<sup>8</sup> requires spending cuts in fiscal year 2013 totaling about \$40 billion through across-the-board, proportional reductions in funding provided in the appropriations acts for most defense accounts, including accounts related to DOD's civilian workforce and contracted services. To prepare for the sequestration, the Secretaries of the Military Departments issued guidance in January 2013 to their respective departments to direct actions intended to reduce costs. Further, section 955 of the National Defense Authorization Act for Fiscal Year 2013<sup>9</sup> calls for the Secretary of Defense to develop an efficiencies plan to achieve savings in funding for contractor and civilian workforces commensurate with the savings in military pay due to currently planned reductions to active duty end strength.

The current and long-term future fiscal pressures facing DOD underscore the importance of a strategic approach to recruit, develop, and retain the right number of individuals with the necessary skills and competencies for DOD to meet its mission and contract for services where appropriate. While progress has been made since we first placed strategic human capital management on our high risk list in 2001<sup>10</sup>—for example, through the various authorities and flexibilities provided to agencies for managing the federal workforce—this area remains one of significant concern. As we noted in February 2013, strategic human capital management in DOD and across the federal government continues to be a GAO high-risk area because critical skill and competency gaps could undermine agencies' abilities to accomplish their missions.<sup>11</sup> Current budget and long-term

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<sup>6</sup>GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011). Both estimates used fiscal year 2008 constant dollars.

<sup>7</sup>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).

<sup>8</sup>Pub. L. No. 112-25 (2011) as amended.

<sup>9</sup>Pub. L. No. 112-239, § 955 (2013).

<sup>10</sup>GAO, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

<sup>11</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).



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future fiscal pressures coupled with a potential wave of employee retirements could produce gaps in leadership and institutional knowledge that may threaten the government's capacity to effectively address complex challenges. Strategic human capital planning that is integrated with broader organizational strategic planning is essential for ensuring that agencies have the talent, skills, and experience they need to cost-effectively execute their current and future mission and program goals. Specifically, with regard to DOD, our 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 military and civilian workforces and appropriate use of contractors.<sup>12</sup>

Two key aspects of DOD's implementation of total force management are determining the appropriate mix of its military, civilian, and contractor workforces and determining the functions that are critical for the department to achieve its missions. Congress has taken many steps to help ensure DOD appropriately manages its total workforce, and has passed legislation requiring DOD to conduct human-capital planning efforts for its civilian workforce. Specifically, since 2006, legislation has required DOD to periodically develop and submit to congressional defense committees a strategic workforce plan to shape and better manage the department's civilian workforce.<sup>13</sup> Further, legislation encouraged DOD to take a more holistic approach to its workforce requirements to achieve the appropriate balance, using all three components—military, civilian, and contractor—of its total workforce, and prioritize the achievement of a workforce sufficiently sized and of the appropriate mix to carry out DOD's mission over cost.<sup>14</sup> Congress has also enacted new requirements and amended existing DOD workforce planning legislation to require inclusion of contracted services information in DOD's total force planning efforts. The background section of this report provides an overview of these requirements, as well as other

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<sup>12</sup>GAO, *DOD Civilian Workforce: Observations on DOD's Efforts to Plan for Civilian Workforce Requirements*, [GAO-12-962T](#) (Washington, D.C.: July 26, 2012).

<sup>13</sup>The National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 1108 (2009) (codified as amended at 10 U.S.C. §115b) codified a previous strategic workforce plan requirement that was originally enacted by section 1122 of the National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163 (2006).

<sup>14</sup>10 U.S.C. §129a.

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relevant legislation, requirements, and guidance that directs DOD to take steps regarding its strategic workforce management. Additionally, we have made a series of recommendations to DOD to better manage its total workforce and improve its strategic workforce plan. Appendix I lists our recent relevant recommendations made to DOD.

A committee report accompanying a bill for the National Defense Authorization Act for Fiscal Year 2013 directed GAO to assess DOD's efforts to appropriately balance its current and future workforce structure against its requirements.<sup>15</sup> In this report, we examine: (1) the historical trends of the levels of military, civilian, and contractor personnel and the future projected trends for DOD's workforce in light of shifts in departmental priorities; (2) the extent to which DOD has taken action to determine the appropriate workforce mix necessary to accomplish its mission; (3) the extent to which DOD conducts analysis to identify core or critical functions of the department; and (4) how the military departments and defense agencies used the inventory of contracted services to inform their fiscal year 2013 and 2014 budget submissions.

To examine the historical and projected trends of the levels of military, civilian and contractor personnel in light of shifts in departmental priorities, we obtained data on active component end strength; the selected reserve within the reserve component end strength;<sup>16</sup> and civilian personnel FTEs, including foreign nationals and indirect hires;<sup>17</sup> and performed trend analysis on this data from fiscal year 2001 to fiscal year 2017. We relied on data from DOD's fiscal year 2013 Future Years Defense Program (FYDP), the Comptroller Information System (CIS) from the Office of the Under Secretary of Defense, Comptroller, and other DOD budget documents. We determined that these data, collectively, were sufficiently reliable for use in discussing historical and future trends

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<sup>15</sup>H.R. Rep. No. 112-479 (2012).

<sup>16</sup>For the reserve component, we included servicemembers from the Selected Reserve and excluded certain categories such as the Individual Ready Reserve and Inactive National Guard.

<sup>17</sup>According to DOD's glossary of workforce terms, foreign national employees are local citizens of the host country or citizens of a third country. Foreign nationals can be direct or indirect hires. Direct hired employees are hired directly by an agency of DOD. Indirect hire civilians are foreign nationals assigned to support U.S. forces through contracts or agreements with foreign governments (or agencies thereof). These personnel are employees of the foreign governments involved.

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of the military and civilian workforces. We assessed the reliability of the data by comparing the data against other available data sources, conducting electronic testing of the data, and discussing any limitations of the data with appropriate DOD officials. DOD does not have comparable information on DOD's contractor workforce, but to determine the size of the contractor workforce, we obtained estimates of contractor FTEs from DOD's inventory of contracted services from fiscal year 2008 to fiscal year 2011. To report on obligated dollars for contracted services, we reviewed the obligated dollars for contracted services from fiscal year 2001 to fiscal year 2012 and the projected obligations for contracted services from fiscal year 2013 to fiscal year 2014. We relied on budget data on obligations for contracted services. Based on discussions with appropriate DOD officials and our comparison of the trends in the budget data against other data sources, we believe the contracted service obligation data are sufficiently reliable to serve as context of overall trends for contracted services. In addition, we interviewed officials from the Office of the Secretary of Defense (OSD) and military services regarding how shifts in departmental priorities are expected to impact workforce requirements.

To determine the extent to which DOD has taken action to determine the appropriate workforce mix to accomplish its mission, we reviewed relevant legislation that governs DOD total workforce management and departmental guidance concerning requirements for DOD to carry out such an assessment.<sup>18</sup> We also interviewed OSD and military service officials to assess the actions DOD has taken to ensure it is employing the appropriate workforce mix. Specifically, we discussed the process DOD uses to determine which sector of the workforce should perform a given task based on the nature of the work involved, DOD's process for identifying mission critical occupations as part of its strategic workforce planning process, and efforts by the services to improve their total workforce management in the future. We reviewed selected statutory requirements concerning the processes by which DOD is to determine its appropriate workforce mix. We then compared these requirements to the department's efforts to date, and noted any differences.

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<sup>18</sup>10 U.S.C. §115b.

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To determine the extent to which DOD conducts analysis to identify core and critical functions, we reviewed relevant legislation<sup>19</sup> and federal policy and other guidance that requires the identification of inherently governmental and critical functions, including the Office of Federal Procurement Policy Policy Letter 11-01.<sup>20</sup> Further, we reviewed departmental guidance concerning the need and process for identifying critical functions. We interviewed OSD and military service officials to determine the actions DOD has taken to define core or critical functions and respond to these requirements. Additionally, we met with officials from the Office of Federal Procurement Policy within the Office of Management and Budget to discuss their views on DOD's implementation of those requirements contained in the 2011 policy letter regarding critical functions. We compared federal policy concerning the identification of critical functions to DOD's efforts to date, and noted any differences.

To determine how the military departments and defense agencies used the inventory of contracted services to inform their fiscal year 2013 and 2014 budget submissions, we focused our efforts on five DOD components—the departments of the Army, the Navy, and the Air Force, the Defense Logistics Agency (DLA), and the Defense Information Systems Agency (DISA). We selected these components based on the amount of their obligations for contracted services and the large number of contractor FTEs they identified in their fiscal year 2011 inventory of contracted services, the most current inventory available at the time of our review. We reviewed relevant guidance that directed the DOD components on how to use the inventory of contracted services to provide contractor FTE information in their budget submissions for fiscal years 2013 and 2014. We also interviewed DOD officials regarding the guidance and ongoing initiatives intended to improve the accuracy of the inventory data to inform future budget submissions. In addition, we interviewed relevant budget and manpower officials from the five components we included in our review regarding the use of their inventories in the development of their fiscal year 2013 and 2014 budget submissions, and we obtained corroborating documentation from the three components that could provide it to determine the processes used

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<sup>19</sup>10 U.S.C. §129a.

<sup>20</sup>Office of Federal Procurement Policy Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions* (Sept. 12, 2011).

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to develop contractor FTE information included in these budget submissions.

We conducted this performance audit from October 2012 to May 2013 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A more in depth discussion of our scope and methodology appears in appendix II of this report.

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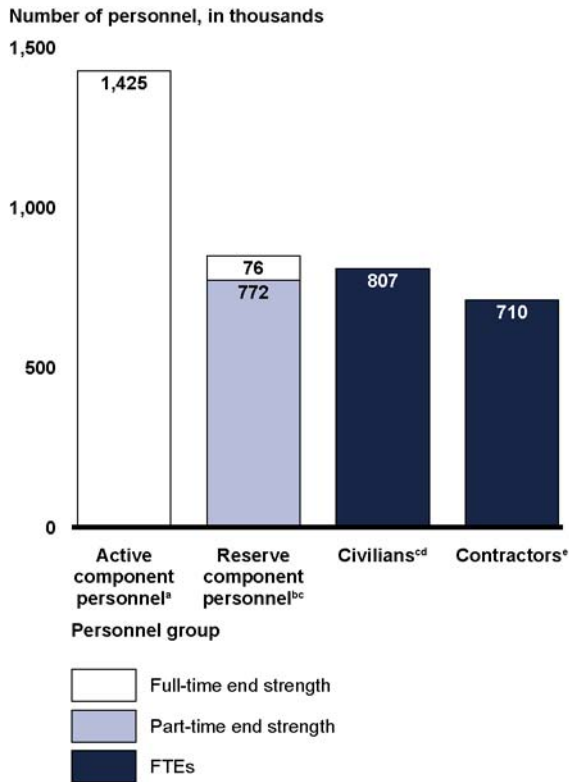
## Background

DOD's total workforce is made up of three main components: military personnel (including the active military and the reserve and guard forces), DOD civilian employees<sup>21</sup>, and contractor support. Figure 1 shows the number of the active and reserve components of the military, civilians, and estimated contractor FTEs that comprised DOD's total workforce in fiscal year 2011.

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<sup>21</sup>Civilian personnel include foreign nationals, which can be hired directly by DOD or indirectly hired under agreement or contract with foreign governments to provide personal services to the United States government.

**Figure 1: DOD's Reported Number of Active Component End Strength, Reserve Component End Strength, Civilian Full Time Equivalents (FTE), and Contractor FTEs, Fiscal Year 2011**



Source: GAO analysis of DOD data.

Notes:

<sup>a</sup>Active component end strength includes Army, Navy, Marine Corps, and Air Force servicemembers as of the end of fiscal year 2011.

<sup>b</sup>The reserve component end strength includes the approximately 772,000 part-time and the approximately 76,000 full-time Army Reserve, Navy Reserve, Marine Corps Reserve, Air Force Reserve, Army National Guard and Air National Guard servicemembers in the selected reserve as of the end of fiscal year 2011. The reported reserve component end strength does not include the Individual Ready Reserve or the Inactive National Guard.

<sup>c</sup>Civilian FTEs is an estimate of full time direct hires, indirect hires, and foreign nationals for fiscal year 2011. Foreign nationals account for about 49,000, or 6 percent of the civilian workforce.

<sup>d</sup>Dual status technicians are included in both the selected reserve part-time end strength and the civilian FTEs.

<sup>e</sup>The number of contractor FTEs is DOD's estimate based on data reported in its inventory of contracted services for fiscal year 2011.

Over the last decade, Congress has enacted or amended several laws that govern DOD's management of its total workforce. These interconnected provisions provide a framework for DOD total workforce

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management that requires DOD to adopt and enforce specific policies. In addition to those policy requirements, DOD is also required to submit information to Congress about its workforce and workforce planning, including, among other things, a strategic plan for shaping its civilian workforce, an annual inventory of contracted services and budget justification information concerning its contractor workforce. Other provisions govern the overall composition of DOD's workforce, and outline the circumstances under which it is appropriate to convert performance of functions from one of the three workforce components to another. This section provides a high level overview of selected relevant provisions, as well as the major responsibilities regarding workforce management assigned to departmental leadership and organizations.

- **10 U.S.C. § 129a** governs DOD's general policy for total force management and was significantly amended in December of 2011. Section 129a now requires 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. These policies and procedures are required to clearly provide that attainment of a DOD workforce sufficiently sized and comprised of the appropriate mix of personnel necessary to carry out the mission of the department and the core mission areas of the armed forces takes precedence over cost. The law also specifies that these procedures shall specifically require DOD to use, among other things, the civilian strategic workforce plan (see 10 U.S.C. § 115b below) and the inventory of contracted services (see 10 U.S.C. § 2330a below) when making determinations regarding the appropriate workforce mix.
- **10 U.S.C. § 115b** requires the biennial submission of a strategic workforce plan to shape and improve DOD's civilian workforce. Among other things, the plan is required to address the appropriate mix of military, civilian, and contractor personnel capabilities, a requirement that DOD's plan submissions have not addressed to date.<sup>22</sup>
- **10 U.S.C. § 2330a** requires the Secretary of Defense to submit an annual inventory of activities performed pursuant to contracts for

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<sup>22</sup>GAO, *Human Capital: DOD Needs Complete Assessments to Improve Future Civilian Strategic Workforce Plans*, [GAO 12-1014](#) (Washington, D.C.: Sept. 27, 2012).

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services, which, among other things, is required to include information concerning the number of contractor employees, expressed as full-time equivalents, subject to certain exceptions. Section 2330a also requires that the DOD component heads perform a review of the contracts and activities in the inventory to ensure that the activities on the list do not include inherently governmental functions or illegal personal services contracts, and, to the maximum extent practicable, do not include functions closely associated with inherently governmental functions.<sup>23</sup> The inventory is also to be used to identify additional categories of functions for possible conversion to civilian performance pursuant to 10 U.S.C. § 2463 (below). Additionally, section 2330a requires DOD component heads to develop a plan, including an enforcement mechanism and approval process, to use the inventory to implement 10 U.S.C. § 129a (above), to inform strategic workforce planning, such as the plan required by 10 U.S.C. § 115b (above), to facilitate the use of the inventory in the submission of budgetary information in compliance with 10 U.S.C. § 235 (below), and to perform conversions identified during the review described above.

- **10 U.S.C. § 2463** requires the Secretary of Defense make use of the inventory of contracted services, compiled pursuant to 10 U.S.C. § 2330a (above), for the purpose of identifying certain functions performed by contractors, to include closely associated with inherently governmental functions, critical functions and acquisition workforce functions, that should be given special consideration for conversion to civilian performance.

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<sup>23</sup>Inherently governmental functions are defined by law as functions that are so intimately related to the public interest as to require performance by federal government employees. Federal Activities Inventory Reform (FAIR) Act of 1998, Pub. L. No 105-270, § 5 (1998) (appended as a note below 31 U.S.C. § 501). There is currently an open Federal Acquisition Regulation case (2012-001) under consideration to implement a September 2011 Office of Federal Procurement Policy Policy Letter that, among other things, clarified the definition of “inherently governmental function” (consistent with the FAIR Act definition). Office of Federal Procurement Policy, Policy Letter 11-01, Performance of Inherently Governmental and Critical Functions (Sept. 12, 2011). 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. Federal Acquisition Regulation § 7.503(d) provides examples of such functions.



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- **10 U.S.C. § 235** 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 FTEs projected and justified for each DOD component, installation, or activity based on the inventory of contracts for services and the statutorily required reviews of the inventory data (see 10 U.S.C. § 2330a and 10 U.S.C. § 2463 above).

Following DOD's fiscal year 2010 announcement of its efficiency initiatives (including a cap on its civilian workforce FTEs at fiscal year 2010 levels),<sup>24</sup> and in light of the planned drawdown of military personnel, Congress enacted two additional provisions that shape the composition of DOD's total workforce.

- **Section 808 of the National Defense Authorization Act for Fiscal Year 2012 (Pub. L. No. 112-81 (2011))** requires, among other things and subject to certain exceptions, that the total amount obligated by DOD for contract services in fiscal years 2012 and 2013 may not exceed the total amount requested for contract services in the fiscal year 2010 President's budget. The fiscal year 2010 president's budget was the baseline DOD used in developing its civilian workforce cap; the effect of this provision is to provide a parallel cap on contracted services working from a similar baseline.<sup>25</sup>
- **Section 955 of the National Defense Authorization Act for Fiscal Year 2013 (Pub. L. No. 112-239 (2013))** requires the Secretary of Defense to, among other things, develop an efficiencies plan for the civilian and contract workforces. The plan is required to achieve savings in the total funding of those workforces not less than savings achieved for basic military personnel pay from reductions in end strength over the same period of time, subject to certain exceptions. Among these exceptions are expenses for personnel performing

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<sup>24</sup>The initial cap announced in 2010 was directed to the Office of the Secretary of Defense and other headquarters commands. In fiscal year 2011, the cap was extended to include military departments.

<sup>25</sup>The two caps are not directly comparable because section 808 limits DOD's expenditures for contracted services, whereas the civilian cap was focused on the number of civilian FTEs, not expenditures.

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critical functions identified by the Secretary of Defense as requiring exemption in the interest of the national defense.

Additionally, there is a body of guidance that relates to determining what work should be performed by each sector of the total DOD workforce, including an Office of Federal Procurement Policy Letter, and several DOD guidance documents. These documents, collectively, require that migration of work between DOD's three workforce components be supported by analysis, and provide when the relevant components should be considered for performing new requirements.

- **Office of Federal Procurement Policy Policy Letter 11-01:** This policy letter, among other things, (1) clarifies what functions are inherently governmental, (2) explains how agencies must manage work that is “closely associated” with inherently governmental functions, and (3) requires agencies to identify “critical functions” to ensure that they have enough internal capability to retain control over functions that are core to the agency’s mission and operations.
- **DOD Directive 1100.4:** This directive outlines manpower requirements determination noting that national military objectives shall be accomplished with a minimum of manpower that is organized and employed to provide maximum effectiveness and combat power. It requires that military (active and reserve) and civilian manpower resources be programmed in accordance with validated manpower requirements, and within fiscal limits and acceptable levels of risk identified in defense planning and programming guidance.
- **DOD Instruction 1100.22:** This instruction outlines DOD policy and procedures for determining the appropriate mix of manpower (military and civilian) and private sector support (contractors).
- **DOD Directive Type Memorandum 09-007:** Provides business rules for use in estimating and comparing the full costs of military and DOD civilian manpower and contract support. It requires components to use certain business rules when performing an economic analysis in support of workforce decisions, which include determining the workforce mix of new or expanding mission requirements that are not inherently governmental or exempt from private-sector performance.<sup>26</sup>

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<sup>26</sup>This is the subject of another, ongoing, GAO review in response to a mandate in the conference report accompanying the National Defense Authorization Act for Fiscal Year 2013.

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10 U.S.C. §§ 2461 and 2463 and OMB circular A-76 are also relevant to the subject of transitions between workforce types, depending on the type of transition.

Collectively, this body of law and guidance requires DOD to collect a variety of information for its decision makers to review and use in making strategic workforce management decisions. These requirements are especially significant in light of the current and long-term future fiscal pressures facing DOD, which will require identification of all of those functions currently being performed by each workforce sector, prioritization of those functions, and strategic determinations as to whether the performance of functions is appropriately distributed across these three sectors.

Several offices have responsibility for implementing these laws and regulations and managing the department's total workforce. The Office of the Under Secretary of Defense, Personnel and Readiness (USD, P&R), has overall responsibility for issuing guidance on manpower management to be used by the DOD components, providing guidance on manpower levels of the components, and developing manpower mix criteria and other information to be used by the components to determine their workforce mix. The Under Secretary of Defense (Comptroller) and the Director, Cost Assessment and Program Evaluation (CAPE) play key roles in determining the amounts budgeted for military and civilian personnel, as well as contracted services. The Under Secretary of Defense (Comptroller) is responsible for ensuring that the budget for DOD is consistent with the total force management policies and procedures.<sup>27</sup> The Secretaries of the military departments and heads of the defense agencies have overall responsibility for the requirements determination, planning, programming, and budgeting for total force management policies and procedures,<sup>28</sup> as well as having numerous responsibilities related to manpower management as detailed in DOD guidance.<sup>29</sup> For example, they are responsible for designating an individual with full authority for manpower management including: (1) implementing fiscal year guidance and manpower management policy within their respective

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<sup>27</sup>10 U.S.C. § 129a(c)(4).

<sup>28</sup>10 U.S.C. § 129a(c)(2).

<sup>29</sup>See e.g. Department of Defense Directive 1100.4, Guidance for Manpower Management (Feb. 12, 2005).

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component, (2) ensuring manpower levels are programmed to optimize readiness, (3) developing annual manpower requests for Congress, including the consideration of converting from one form of manpower to another, (4) conducting continuous review of manpower utilization plans and programs, and (5) establishing and maintaining manpower data systems that account for all manpower resources.

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## DOD Projects Its Military and Civilian Workforce to Decrease, but Comparable Data on DOD's Contractor Workforce Are Not Available

DOD's data shows that since fiscal year 2001, its combined active, reserve, and civilian workforce peaked in fiscal year 2011 at 3.1 million personnel, and is projected by DOD to gradually decrease over the next five years to below its fiscal year 2001 level.<sup>30</sup> Comparable historical data on the contractor component of DOD's total workforce are not available, in part because DOD was not required to compile an annual inventory of activities performed pursuant to contracts for services until 2008. In its inventory for fiscal year 2011, DOD reported that about 710,000 contractor FTEs were performing various functions under contracts for services—which is equal to about 90 percent of the size of DOD's civilian workforce of 807,000 FTEs for that same fiscal year. Our analysis of DOD's obligations for contracted services using fiscal year 2013 constant dollars shows DOD's spending peaked in fiscal year 2010 at about \$195 billion, more than twice the amount spent in fiscal year 2001. Such spending decreased to about \$174 billion in fiscal year 2012.

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## DOD's Military and Civilian Workforce Peaked in Fiscal Year 2011, but Is Projected by DOD to Decrease

Our analysis of DOD's military and civilian workforce data indicates that the collective growth in DOD's military and civilian workforce peaked in fiscal year 2011 and is projected by DOD to gradually decrease over the next five years to below its fiscal year 2001 level, which was about 2.9 million servicemembers and DOD civilians combined. In fiscal year 2011, DOD's military and civilian workforce totaled about 3.1 million servicemembers and civilians, or about 139,000 more than fiscal year 2001, with the most growth occurring within the civilian workforce. Specifically, in fiscal year 2011, DOD's civilian workforce numbered about 807,000 FTEs, an increase of 17 percent or 120,000 FTEs over fiscal

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<sup>30</sup>For purposes of this report, military workforce represents the end strength of the active components and the selected reserve in the reserve components. Civilian workforce is represented by civilian FTEs and includes full time direct hires, indirect hires, and foreign nationals. Dual-status technicians are included in both the selected reserve part-time end strength and the civilian FTEs.

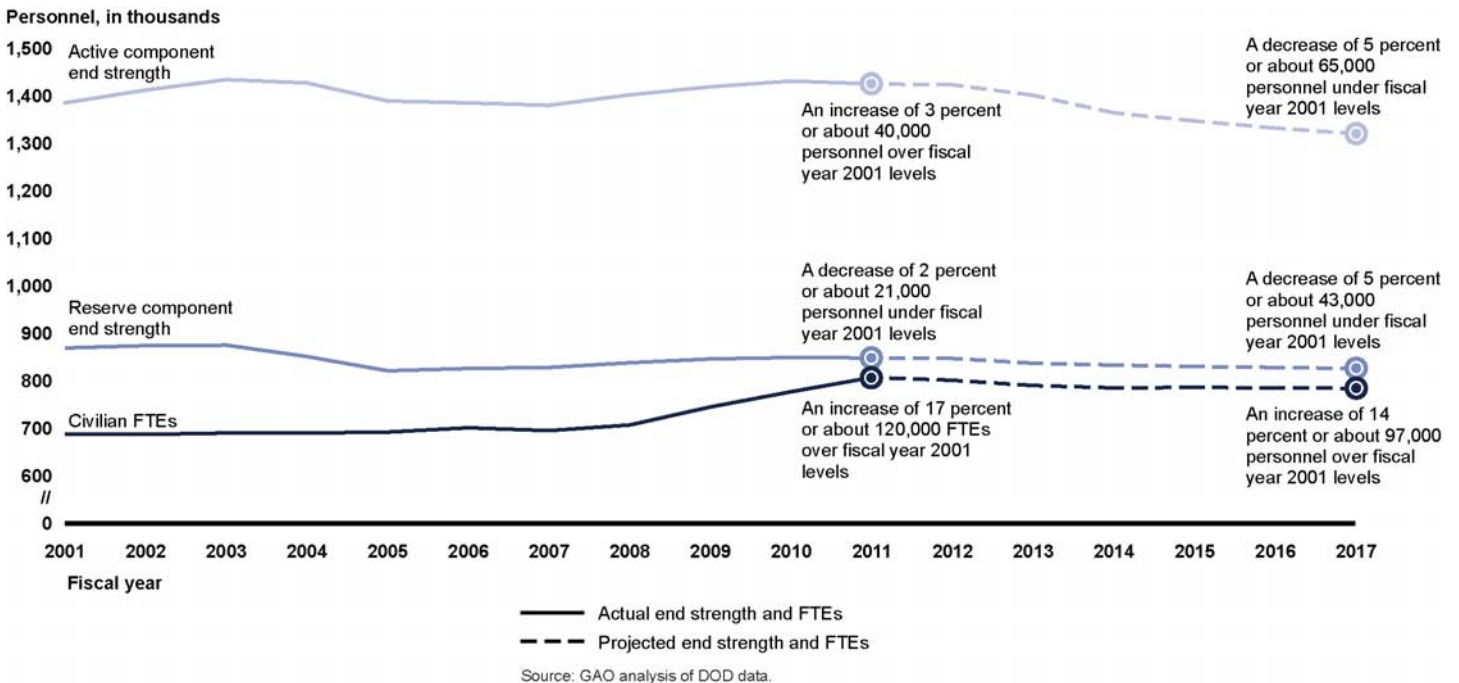
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year 2001 levels. The active component of the military workforce increased by 3 percent, or about 40,000 personnel, to about 1.425 million, and the reserve component of the military workforce decreased by 2 percent, or about 21,000 personnel, to about 848,000 during this same time period. By fiscal year 2017, DOD projects that its active component end strength will fall below its fiscal year 2001 level to about 1.32 million, and its reserve component end strength will continue to be below its fiscal year 2001 level. DOD projects that the civilian workforce will also decrease by fiscal year 2017 to about 784,000 FTEs—about 14 percent above its fiscal year 2001 level. Historically, the size of the civilian workforce has represented about a quarter of DOD’s combined military and civilian workforce.<sup>31</sup> This ratio has remained relatively constant, ranging from 23 to 27 percent since the 1960s and reflects substitution between these workforces. Figure 2 shows the active component and reserve component end strength and civilian FTEs from fiscal year 2001 through 2017.

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<sup>31</sup>We note that the size of a workforce does not equate to costs; an analysis of total compensation of pay and benefits associated with a workforce would be necessary to compare the costs of each workforce.

**Figure 2: Active and Reserve Components End Strength and Civilian Full Time Equivalents (FTE), Fiscal Years 2001 through 2017**



Note: Data used for fiscal years 2001 through 2011 are actuals; those for fiscal years 2012 through 2017 are DOD projections, as presented in the fiscal year 2013 Future Years Defense Program, the fiscal year 2013 President’s Budget, and certain data from the Comptroller Information System. Active component end strength includes the Army, the Navy, the Marine Corps, and the Air Force servicemembers as of the end of each fiscal year. The reserve component end strength represents the selected reserve and includes the part-time and the full-time Army Reserve, the Navy Reserve, the Marine Corps Reserve, the Air Force Reserve, the Army National Guard and the Air National Guard servicemembers as of the end of each fiscal year. Civilian FTEs is an estimate of full time direct hires, indirect hires, and foreign nationals for each fiscal year. Dual status technicians are included in both reserve component end strength and civilian FTEs.

Among each of the military services, military and civilian workforce growth differed over the course of the conflicts in Iraq and Afghanistan; however, most military services project a decrease in the military and civilian components of the workforce through fiscal year 2017. For example, from fiscal year 2001 through fiscal year 2011, the Army and the Marine Corps significantly increased the number of active component personnel to execute the warfighting effort, whereas during this same time period, the Navy and the Air Force decreased the number of active component personnel by 14 and 6 percent, respectively. During this period of time, the civilian workforce for all of the military services also increased. In light of the withdrawal from Iraq and planned withdrawal from Afghanistan, as well as changing priorities and missions, the Army, the Navy, and the

Marine Corps project decreases among both the active component and civilian workforce by 2017. The Air Force also projects a decrease in the number of active component personnel, but projects a civilian workforce increase of approximately 1 percent by fiscal year 2017. Collectively, the defense-wide organizations, which include the Office of the Secretary of Defense, the Joint Staff, and the Defense Agencies and Field Activities, project an increase of approximately 1 percent for their civilian workforce by fiscal year 2017. Table 1 shows the changes in the number and percentage of the military and civilian components of the workforce between fiscal years 2001 and 2011, with projected changes for fiscal years 2012 through 2017 by service.

**Table 1: Numbers and Percentages of Active Component, Reserve Component, and Civilian Workforce Changes from Fiscal Year 2001 to Fiscal Year 2011 and Projected Numbers and Percentages from Fiscal Year 2012 to Fiscal Year 2017 (workforce numbers in thousands)**

	Actuals				Projection			
	FY2001 FTE/end strength	FY2011 FTE/end strength	FTE/end strength change from FY2001 to FY2011	Percentage change from FY2001 to FY2011	FY2012 FTE/end strength	FY2017 FTE/end strength	FTE/end strength change from FY2012 to FY2017	Percentage change from FY2012 to FY2017
<b>Active component</b>								
Army	481	565	85	18%	562	490	(72) <sup>a</sup>	(13%) <sup>a</sup>
Navy	378	325	(53) <sup>a</sup>	(14%) <sup>a</sup>	326	320	(6) <sup>a</sup>	(2%) <sup>a</sup>
Marine Corps	173	201	28	16%	202	182	(20) <sup>a</sup>	(10%) <sup>a</sup>
Air Force	354	333	(20) <sup>a</sup>	(6%) <sup>a</sup>	333	329	(4) <sup>a</sup>	(1%) <sup>a</sup>
<b>Total active components</b>	<b>1,385</b>	<b>1,425</b>	<b>40</b>	<b>3%</b>	<b>1,423</b>	<b>1,320</b>	<b>(102)<sup>a</sup></b>	<b>(7%)<sup>a</sup></b>
<b>Reserve component<sup>d,e</sup></b>								
Army Reserve	206	205	(1) <sup>a</sup>	(0%) <sup>a</sup>	205	205	-	0%
Navy Reserve	88	65	(23) <sup>a</sup>	(26%) <sup>a</sup>	66	57	(9) <sup>a</sup>	(14%) <sup>a</sup>
Marine Corps Reserve	40	40	(0) <sup>a</sup>	(0%) <sup>a</sup>	40	40	-	0%
Air Force Reserve	75	71	(4) <sup>a</sup>	(5%) <sup>a</sup>	71	70	(2) <sup>a</sup>	(3%) <sup>a</sup>
Army National Guard	352	362	10	3%	358	353	(5) <sup>a</sup>	(1%) <sup>a</sup>
Air Force National Guard	108	106	(3) <sup>a</sup>	(3%) <sup>a</sup>	107	101	(6) <sup>a</sup>	(5%) <sup>a</sup>
<b>Total reserve components</b>	<b>869</b>	<b>848</b>	<b>(21)<sup>a</sup></b>	<b>(2%)<sup>a</sup></b>	<b>847</b>	<b>826</b>	<b>(22)<sup>a</sup></b>	<b>(3%)<sup>a</sup></b>

	Actuals				Projection			
	FY2001 FTE/end strength	FY2011 FTE/end strength	FTE/end strength change from FY2001 to FY2011	Percentage change from FY2001 to FY2011	FY2012 FTE/end strength	FY2017 FTE/end strength	FTE/end strength change from FY2012 to FY2017	Percentage change from FY2012 to FY2017
<b>Civilian<sup>be</sup></b>								
Army	220	284	64	29%	265	248	(18) <sup>a</sup>	(7%) <sup>a</sup>
Navy	177	189	12	7%	190	189	(2) <sup>a</sup>	(1%) <sup>a</sup>
Marine Corps	17	23	7	38%	24	24	(1) <sup>a</sup>	(3%) <sup>a</sup>
Air Force	160	184	24	15%	186	187	2	1%
Defense-wide organizations <sup>c</sup>	113	128	14	12%	136	137	1	1%
<b>Total civilians</b>	<b>687</b>	<b>807</b>	<b>120</b>	<b>17%</b>	<b>801</b>	<b>784</b>	<b>(17)<sup>a</sup></b>	<b>(2%)<sup>a</sup></b>
<b>Total active, reserves, and civilians</b>	<b>2,941</b>	<b>3,080</b>	<b>139</b>	<b>5%</b>	<b>3,071</b>	<b>2,930</b>	<b>(141)<sup>a</sup></b>	<b>(5%)<sup>a</sup></b>

Source: GAO analysis of DOD data.

Notes: All end strength and FTE figures are rounded to the nearest thousand. Totals might not add due to rounding.

<sup>a</sup>All figures in parentheses represent declines.

<sup>b</sup>Civilian FTEs is an estimate of full time direct hires, indirect hires, and foreign nationals for each fiscal year. Combatant command civilians are included in service totals

<sup>c</sup>Defense-wide organizations include the Office of the Secretary of Defense, the Joint Staff, the Defense Agencies and Field Activities

<sup>d</sup>The reserve end strength represents the selected reserve and excludes the Individual Ready Reserve and the Inactive National Guard

<sup>e</sup>Dual status technicians are included in both reserve end strength and civilian FTEs.

## Several Factors Affect the Size of DOD's Workforce

DOD and military service officials identified several factors that contributed to changes in the size of the military and civilian components of the workforce since fiscal year 2001. For example, DOD officials noted that the conflicts in Iraq and Afghanistan, as well as recognition of the need to rebuild the acquisition workforce, which had been significantly reduced during the 1990s, and reduce DOD's reliance on contractors contributed to the shape and size of the military and civilian sectors of the workforce over the past decade. Further, DOD cited other factors that led to growth within the civilian workforce, such as the department's new cyber mission and areas specifically designated by Congress. The following are examples that DOD officials have cited as contributing to the change in the size and mix of DOD's workforce.



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- **Military to civilian/contractor conversion:** DOD officials stated that about 50,000 military positions were converted to DOD civilian positions or contractor performance since fiscal year 2004 to devote more military positions to support of ongoing military operations. Conversion to civilian performance may not be one-for-one due to differences in military and civilian availability and productivity rates. For example, civilians who are typically hired must be qualified for their position, whereas military personnel often require on-the-job training in addition to technical training received prior to assignments. DOD's military to civilian conversions were partly due to the high pace of operations that occurred after September 11, 2001, which created significant stress on the military's operating forces. Further, in late 2003, DOD reported that studies had found thousands of military personnel were being used to accomplish work tasks that were not military essential. DOD found that civilians or contractors could perform these tasks in a more efficient and cost-effective manner than military personnel. The Navy and the Air Force reduced their military end strength when functions performed by military billets, or positions, were converted to civilian or contractor performance. Conversely, when the Army and the Marine Corps converted functions performed by military billets to DOD civilians, they retained these military billets to be used in the operating force.
  - **Contractor to civilian conversion (in-sourcing):** DOD officials noted that in-sourcing, or converting previously contracted functions to performance by civilians, has been an effective tool for the department to rebalance its workforce, realign inherently governmental and other critical and core functions to government performance, and in many cases, generate resource efficiencies for higher priority goals. In April 2009, the Secretary of Defense announced his intention to reduce the department's reliance on contractors and increase funding for new civilian authorizations. In our February 2012 report, DOD officials stated that they could not determine the number of contractor FTEs whose functions were in-sourced because DOD contracts for services, not positions,<sup>32</sup> and the number of contractor FTEs used to perform a service is determined by each private sector provider. Nonetheless, one of the data elements DOD is required to collect and include in its inventory of contracted

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<sup>32</sup>GAO, *Defense Workforce: DOD Needs to Better Oversee In-sourcing Data and Align In-sourcing Efforts with Strategic Workforce Plans*, [GAO-12-319](#) (Washington, D.C.: Feb. 9, 2012).

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services is the number of contractor FTEs performing each identified activity pursuant to a contract.

- **Growth of acquisition workforce:** DOD officials noted that rebuilding the acquisition workforce is another reason for growth. In our June 2012 report, we reported that according to DOD officials, the civilian acquisition workforce gained about 17,500 positions from fiscal year 2009 to December 2011.<sup>33</sup> As noted previously, a portion of this growth was attributed to in-sourcing. The acquisition workforce had experienced significant erosion in some areas of expertise due to a nearly 50 percent cut in its workforce during the 1990s. This reduction took place as part of DOD's larger effort to reduce its civilian workforce by nearly 20 percent overall during that time. When we evaluated DOD's approach to this force reduction in 1992, we found that it was not oriented toward shaping the makeup of the workforce, resulting in significant imbalances in terms of shape, skills, and retirement eligibility.<sup>34</sup> At that time, we found that the department's efforts were hampered by incomplete data and lacked a clear strategy for avoiding the adverse effects of downsizing and minimizing skills imbalances. The 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 that has had long-lasting implications. To help alleviate some of these long standing challenges and provide additional funds for the recruitment, training, and retention of acquisition personnel, in 2008, Congress established the Defense Acquisition Workforce Development Fund (DAWDF).<sup>35</sup> DOD officials stated that of the approximately 17,500 positions, about 5,850 were hired using DAWDF funds.
- **Growth of cyber security workforce:** DOD officials stated that focus on the new cyber mission increased the size of the cyber workforce. DOD's 2010 Quadrennial Defense Review designated cyberspace

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<sup>33</sup>GAO, *Defense Acquisition Workforce: Improved Processes, Guidance, and Planning Needed to Enhance Use of Workforce Funds*, [GAO-12-747R](#) (Washington, D.C.: June 20, 2012).

<sup>34</sup>GAO, *Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed*, [GAO/T-NSIAD-92-19](#) (Washington, D.C.: Mar. 18, 1992).

<sup>35</sup>National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 852 (2008), codified at 10 U.S.C. § 1705.

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operations as a key mission area and discussed steps the department was taking to strengthen capabilities in the cyber domain, including developing a department-wide comprehensive approach to DOD operations in cyberspace that will help build an environment in which cyber security and the ability to operate effectively in cyberspace are viewed as priorities for DOD. According to the Quadrennial Defense Review, to aid its efforts in countering cyberspace threats, DOD established the U.S. Cyber Command in 2010 to lead, integrate and better coordinate the day-to-day defense, protection, and operation of DOD networks. In November 2011, we reported that DOD established a cybersecurity workforce plan but faced challenges in determining the size of its cybersecurity workforce because of variations in how work is defined and the lack of an occupational series specific to cybersecurity.<sup>36</sup> For these reasons, in February 2013, we included workforce planning for cybersecurity personnel as a factor in designating human capital management as a high risk area for the federal government.<sup>37</sup>

The withdrawal from Iraq and planned withdrawal from military operations in Afghanistan will impact both the military and, to some extent, the civilian workforce. DOD currently projects a reduction in its civilian workforce by 2 percent from fiscal year 2012 through fiscal year 2017. Several factors have prompted the department to develop plans to reshape and possibly reduce the numbers of civilians performing certain functions, while other needs may require additional civilian positions. DOD and military service officials identified the following factors as key drivers of projected future change within DOD's total workforce.

- **Shift in focus to Pacific region:** DOD is refocusing its strategy in the Asia-Pacific region in the interest of promoting regional security with its allies in the area. DOD officials stated that this restructuring could result in a reshaped force and might require changes to installations and support as forces are restructured.
- **Budget constraints and uncertainty:** DOD, as well as the entire federal government, is currently operating in a fiscally constrained environment. The Office of the Secretary of Defense, the military

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<sup>36</sup>GAO, *Cybersecurity Human Capital: Initiatives Need Better Planning and Coordination*, [GAO-12-8](#) (Washington, D.C.: Nov. 29, 2011).

<sup>37</sup>[GAO-13-283](#).

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departments, and other organizations within DOD have issued guidance to their commands on immediate actions that can be taken to mitigate some, but not all, of the effects of a constrained budget in the near-term. Actions include implementing a civilian hiring freeze, reducing temporary employees, and furloughing the civilian workforce.

- **Efficiency initiatives:** As the federal government confronts growing fiscal challenges and DOD faces competition for funding, DOD announced efficiency initiatives in 2010, which the Secretary of Defense stated were to reduce duplication, overhead, and excess, and instill a culture of savings and restraint across the department. Some of the efficiency initiatives focused directly on civilian workforce levels, including the goals of reducing civilian positions in offices and commands across DOD, attempting to hold the civilian workforce level constant at fiscal year 2010 levels, the elimination of some civilian senior executive positions, and the disestablishment of the Business Transformation Agency and Joint Forces Command.
- **Continued growth of cyber workforce:** According to officials we spoke to from each of the services, DOD is continuing to focus its resources on emerging threats such as cyber attacks. For example, efforts are underway to further develop and implement the cyber mission. Each service has its own part in this mission and expects a continued hiring increase in civilian personnel with skills in cybersecurity. Further, the Secretary of Defense recently stated that the cyber mission is critical for the department and will continue to be an investment priority.
- **Equipment reset:** Military service officials stated that the equipment that returns from the military operations in Afghanistan will be sent to depots for repair and maintenance. Reset work, which is performed, in part, by the civilian workforce, will take two to three years to complete.<sup>38</sup>
- **Medical assistance for returning servicemembers:** More than a decade of fighting two wars has resulted in a large number of soldiers, marines, sailors, and airmen needing medical care, including, among other things, adjusting to the use of prosthetic limbs and treatment for

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<sup>38</sup>Reset refers to the repair, recapitalization, and replacement of military equipment in order to restore units' equipment to a desired level of combat capability commensurate with mission requirements and availability of resources.

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post traumatic stress disorder and traumatic brain injuries. DOD officials stated that it will be important to retain and recruit additional medical personnel to continue to provide for the medical needs of servicemembers, who can sometimes require long-term care.

We analyzed the active component of the military and civilian workforce to provide further perspectives on areas of growth between fiscal years 2001 and 2011. Our analysis of active component end strength and civilian FTEs by force and infrastructure categories<sup>39</sup> shows that between fiscal years 2001 and 2011, the civilian workforce generally grew while the active component workforce generally declined in most force and infrastructure categories compared to fiscal year 2001. For example, from fiscal year 2001 through fiscal year 2011, the acquisition infrastructure workforce<sup>40</sup> and the defense health program civilian workforce grew by 15 percent and 57 percent respectively, while the active component declined in those categories by 16 percent and 3 percent respectively. Further, according to DOD officials, the growth from fiscal year 2001 through fiscal year 2011 of the civilian workforce in certain categories such as operating forces and command and intelligence was in large part due to military to civilian conversions. Table 2 shows the growth and decline of various force and infrastructure categories.

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<sup>39</sup>Force and infrastructure categories group forces—the warfighting tools of the Combatant Commanders—into broad operational categories according to their intended use and groups infrastructure, the set of activities needed to create and sustain forces, based upon the type of support activity it performs (such as force installations or central logistics).

<sup>40</sup>The acquisition infrastructure includes activities that develop, test, evaluate, and manage the acquisition of military equipment and supporting systems. These activities also provide technical oversight throughout a system's useful life.

**Table 2: Percentage of Active Component End Strength and Civilian Full Time Equivalent (FTE) Growth and Decline from Fiscal Year (FY) 2001 to Fiscal Year 2011 by Force and Infrastructure Category**

Force and Infrastructure Category	Growth/decline from FY2001 to FY2011	
	Active component	Civilian
Operating Forces	17%	58%
Acquisition Infrastructure	(16%) <sup>a</sup>	15%
Central Logistics	(46%) <sup>a</sup>	(10%) <sup>a</sup>
Central Personnel Administration	(31%) <sup>a</sup>	23%
Central Personnel Benefits Programs	(27%) <sup>a</sup>	(7%) <sup>a</sup>
Central Training	(13%) <sup>a</sup>	(24%) <sup>a</sup>
Command and Intelligence	23%	93%
Communications and Information Infrastructure	(29%) <sup>a</sup>	(11%) <sup>a</sup>
Defense Health Program	(3%) <sup>a</sup>	57%
Departmental Management	(5%) <sup>a</sup>	13%
Force Installations	(52%) <sup>a</sup>	32%
Science and Technology Program	(13%) <sup>a</sup>	35%

Source: GAO analysis of DOD data.

<sup>a</sup>All figures in parentheses represent declines.

<sup>b</sup>Projected end strength by force and infrastructure category does not include end strength funded in supplemental appropriations.

**Comparable Historical Data on Contractor Workforce Are Not Available, but Spending on Contracted Services Has Increased Significantly Since 2001**

Historical information on the trends of the contractor component of DOD's total workforce since 2001 that would be comparable to information known about the military and civilian components is not available. This has occurred in part because DOD contracts for services, not individuals, and because DOD was not required to track such information until 2008 when Congress required DOD to compile its first annual inventory of contracted services, starting with the services DOD contracted for in fiscal year 2007. To date, DOD has submitted annual inventories of contracted services to Congress for fiscal years 2007,<sup>41</sup> 2008, 2009, 2010, and

<sup>41</sup>The Army was the only DOD component to submit information for DOD's inventory of fiscal year 2007 contracted services.

2011.<sup>42</sup> However, DOD officials cautioned against comparing the number of contractor FTEs reported across fiscal years because of differences in the estimating formula, changes in reporting for the research and development category, and other factors.<sup>43</sup> In fiscal year 2011, DOD reported that about 710,000 contractor FTEs were performing various functions pursuant to contracts for services—about 90 percent of the size of DOD’s civilian workforce of 807,000 FTEs. Further, in its fiscal year 2011 inventory, DOD reported that these 710,000 contractor FTEs provided services to DOD under contracts with obligations totaling about \$145 billion.<sup>44</sup> Table 3 shows the total number of estimated contractor FTEs reported and obligation dollars reported in DOD’s inventory of contracted services for fiscal years 2008 through 2011.

**Table 3: Estimated Number of Contractor Full Time Equivalents (FTE) and Obligations as Reported in DOD’s Inventory of Contracted Services**

Fiscal Year	Number of contractor FTEs reported	Obligation Total (In billions)
2011	710,000	\$145 <sup>a</sup>
2010	623,000	\$121 <sup>a</sup>
2009	767,000	\$155 <sup>a</sup>
2008	655,000	\$127 <sup>a</sup>

Source: DOD’s inventory of contracted services.

Notes: 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 2011 inventory data. All full time equivalent figures are rounded to the nearest thousand.

<sup>a</sup>The Army’s inventory data reflects total invoiced dollar amounts rather than obligations.

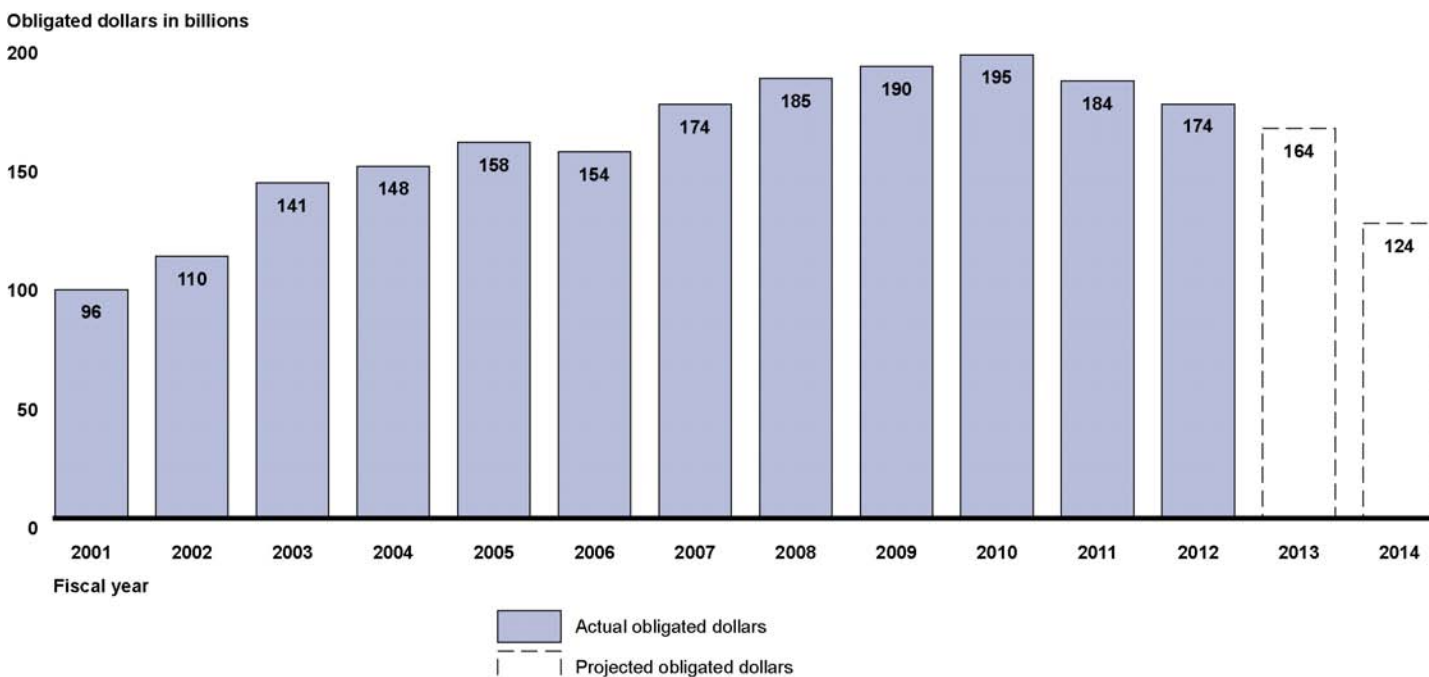
<sup>42</sup>In December 2011, section 936 of the National Defense Authorization Act for Fiscal Year 2012 amended section 2330a of title 10 of the U.S. Code to clarify the types of contracted services to be inventoried include contracts for goods to the extent services are a significant component in a separate line item of the contract.

<sup>43</sup>[GAO-12-357](#).

<sup>44</sup>DOD is required to annually compile an inventory of contracted services, pursuant to 10 U.S.C § 2330a, to include, among other data, the functions performed, the number of contractor FTEs performing the function, and the total dollar amount of the services purchased. For fiscal year 2011, we note that obligations reported for contracted services in budget justification materials and obligations reported in the inventory of contracted services differ. We have previously reported that a number of factors limit the accuracy and completeness of the inventory data; see for example, [GAO-12-357](#).

In terms of DOD's obligations for contracted services, our analysis of DOD budget documentation using fiscal year 2013 constant dollars shows that DOD's obligations on contracted services peaked in fiscal year 2010 at about \$195 billion, more than twice the amount spent in fiscal year 2001, before decreasing to about \$174 billion in fiscal year 2012. Figure 3 shows the obligated dollars for contracted services for fiscal years 2001 through 2012 and the projected obligated dollars for fiscal years 2013 and 2014.

**Figure 3: Obligations for Contracted Service Actions, Fiscal Years 2001 through 2014**



Source: GAO analysis of DOD's object class 25 data from budget documents.

Note: Fiscal year 2001 through 2012 are actual obligations, while fiscal year 2013 and 2014 represent projections. We relied on budget data on obligations for contracted services (object class 25). We excluded object class 25.3 that represents dollars obligated for goods and services from federal sources. We adjusted the current dollars to constant fiscal year 2013 dollars using the Gross Domestic Product price index to eliminate the effects of inflation.

In addition to the withdrawal from military operations in Iraq and Afghanistan, the decline since fiscal year 2010 and projected decline through fiscal year 2014 in obligations for contracted services can be attributed, in part, to several actions taken by Congress and DOD over the past several years. For example, in August 2010, the Secretary of Defense announced plans to reduce funding for a subset of service



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contracts, service support contracts, by 10 percent per year from fiscal years 2011 to 2013. Moreover, DOD is subject to a statutory cap on obligations for contracted services for fiscal years 2012 and 2013, which may not exceed the amount requested in the President's budget for fiscal year 2010, and we are required to report on the results of this effort later this year. More recently, in February 2013, the Office of the Assistant Secretary of Defense for Readiness and Force Management issued guidance stating that during this time of continued budget uncertainty, contracted services must continue to be reviewed to ensure the most appropriate, cost effective, and efficient support aligned to mission.

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### **DOD Has Taken Some Steps Useful for Determining the Appropriate Mix of Its Workforce, but Shortcomings Remain**

DOD has taken some steps to improve its understanding and management of its workforce, including service-specific efforts to obtain better data about the workforce; however, several shortcomings remain. Specifically, DOD has yet to include an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities in its strategic workforce plan as required by law. Further, DOD has not updated its policies and procedures to reflect the most current statutory requirements to use its civilian strategic workforce plan and the inventory of contracted services to help determine the appropriate mix of personnel in its workforce.

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### **DOD's Efforts to Obtain Better Information on Workforce Capacity Continue to Face Challenges**

DOD has taken some steps to develop better information and data about the size, capabilities, and skills possessed and needed by its workforce, but gaps remain. As part of the statutory requirement to develop a civilian strategic workforce plan, DOD has been mandated since 2006 to assess the critical skills and competencies of its current and future civilian workforce and to assess gaps in those areas.<sup>45</sup> To date, DOD has developed and updated its strategic workforce plan four times. In its latest strategic plan issued in March 2012, DOD identified 22 mission critical occupations, which according to DOD are civilian personnel occupations that merit special attention based on their importance and the presence of human capital challenges. In September 2012, we issued a report on DOD's March 2012 plan that found that DOD had conducted competency gap analyses for just 8 of the 22 mission critical occupations identified in

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<sup>45</sup>National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163 §1122 (2006) (codified as amended at 10 U.S.C. § 115b).

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the plan, and it still did not contain an assessment of the appropriate workforce mix as required by law.<sup>46</sup> Examples of occupations where DOD did not report conducting gap analyses included budget analysis, information technology management, and logistics management. Many of the occupations are associated with areas identified in our high-risk report.<sup>47</sup> We recommended that DOD conduct and report on gap analysis of its mission critical occupations, and DOD partially concurred with this recommendation and stated that it plans to complete competency gap analysis for mission critical occupations and other major civilian occupations by fiscal year 2015.

Further, section 115b of title 10 of the United States Code requires DOD to include in its strategic workforce plan an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities.<sup>48</sup> However, as we have previously reported, DOD did not include an assessment of the appropriate mix of military, civilian, and contractor personnel or an assessment of the capabilities of each of these workforces.<sup>49</sup> In the most recent version of the strategic workforce plan issued in March 2012, DOD included information submitted by 11 functional communities, which are groups of employees who perform similar functions. We found that 2 of the 11 functional communities included in the plan—the medical and human resources functional communities—provided data on the mix of their workforces, while 9 communities provided partial or no data. For example, the logistics and information-technology functional communities provided only the military and civilian workforce data and did not include contractor workforce data. In September 2012, we recommended that DOD direct the functional communities to collect information that identifies not only the number or percentage of personnel in its military, civilian, and contractor workforces but also the capabilities of the appropriate mix of those three workforces, and DOD partially concurred with this

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<sup>46</sup>[GAO-12-1014](#).

<sup>47</sup>[GAO-13-283](#).

<sup>48</sup>10 U.S.C. § 115b.

<sup>49</sup>[GAO-12-1014](#); GAO, *Human Capital: Further Actions Needed to Enhance DOD's Civilian Strategic Workforce Plan*, [GAO-10-814R](#) (Washington, D.C.: Sept. 27, 2010); *Human Capital: Opportunities Exist to Build on Recent Progress to Strengthen DOD's Civilian Human Capital Strategic Plan*, [GAO-09-235](#) (Washington, D.C.: Feb. 10, 2009); and *The Department of Defense's Civilian Human Capital Strategic Plan Does Not Meet Most Statutory Requirements*, [GAO-08-439R](#) (Washington, D.C.: Feb. 6, 2008).

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recommendation. Further, in January 2013, we recommended that DOD use competency gap analyses to assist in decision making regarding the size of its civilian workforce.<sup>50</sup>

Congress has also required several actions to provide more complete and accurate information about DOD's contractor workforce similar to the type of information DOD already has about its civilian and military workforces, such as the requirement, as noted previously, to compile an inventory of contracted services, including the number of contractor FTEs performing services for DOD and the type of functions they perform.<sup>51</sup> Section 2330a of title 10 of the United States Code requires DOD to submit to Congress an annual inventory of contracted services. This section further requires each DOD component head to conduct comprehensive reviews of these services to determine, for example, whether they are inherently governmental, critical, or acquisition workforce functions, and whether performance of such functions by contractors should be converted to performance by the civilian workforce. Additionally DOD component heads are required to develop a plan, including an enforcement mechanism and approval process, to provide for the use of the inventory to implement the requirements of 10 U.S.C. § 129a, such as using the inventory in making workforce mix decisions, to inform strategic workforce planning, such as the strategic workforce plan required by 10 U.S.C. § 115b, and to facilitate the use of the inventory for compliance with 10 U.S.C. § 235, which requires the inclusion of certain contractor information in budget submissions. We previously reported that while DOD made a number of changes to improve the inventory, there were still factors that limited the utility, accuracy, and completeness of the inventory data. Therefore, we made a series of recommendations to DOD to further improve its inventory of contracted services.<sup>52</sup>

During the course of this review, we found that some of the military services are taking additional steps to better manage their civilian or total workforces. For example, Army officials stated that they developed a list of nearly 40 mission critical occupations that are specific to the Army, which are in addition to the department wide mission critical occupations

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<sup>50</sup>[GAO-13-188](#).

<sup>51</sup>10 U.S.C. § 2330a.

<sup>52</sup>[GAO-12-357](#) and [GAO-11-192](#).

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identified in the most recent version of the civilian strategic workforce plan, and that they plan to complete competency gap analyses for the Army-specific mission critical occupations by the end of 2014. Officials from the Marine Corps reported that they are developing a six step process for strategic workforce management planning to be implemented at the command level by late 2013. These officials stated that the process would include steps such as assessing current and future missions, performing gap analysis, and developing action plans to address gaps.

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### DOD Has Not Updated Its Workforce Policies to Reflect the Most Recent Statutory Requirements for Workforce Mix Determinations

DOD's primary policies for determining workforce mix—DOD Directive 1100.4 and DOD Instruction 1100.22—largely reflect statutory requirements for DOD policies concerning workforce mix, though there are several recent amendments that have yet to be incorporated.<sup>53</sup> The directive provides general guidance concerning determining requirements, managing resources, and future planning, while the instruction provides manpower mix criteria and guidance for determining how individual positions should be designated based on the work performed. For example, the latter provides guidance concerning how to identify whether a task is inherently governmental, and consequently must be performed by military personnel or civilians, or whether a commercial activity should be performed by the contractor workforce or meets DOD criteria to exempt the activity from contract performance. Officials from the Office of the Undersecretary of Defense, Personnel and Readiness told us that they review shifts in trends among the various segments of the workforce, and that they rely upon the oversight of the military services to determine which segment of the workforce should perform specific types of work in accordance with DOD guidance.

Various OSD officials further noted that the requirements determination process is associated with the department's Planning, Programming, Budgeting and Execution processes to help ensure fully informed risk and cost decisions are translated into justified and transparent manpower requirements. DOD Instruction 1100.22 states that the heads of the DOD components shall require their designated manpower authority to issue implementing guidance that requires the use of the instruction when manpower officials determine the workforce mix for current, new, or

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<sup>53</sup>DOD Directive 1100.4, *Guidance for Manpower Management* (Feb. 12, 2005) and DOD Instruction 1100.22, *Policy and Procedures for Determining Workforce Mix* (Apr. 12, 2010).

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expanded missions, or when revalidating manpower requirements, among other circumstances. Each military service has issued service-specific workforce management guidance that implements the DOD-wide instruction as required and officials we spoke with from each service stated that the DOD-wide guidance was used when making workforce mix decisions. To make workforce decisions, manpower officials within the components are to identify the appropriate workforce component to perform the activity based on the nature of the work and circumstances of its performance as outlined in the instruction. Criteria are reviewed to determine if the work associated with the activity is an inherently governmental function, exempt from commercial performance, or suitable for performance by contractors, and for work that is inherently governmental or exempt from commercial performance, whether the work should be performed by military personnel or civilian personnel. The focus of the process of determining the workforce mix is primarily at the position level, as opposed to a holistic view of the overall appropriate mix of military, civilian, and contractor personnel.

DOD issued its directive and instruction in February 2005 and April 2010, respectively, prior to significant changes to relevant legislation in December of 2011.<sup>54</sup> Prior to these 2011 changes, the legislation governing DOD's personnel required that the department use the least costly form of personnel consistent with military requirements and other departmental needs. Section 129a was revised to clarify that when determining the most appropriate and cost efficient mix of military, civilian, and contractor personnel to perform the mission of the department, that the attainment of a DOD workforce sufficiently sized and comprised of the appropriate mix of personnel necessary to carry out DOD's mission and the core mission areas of the armed forces takes precedence over cost. The law also specifies that the Secretary of Defense shall establish policies and procedures that shall specifically require DOD to use, among other things, the civilian strategic workforce plan<sup>55</sup> and the inventory of contracted services<sup>56</sup> when making determinations regarding the appropriate workforce mix. Although DOD Instruction 1100.22 had already addressed the requirement that risk mitigation take precedence

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<sup>54</sup>National Defense Authorization Act for Fiscal Year 2012, Pub. L. No. 112-81, § 931 (2011) amending 10 U.S.C. §129a.

<sup>55</sup>As required by 10 U.S.C. § 115b.

<sup>56</sup>As required by 10 U.S.C. § 2330a.

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over cost in making workforce decisions prior to the enactment of section 129a, DOD has not yet implemented the new requirement that determinations regarding the appropriate workforce mix be made using the civilian strategic workforce plan and the inventory of contracted services. As a result, DOD decision makers may lack key elements necessary to make appropriate, informed decisions concerning DOD's mix of personnel because the department has not updated its existing policies and procedures or issued new guidance for determining workforce mix that reflects the new statutory requirements. OSD officials stated that both DOD Directive 1100.4 and DOD Instruction 1100.22 are currently under revision, and stated that they intend to revise DOD Directive 1100.4 to require the use of the inventory of contracted services to inform budget requests and decisions for total force management. The officials provided a draft of the directive for our review and stated that it was in the early stages of coordination and review. DOD did not provide a draft of the instruction or discuss timelines for issuance of a revised instruction.

Related to the statutory changes to departmentwide workforce management, similar legislation requires certain defense components to use the inventory of contracted services as part of their strategic workforce management. Specifically, 10 U.S.C. § 2330a(e) requires that DOD component heads perform a review of the contracts and activities in the inventory to ensure that the activities on the list do not include inherently governmental functions or illegal personal services contracts, and, to the maximum extent practicable, do not include functions closely associated with inherently governmental functions. The review is also required to identify activities that should be considered for conversion to civilian performance pursuant to 10 U.S.C. § 2463. In 2012, our review of DOD's fiscal year 2010 inventory of contracted services found that the military departments' required reviews of their fiscal year 2009 inventories were incomplete, and that with the exception of the Army, DOD had much further to go in addressing the requirements for compiling and reviewing the inventories of contracted services.<sup>57</sup>

Additionally 10 U.S.C. § 2330a(f) requires the secretaries of the military departments and heads of the defense agencies to develop a plan, including an approval process and enforcement mechanism, to provide

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<sup>57</sup>[GAO-12-357](#).

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for the use of the inventory of contracted services to implement the requirements of 10 U.S.C. § 129a, to ensure the inventory is used to inform strategic workforce planning, such as the strategic workforce plan (as required by 10 U.S.C. § 115b), and to determine the appropriate workforce mix necessary to perform its mission. However, the extent to which the military departments have developed the required plans and accompanying approval process and enforcement mechanism varies. Some military department officials indicated that they are in the final stages of developing a plan to integrate the required information, and other military department officials stated that they plan to move forward once better information on contractors required by the inventory of contracted services becomes available. For example,

- Army manpower officials stated that the Army had conducted analyses that could support the required plan. Regarding the required enforcement mechanism and approval process, an Army official stated that the Army has established its Panel for the Documentation of Contractors review process, which requires commands to fill in a pre-award contract approval form in order to justify a request to procure services. This form asks executives to certify that contracted services do not include inherently governmental functions, among other things. In addition, the official stated that the Army's annual inventory of contracted services, and its inventory review process, the Panel for the Documentation of Contractors, are intended to inform strategic workforce planning, provide information for in-sourcing decisions, and to the extent possible, inform budget requests.
- Air Force manpower officials stated that while the Air Force lacks a single plan, a number of separate efforts are moving towards the required elements of the plan. The officials stated that the Air Force plans to modify its manpower data system to accommodate the important contractor information captured in and required by the inventory of contracted services, and then define the utilization, approval and enforcement process in an Air Force Instruction.
- Navy manpower officials stated that the Navy has authorized the establishment of a Total Force Integration Board, including multiple stakeholders, to address all required elements. Marine Corps personnel officials stated that the Marine Corps is awaiting guidance from the Department of the Navy on a proposed plan and the related enforcement mechanism.

Given the absence of updated guidance and key data concerning each segment of its workforce, DOD lacks assurance that the performance of

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key functions is properly balanced across the military, civilian, and contractor segments of its workforce to achieve the total force management objectives and avoid inappropriate operational risk. The absence of updated guidance and lack of accurate information concerning the activities performed by each segment of DOD's workforce means that in the context of challenging fiscal realities, DOD leaders may lack knowledge to determine the most appropriate overall mix of military, civilian, and contractor personnel and competencies that could help them make more informed decisions concerning departmental priorities and associated costs. Our prior work has identified the need for DOD to obtain better data on its contracted services to enable it to make more strategic workforce decisions and ensure that it maintains appropriate control of government operations. For example, we previously reported in April 2012 that reviews conducted by the Army and Air Force of their inventory of contracted services identified 1,935 and 91 instances, respectively, in which contractors were performing inherently governmental functions. However, in our 2012 report, we found that in several of those cases contractors were still performing that work and there were no clear lines of responsibility for addressing those instances.<sup>58</sup> Army officials also noted that DOD's decision to freeze civilian FTEs at fiscal year 2010 levels was an impediment to resolving the performance of these inherently governmental functions by contractors. We note, however, that in January 2013 we found that despite obtaining exceptions to adjust their fiscal year 2012 targets above the fiscal year 2010 civilian FTE level, the Army exceeded its target; the Air Force and Navy met their target civilian FTE levels.<sup>59</sup> Without better guidance and data that informs the determination of the appropriate mix, DOD may be challenged to fully meet legislative requirements regarding the management of its workforce

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<sup>58</sup> [GAO-12-357](#).

<sup>59</sup> [GAO-13-188](#).



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**DOD Defines the Core Missions of the Department, but Current Policy Does Not Fully Reflect the Need to Identify Critical Functions**

DOD clearly identifies the core mission areas of the armed forces, which cover broad areas of military activity that the department is statutorily required to identify, but given the wide range of missions and responsibilities of its various components, DOD has not developed a list of “core or critical functions” for the department as a whole, nor is it required to do so. OMB policy requires executive agencies to identify critical functions in the context of contracting; but DOD’s current workforce mix policies do not fully reflect the need to identify critical functions, and as such the department may not have assurance that it properly identifies and retains the ability to maintain control over critical functions.

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**DOD Clearly Defines Core Mission Areas**

DOD clearly identifies the core mission areas of the armed forces, but it does not perform analysis to specifically identify a list of “core or critical functions.” Section 129a of Title 10 of the United States Code requires that the Secretary of Defense adopt policies that clearly provide that the attainment of a workforce sufficiently sized and comprised of the appropriate mix of personnel necessary to carry out the mission of the department and the core mission areas of the armed forces takes precedence over cost.<sup>60</sup> The core mission areas of the armed forces are broad strategic military activities required to achieve strategic objectives of the National Defense Strategy and National Military Strategy, such as providing homeland defense and carrying out major combat operations, in support of DOD’s overall mission to deter war and provide for the security of the nation.<sup>61</sup> The core mission areas are identified in DOD’s Quadrennial Roles and Missions Review Report which is issued near the end of implementation of the department’s quadrennial defense review cycle. DOD manpower officials we spoke with stated that this top-level direction is communicated throughout the department.

Determining the core or critical work of the department can be complicated by the various contexts under which the terms “core” or “critical,” are used. For example, as discussed previously in this report, DOD identifies “mission critical occupations” in its strategic workforce plan. These are occupations that merit special attention based on their

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<sup>60</sup>10 U.S.C. §129a.

<sup>61</sup>The identification of core mission areas is pursuant to 10 U.S.C. § 118b.

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importance and the presence of human capital challenges, and only apply to the civilian workforce. On the other hand, OMB policy requires that the executive agencies define “critical functions to ensure that they have sufficient internal capability to maintain control over certain functions that are core to the agency’s mission and operations.

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### DOD Policy Does Not Fully Reflect Federal Requirements to Identify Critical Functions

DOD’s current workforce mix policy, DOD Instruction 1100.22, does not fully reflect the need to identify critical functions. Office of Federal Procurement Policy Policy Letter 11-01 (OFPP 11-01),<sup>62</sup> issued in September 2011, requires agencies to identify “critical functions” to ensure that they have sufficient internal capability, in DOD’s case civilian and military personnel, to maintain control over functions that are core to the agency’s mission and operations, but are otherwise permissible to contract out to the private sector.<sup>63</sup> The identification of critical functions would help ensure that DOD can accomplish its mission even if contractors are unable to perform or otherwise default on their contractual responsibilities. While critical functions often represent important functions that may be necessary in support of the department’s mission, they do not include functions that are inherently governmental in nature, or functions that are closely associated with inherently governmental functions.

DOD officials stated that they do not plan to develop a list of critical functions for the department as a whole because the missions of organizations within a department as large as DOD vary considerably, and that other designations serve the same purpose. Further, they stated a function that might be critical for one organization may be a lesser priority, and therefore not critical, for another. DOD officials told us that the designation of billets or positions as exempt from commercial performance (commercial-exempt billets) meets the intention of identifying critical functions. Based on guidance in DOD Instruction

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<sup>62</sup>Office of Management and Budget, Office of Federal Procurement Policy-Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions*, September 2011.

<sup>63</sup>In the context of strategic workforce management, the term “critical” has been used to describe a number of separate efforts. As noted above, mission critical occupations are civilian personnel occupations that merit special attention based on their importance and the presence of human capital challenges. The term “critical functions” refers to a function that is necessary to the agency being able to effectively perform and maintain control of its mission and operations.

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1100.22, DOD components review all billets on an annual basis to determine which segment of the workforce should perform certain types of work. The Instruction provides for a variety of reasons for which a billet may be given a commercial-exempt designation, thereby reserving that billet for performance by civilian or military personnel. However, under this Instruction, positions may be designated as commercial exempt for a variety of reasons aside from their possible consideration as critical, including reasons such as esprit d' corps and professional development. It is therefore unclear how DOD can determine if the exemption of individual positions from commercial performance ensures that DOD maintains sufficient internal capability to retain control over critical functions.

DOD's current guidance does not fully reflect the need to identify critical functions as required by federal policy because DOD has not updated its workforce policies and procedures to reflect the requirements of OFPP 11-01. Officials from OFPP stated that many of the general principles behind OFPP 11-01 were reflected in DOD's current guidance, but acknowledged that current DOD guidance may not specifically incorporate the concept of critical functions as defined by the policy letter. Part of the impetus for the guidance was the need to provide a consistent understanding of the term "critical functions". Ensuring that DOD maintains sufficient internal capability to maintain control over its mission is a key aspect of ensuring that departmental officials have enough information and expertise to be accountable for the work product and can continue critical operations with in-house resources should contractor assistance be withdrawn. Absent specific policies and procedures that delineate requirements relating to critical functions and explain how components should identify these functions, DOD may lack assurance that it properly identifies and retains the ability to maintain control over critical functions. These efforts may be further hampered by the lack of sufficient information necessary for DOD to make strategic determinations of an appropriate workforce mix, as it may be difficult for the department to determine if it has sufficient internal capability to perform a critical function should contractors default on their responsibilities.

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## DOD Components Used the Inventory of Contracted Services and Other Data in Budget Submissions, but the Projections Have Significant Limitations

DOD components we reviewed used various methods and data sources, including their inventories of contracted services, to project contractor FTEs for their fiscal year 2013 and 2014 budget submissions, but our analysis found that the components' contractor FTE projections have significant limitations. DOD's Comptroller directed DOD components to report contractor FTEs in their budget submissions that were consistent with both the inventories, and funding levels of contracted services. Among the challenges encountered by the DOD components in using the inventory of contracted services, however, are the use of estimating techniques based on inventory data that may not be accurate or current, and the lack of a crosswalk between the inventory of contracted services and specific budget lines of accounting. While the Army has a process that addresses these challenges, it may be several years before the remaining DOD components are able to do the same. DOD is taking steps to help the remaining components address these challenges, but, in the meantime, the budget does not provide an explanation of how the contractor FTE estimates are derived and what limitations apply. Disclosure of this information would help ensure that decision makers draw informed conclusions.

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## DOD Components' Budget Submissions Included Contractor FTE Information for Fiscal Years 2013 and 2014, but the Accuracy of these Projections Is Questionable

In December 2011, the Comptroller issued guidance to defense components instructing them to report contractor FTEs and funding levels for contracted services in their fiscal year 2013 budget submissions in accordance with 10 U.S.C. § 235.<sup>64</sup> Specifically, the guidance directed the components to:

- provide contractor FTE data that were consistent with the inventory of contracted services they submit annually to the Congress,
- provide contractor FTEs that were consistent with the funding levels for contracted services, and

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<sup>64</sup>Office of the Under Secretary of Defense (Comptroller), *Fiscal Year 2013 President's Budget Submission* (Dec. 16, 2011).

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- report contractor FTE data and funding levels for contracted services in two separate budget exhibits in the operation and maintenance budget account.<sup>65</sup>

Though the Comptroller's guidance does not specifically refer to it, 10 U.S.C. § 235(b)(2) requires that contractor FTE projections for the budget submissions are to be based on both the inventory data and the reviews of that data that DOD components are required to conduct to identify whether contractors are performing services that should be converted to civilian performance.

DOD's fiscal year 2013 budget, submitted in February 2012, included the information on contractor FTEs and related funding levels from the two operation and maintenance budget exhibits. Overall, DOD requested about \$72 billion for contracted services in the operations and maintenance account and projected that roughly 285,000 contractor FTEs would be funded with that amount.<sup>66</sup>

Two of the five components we reviewed—the Air Force and the Navy—used their inventories of contracted services as a starting point to derive the contractor FTE projections, but the data they relied on has significant limitations. To derive their projections, Air Force and Navy budget officials obtained the operation and maintenance budget requests for sub activity groups prepared by resource managers for fiscal year 2013 and divided these by an average contractor FTE cost figure derived from their fiscal year 2010 inventories. This resulted in estimates of contractor FTEs for the corresponding sub activity groups. For example, the Navy requested \$166 million for contracted services related to mission and other flight operations activities for fiscal year 2013. Using the fiscal year 2010 inventory and applying inflationary factors, the Navy used an average contractor FTE cost of \$180,119 to derive a contractor FTE figure of 924 for this sub activity group. Navy budget officials told us they used the same average contractor FTE cost for all of its different types of services.

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<sup>65</sup>The guidance specified that the contractor FTE data were to be shown in budget exhibit OP-5, which provides detail by budget sub activity group, and that contracted services funding shown in OP-32, which provides an appropriation summary of price and program growth, were to be consistent with the OP-5 contractor FTEs.

<sup>66</sup>Office of the Under Secretary of Defense (Comptroller), *Fiscal Year 2013 Operation and Maintenance Overview* (February 2012).

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Both services' fiscal year 2010 inventories were based primarily on data from the Federal Procurement Data System-Next Generation (FPDS-NG) system.<sup>67</sup> DOD has acknowledged that FPDS-NG has a number of limitations that affect the utility, accuracy, and completeness of the inventory data. For example, FPDS-NG does not identify more than one type of service purchased for each contract action, is not able to capture any services performed under contracts that are predominantly for supplies, and cannot provide the number of contractor FTEs used to perform each service, among other things. DOD officials acknowledge that the use of derived average cost figures can result in inaccurate reporting of contractor FTEs. For example, Navy budget officials noticed that the funding for satellite lease services had decreased significantly, but the contractor FTE estimate related to the services remained stable. The budget officials believed that since the program had moved from the development phase of its life cycle to the maintenance phase, the number of contractor FTEs needed for the program would be less than 10 compared to the approximately 1,000 FTEs calculated for budget purposes. The budget officials decided not to make adjustments to the projections because they wanted to use a consistent approach to derive the contractor FTEs. In January 2011, we reported that Army manpower and OSD officials raised concerns about the use of average labor rates and ratios to project contractor FTEs given the tendency of those averages to obscure variations in the underlying data.<sup>68</sup> Further, our analysis showed that the use of these averages resulted in significant variations for some specific categories of services and particular contracts.<sup>69</sup>

For the fiscal year 2013 budget submissions, budget officials from the remaining three components we examined used other data sources they considered to be more reliable for their contractor FTE projections. These officials explained that the fiscal year 2010 inventories were not aligned to

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<sup>67</sup>FPDS-NG is the federal government's primary data system for tracking information on contracting actions.

<sup>68</sup>[GAO-11-192](#).

<sup>69</sup>For example, our January 2011 report found that the Army, which does not use FPDS-NG to compile its inventory, reported 113,713 contractor FTEs performing professional, administrative and management support services in their fiscal year 2009 inventory, but would have reported significantly fewer—65,408 FTEs—if they had used the average labor rates and ratios used by the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics. See [GAO-11-192](#).

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their budget data, were outdated or were not appropriate for budget projection purposes. For example, DISA and DLA budget officials noted that the most current inventory data available at the time the components were preparing their fiscal year 2013 budgets reflected contracts that were active in fiscal year 2010. Further, component budget officials noted that object class codes (used in preparing the budget) and product service codes (used in tracking contracts in FPDS-NG) often did not have a direct relationship, making the translation between the two categories subjective. For example, object class 25.1, which is used to delineate advisory and assistance services, is broad enough to encompass numerous product service codes associated with multiple categories of services. As a result, DISA and DLA relied on program managers to provide their projections on what level of contractor FTEs would be funded by the operation and maintenance budget requests.

Army budget officials explained that they did not use the inventory data compiled from the Army's Contractor Manpower Reporting Application (CMRA) system when preparing their fiscal year 2013 budget submission. The CMRA system is intended to capture data directly reported by contractors on each service performed at the contract line item level, including information on the direct labor dollars, direct labor hours, total invoiced dollars, the functions and mission performed, and the Army unit on whose behalf contractors are performing the services. It also captures selected information from FPDS-NG and the Army's accounting systems (to include budget codes). While DOD's AT&L and P&R leadership considers the Army as currently having a reporting process and infrastructure in place that fully complies with inventory legislative requirements, CMRA data was not available in time. Instead, budget officials relied on the Army's Structure and Manpower Allocation System (SAMAS), which according to budget and program officials contains civilian, military, and contractor personnel information and is used during the Army's program and budget development process. However, an Army manpower official explained that SAMAS does not include object class data, dollars projected for contracted services, or information on inherently governmental and closely associated with inherently governmental functions. Table 4 summarizes the methods used by DOD components in our review to derive their respective contractor FTE projections.

**Table 4: Processes Used to Develop Contractor Full Time Equivalent (FTE) Projections in Fiscal Year 2013 Budget Submissions**

<b>DOD Component</b>	<b>Source for contractor FTE estimate</b>	<b>Processes used to develop contractor FTEs provided in budget submissions</b>
Air Force	Inventory of Contracted Services	Used inventory to develop an average contractor FTE cost estimate. The cost estimate was then divided into the dollar value of specific budget activity groups to derive contractor FTE projections for those activity groups.
Navy	Inventory of Contracted Services	Used inventory to develop an average contractor FTE cost estimate. The cost estimate was then divided into the dollar value of specific budget activity groups to derive contractor FTE projections for those activity groups.
Army	Structure and Manpower Allocation System	Extracted contractor personnel information from Army's manpower system
DISA	Program Managers	Estimated contractor FTEs based on data provided by program managers and statements of work
DLA	Program Managers	Used contractor FTEs provided by program managers

Source: GAO analysis of DOD information.

The Comptroller issued updated guidance in June 2012 for the fiscal year 2014 through 2018 budget submissions. The updated guidance incorporated two significant changes from the 2011 guidance. The components are now required to (1) include contractor FTE estimates for not only the operation and maintenance account, but also for non-operation and maintenance accounts including the procurement and research, development, test and evaluation budget accounts<sup>70</sup> and (2) report contractor FTE and budget data together, rather than separately for different budget accounts.

According to Navy and Air Force officials, for the fiscal year 2014 budget submission, they followed the same approach used to project contractor FTEs that they did for their fiscal year 2013 budget submission; that is, they derived an average contractor FTE cost from their fiscal year 2011 inventory data. Therefore, the resulting projections will have the same limitations as their fiscal year 2013 projections. Navy and Air Force officials indicated that they used an average contractor FTE cost derived from their inventory to generate estimates for procurement and research, development, test and evaluation contractor FTEs in the same manner as

<sup>70</sup>Contractor FTE data that are informed by the inventory of contracted services are to be provided in the PB-32 budget exhibit, which provides a summary of price and program growth for the procurement and research, development, test and evaluation budget accounts, in addition to the OP-32 exhibit.



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they did for operation and maintenance-related activities. DLA and DISA officials indicated that they followed the same process as they did for their fiscal year 2013 budget submission whereby they relied on inputs from their program managers.

According to Army budget officials, the Army used a different process to project contractor FTEs for their fiscal year 2014 budget submission. These officials told us that the Army used information contained in its inventory of contracted services, which was compiled using data from its CMRA system, as well as the results of its reviews as the basis for its fiscal year 2014 contractor FTE projections. Army budget and manpower officials noted that several factors facilitated the use of CMRA data for its fiscal year 2014 budget contractor FTE projections. First, Army budget officials noted that they received fiscal year 2011 CMRA data in sufficient time to use for the fiscal year 2014 budget submission. Further, as part of the Army's inventory review process, when the individual commands reviewed the inventory data associated with their contracted services, they had assigned budget codes to the CMRA data so that it could be aligned with the Army's budget lines of accounting. In this regard, during the Army's inventory review process, Army command officials assigned budget codes to the CMRA contract data through a web based application. This process allowed budget officials to gain additional insight into the types of services included in each line of accounting, and align contractor FTES in the budget submissions in an easier and more transparent manner.

At the conclusion of our review, DOD released the fiscal year 2014 Operation and Maintenance Overview, which reported that DOD requested about \$52.5 billion for contracted services in the operations and maintenance account and projected that about 223,000 contractor FTEs would be funded with that amount. During our review of the document, we found that the funding amounts and the contractor FTE summary information for each military department did not match the figures that the military departments reported as part of their individual fiscal year 2014 budget submissions. When we inquired as to the possible reasons for the discrepancies, a Comptroller official, with knowledge of the Operation and Maintenance Overview document, told us that a variety of factors could have contributed to the differences, including that the overview document excluded Health Program and Research and Development contracts that the military services included in their budget documents. The Comptroller official, however, did not know the exact reasons for the discrepancies.

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## DOD Is Taking Steps to Improve the Accuracy of Contractor FTE Projections Included in Future Budget Submissions

DOD officials recognize that the contractor FTE information provided in their fiscal year 2013 and 2014 budget submissions had significant limitations, but noted that DOD has initiatives underway to improve the accuracy of components' inventories of contracted services and the linkage between the inventories and budget data. However, according to DOD officials, these initiatives are not expected to be fully implemented for several years.

DOD officials stated that having a reliable, current inventory of contractor FTEs is a fundamental building block for developing future contractor FTE estimates. DOD has initiated efforts to improve inventory data by collecting manpower data directly from contractors, using the Army's CMRA system as the model. To do so, DOD directed its components in November 2012 to include a reporting requirement in new and current contracts for services to collect direct labor hours from contractors, which can subsequently be used to calculate contractor FTEs performing each service or function. In addition, DOD is developing a department-wide CMRA system to collect and house this data. DOD officials expect to have a fully functional system available for all components to begin to use in fiscal year 2014 and that components will be in compliance with the reporting requirement by 2016.

One challenge identified by Comptroller and manpower officials is the need to link contractor manpower information in the inventories of contracted services to specific budget lines of accounting. There are approximately 2,200 contract codes, referred to as product and service codes, in the FPDS-NG inventory and the CMRA inventory that correspond to specific types of services which, according to acquisition officials, need to be linked to roughly 21 budget codes. According to an Army official, the Army CMRA as implemented contains both budget codes and product service codes; therefore, it is not dependent on DOD's crosswalk effort. For example, the Defense Acquisition University has mapped 17 product and service codes to one budget code related to printing and reproduction. According to an acquisition official, the department recently formed a working group comprised of officials from the acquisition community and the Comptroller's office to develop a more complete crosswalk between the product and service codes and the budget lines of accounting. This acquisition official also told us that formal guidance related to the crosswalk is expected to be issued in April 2013 and modifications to financial systems to capture product and service code information should occur in 2014.

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Finally, although DOD officials do not expect these initiatives to be fully implemented for several years, one could expect to see incremental improvements in the fidelity of contractor FTE projections as DOD components compile more accurate and complete inventories and conduct the required reviews of that inventory data.

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## Conclusions

DOD manages a large and diverse workforce that is tasked with accomplishing a wide variety of missions, from shipyard maintenance to cybersecurity. Over the past decade and in the context of fighting two wars, both the military and civilian parts of this workforce have grown in number, as has spending on contracted services, but the department now faces a changing environment that includes a strategic shift and a period of fiscal constraint that will likely last for some time. As DOD decides how to face these changes, total workforce management and planning will be important elements of ensuring the department's continued ability to meet the unique requirements of its missions. To be successful, the department must carefully consider what critical skills and competencies are needed to meet these requirements, and what strategies it can use to monitor and plan for retaining those skills in its workforce. Ensuring that its guidance is up to date would aid the department in assessing an appropriate workforce mix, properly identifying critical functions as required by the Office of Federal Procurement's Policy's September 2011 memorandum, and mitigating inappropriate risks that may be posed by contractors performing certain functions.

Congress, recognizing the importance of identifying the extent to which DOD relies on contractors to help carry out its mission, has enacted new legislative requirements over the past five years requiring DOD to collect data on its contractor workforce and make determinations about the nature of the activities that contractors perform, and amended legislation to require DOD to include contractor workforce information in DOD's strategic planning and total force management efforts and budget requests. DOD's approach to including projected contractor FTE information in its fiscal year 2013 and 2014 budget requests had a number of limitations and DOD acknowledges that the FTE information does not accurately reflect the number of contractors performing work in support of DOD. The department is taking steps to improve the accuracy of the data contained in its inventory of contracted services and enable the inventory and required reviews to be used to project contractor FTEs for budgetary purposes, but it may be several years before DOD is able to do so.

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## Recommendations for Executive Action

To help ensure DOD's workforce mix guidance reflects the current statutory requirements for total force management policy set forth in 10 U.S.C. § 129a as well as the regulatory requirements set forth in the Office of Federal Procurement Policy's September 2011 policy letter, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise DOD's existing workforce policies and procedures to address the

- determination of the appropriate workforce mix, and
- identification of critical functions.

Until such time that DOD is able to accurately project contractor FTE estimates it presents in budget submissions using the inventories and required reviews, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to include an explanation in annual budget exhibits of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD partially concurred with both recommendations. DOD's comments are reprinted in appendix III. Additionally, DOD provided technical comments on the draft report, which we incorporate as appropriate. We provided a draft of this report to the Office of Management and Budget, but we did not receive comments.

DOD made two overarching comments in its agency response to our draft report. First, DOD commented that it is concerned by the emphasis we placed on the strategic workforce plan as it relates to the department's total force management and resulting workforce size and structure. DOD stated that the plan is an integral tool in informing policies and procedures for retention, recruitment, and accession planning and it helps inform the demographic makeup of its civilian personnel inventory, including the talent, competencies, education, and skills of that workforce. DOD stated that it uses a capabilities-based approach to determine the size and structure of the workforce needed to implement national military and security strategies. These capabilities are based on the department's mission, function, and task hierarchy, and are informed by workload, risk mitigation, and resource availability. According to DOD, it justifies its workforce size based on mission workload, rather than competency or skill gaps. We agree that DOD's mission workload should determine the size of its total workforce. However, the type of personnel—military,

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civilian, or contractor—that performs the work is dependent on the nature of the work and circumstances of its performance. DOD is required by law to establish policies and procedures that require the use of the strategic workforce plan when making determinations of the appropriate mix of total workforce personnel necessary to perform its mission, and to include in the strategic workforce plan an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities, which it has not included to date. While the primary focus of this report is not on DOD's strategic workforce plan, we have reported in this and a body of prior work, that without knowledge of the skills and competencies that are necessary to perform its mission workload and any associated gaps in those skills and competencies, DOD may be challenged to appropriately identify its current and future civilian workforce needs. Moreover, without assurance that its civilian workforce possesses the necessary skills and competencies, DOD may not be able to readily convert the performance of a function from contractor to civilian personnel, should DOD determine that it would be more appropriate to do so. Therefore, a fully developed strategic workforce plan that addresses the statutory requirements to include an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities and report on the results of competency and skill gap analysis, could serve as an important resource for the department as it makes workforce mix decisions, especially in light of current fiscal constraints and budgetary pressures.

DOD commented that it is also concerned by the apparent lack of reference in our draft report to the Planning, Programming, Budgeting, and Execution process carried out annually across the department, especially as these processes relate to the size and shape of the department's total force. DOD explained that the process provides direction on spending levels, mission priorities, and strategic goals, which then impact decisions regarding force structure and operational capabilities, and ultimately addresses prioritization and resource alignment. We agree with DOD that the Planning, Programming, Budgeting, and Execution process is an important aspect of workforce planning and decisionmaking; both requirements and resources drive workforce decisions. We noted in our draft report that various OSD officials stated that the workforce requirements determination process is part of the department's Planning, Programming, Budgeting and Execution process to help ensure fully informed risk and cost decisions are translated into justified and transparent manpower requirements. Further, we noted the roles and responsibilities of the various offices involved in developing workforce requirements, including as part of the budget process. However, we also noted that a recently enacted statute

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requires that DOD and prioritize the attainment of a workforce sufficiently sized and comprised of the appropriate mix of military, civilian and contractor personnel to carry out DOD's mission over cost. Our report addresses steps DOD is taking to implement statutory requirements to develop and utilize certain policies, analyses, and tools to aid in making such workforce mix determinations. As DOD stated, the budgeting process involves prioritization of requirements and making trade-offs among competing needs as part of resource allocation. Therefore, having the most reliable and accurate information is imperative for making well informed budgetary and other workforce planning decisions. Consequently we believe, DOD should continue to take steps to obtain and develop the information and data that will allow it to make more informed and strategic workforce mix decisions, such as analyses of the gaps in skills and competencies within the civilian workforce, identification of the functions that are critical to the department's mission, and the collection of more accurate and complete information regarding contractors performing work in support of DOD.

DOD partially concurred with our recommendation to revise the department's existing workforce policies and procedures to address the determination of the appropriate workforce mix and identification of critical functions. As we noted in our report, DOD has not issued new guidance or revised existing guidance to reflect the current statutory and other federal requirements for total force management policy. Specifically, we reported that DOD's primary policies for determining workforce mix—DOD Directive 1100.4 and DOD Instruction 1100.22—largely reflect current statutory requirements set forth in 10 U.S.C. § 129a for DOD policies concerning workforce mix, though there are several recent amendments that have yet to be incorporated, such as that DOD has not yet implemented the new requirements that determinations regarding the appropriate workforce mix be made using the civilian strategic workforce plan and the inventory of contracted services. Further, we reported that the guidance similarly does not reflect federal requirements for the identification of critical functions as required by Office of Federal Procurement Policy's Policy Letter 11-01. In response to our draft report, DOD stated in its agency comments that DOD Directive 1100.4. is currently undergoing revision and entering the formal issuance process for signature by the Deputy Secretary of Defense. Further, DOD stated that the updated directive will authorize and direct the revision of the instruction. We noted in our report that OSD officials told us that they were in the process of revising both the directive and instruction, and they provided us with a draft of the revised directive. DOD should issue this revised guidance in a timely manner and ensure that revisions to both

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guidance documents address statutory requirements related to determinations of the appropriate mix of the department's workforce and federal requirements to identify critical functions in order for decisionmakers to make better informed decisions regarding the mix of personnel and ensure that the department retains enough government employees to maintain control of functions that are critical to its mission.

DOD also partially concurred with our recommendation to include an explanation in annual budget exhibits of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied. DOD stated in its agency comments that its financial management regulations and annual budget submission guidance memorandums issued by the Office of the Under Secretary of Defense (Comptroller) are the means used to explain budget exhibit preparation methodologies and the guidance directs how components are to develop and display budgetary estimates. DOD stated in its comments that this office will strengthen the annual guidance as improvements are made in the inventory of contracted services. Further, DOD stated that if a component's methodology deviates from the process defined in the annual guidance, a footnote explaining the deviation will be included in the contracted services section of the Operation and Maintenance Overview book within the budget. We recognize DOD has efforts underway to improve its inventory of contracted services, including its use in providing contractor FTEs within its annual budget exhibits. While footnoting any component methodologies that deviate from DOD's guidance is a step in the right direction, most components use methodologies that reflect inherent limitations that undermine the utility and accuracy of the FTE estimate. DOD acknowledged during the course of this review that the contractor FTE information provided in their fiscal year 2013 and 2014 budget submissions had significant limitations. Consequently, to improve transparency, we continue to believe that DOD should disclose the methodologies used and any limitations thereof until such time DOD is able to accurately project contractor FTEs.

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We are sending copies of this report to the Secretary of Defense, the Under Secretary of Defense for Personnel and Readiness, the Under Secretary of Defense for Acquisition, Technology and Logistics, the Under Secretary of Defense Comptroller, the Office of Management and Budget, and appropriate congressional committees. In addition, this report will also be available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions regarding this report, please contact us at (202) 512-3604 or farrellb@gao.gov or (202) 512-4841 or dinapolit@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.



Brenda S. Farrell  
Director  
Defense Capabilities and Management



Timothy J. DiNapoli  
Director  
Acquisition and Sourcing Management



# Appendix I: Recent GAO Recommendations for DOD's Strategic Workforce Management

GAO Product	Prior Recommendation	DOD Response
HUMAN CAPITAL: Critical Skills and Competency Assessments Should Help Guide DOD Civilian Workforce Decisions, <a href="#">GAO-13-188</a> (Jan. 17, 2013)	Involve functional community managers and to the extent possible, use information from gap assessments of its critical skills and competencies as they are completed, to make informed decisions for possible future reductions or justify the size of the force that it has.	Partially Concurred
	Document its efforts to strategically manage its civilian workforce and maintain critical skills and competencies for future reductions.	Partially Concurred
HUMAN CAPITAL: DOD Needs Complete Assessments to Improve Future Civilian Strategic Workforce Plans, <a href="#">GAO-12-1014</a> (Sept. 27, 2012)	Direct the Under Secretary of Defense for Personnel and Readiness to include in the guidance that it disseminates for developing future strategic workforce plans clearly defined terms and processes for conducting these assessments.	Concurred
	Conduct competency gap analyses for DOD's mission-critical occupations and report the results. When managers cannot conduct such analyses, we recommend that DOD report a timeline in the strategic workforce plan for providing these assessments.	Partially Concurred
	Establish and adhere to timelines that will ensure issuance of future strategic workforce plans in accordance with statutory timeframes.	Partially Concurred
	Provide guidance for developing future strategic workforce plans that clearly directs the functional communities to collect information that identifies not only the number or percentage of personnel in its military, civilian, and contractor workforces but also the capabilities of the appropriate mix of those three workforces.	Partially Concurred
	Enhance the department's results-oriented performance measures by revising existing measures or developing additional measures that will more clearly align with DOD's efforts to monitor progress in meeting the strategic workforce planning requirements in section 115b of Title 10 of the United States Code.	Partially Concurred
HUMAN CAPITAL: Complete Information and More Analyses Needed to Enhance DOD's Civilian Senior Leader Strategic Workforce Plan, <a href="#">GAO-12-990R</a> (Sept. 19, 2012)	Conduct assessments of the skills, competencies, and gaps within all five career civilian senior leader workforces and report them in DOD's future strategic workforce plans.	Concurred
DEFENSE ACQUISITIONS: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services, <a href="#">GAO-12-357</a> (Apr. 6, 2012)	Ensure that the military departments and defense components issue guidance to their commands that provides clear lines of authority, responsibility, and accountability for conducting an inventory review and resolving instances where functions being performed by contractors are identified as inherently governmental functions.	Partially Concurred
	To ensure that the six instances we reviewed in which the Army identified that contractors were still performing functions it deemed inherently governmental, as well as those at Kwajalein Atoll, have been properly resolved, we recommend that the Secretary of the Army review these functions, determine the status of actions to resolve the issues, and, as appropriate, take necessary corrective actions.	Concurred

**Appendix I: Recent GAO Recommendations for  
DOD's Strategic Workforce Management**

<b>GAO Product</b>	<b>Prior Recommendation</b>	<b>DOD Response</b>
	To ensure that the two instances we reviewed where contractors were still performing functions the Air Force had previously identified as inherently governmental are properly resolved, we recommend that the Secretary of the Air Force review these functions, determine the status of actions to resolve the issues, and, as appropriate, take necessary corrective actions.	Concurred
DEFENSE WORKFORCE: DOD Needs to Better Oversee In-sourcing Data and Align In-sourcing Efforts with Strategic Workforce Plans, <a href="#">GAO-12-319</a> (Feb. 9, 2012)	To enhance insights into and facilitate oversight of the department's in-sourcing efforts, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to issue guidance to DOD components requiring that the components establish a process to help ensure the accuracy of any data collected on future in-sourcing decisions.	Partially Concurred
	To improve DOD's strategic workforce planning, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to better align the data collected on in-sourcing with the department's strategic workforce plans and establish metrics with which to measure progress in meeting any in-sourcing goals.	Partially Concurred

Source: GAO.

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# Appendix II: Scope and Methodology

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To determine the historical trends and future projections of the levels of military, civilian, and contractor personnel, we obtained relevant data and performed trend analysis. For our analysis of historical trends, we included fiscal year 2001 through fiscal year 2011 and, for our analysis of future projections, we included fiscal year 2012 through fiscal year 2017. At the time of our review, the fiscal year 2013 president's budget contained the most recent data available for projections and it included actuals through fiscal year 2011 and projections for fiscal years 2012 through fiscal year 2017. For our analysis of military end strength and civilian personnel FTEs, we relied on data from DOD's Future Years Defense Program (FYDP), Office of the Under Secretary of Defense Comptroller's Comptroller Information System (CIS) and DOD budget documents. For our analysis of growth within type of activity performed, we used force and infrastructure categories from the FYDP to provide further perspectives on areas of workforce growth from fiscal years 2001 to 2011. We determined that these data were sufficiently reliable for use in discussing historical and future trends of the military and civilian workforce. Specifically, we reviewed previous GAO reports using workforce data, compared military and civilian personnel levels to published data, performed electronic testing, and discussed the reliability of the data with knowledgeable DOD and service officials.

Further, we interviewed DOD officials to obtain their views on the major drivers for workforce changes. For our analysis of historical trends of the contractor workforce, we reviewed DOD's inventory of contracted services for fiscal years 2008, 2009, 2010, and 2011. We did not independently assess the accuracy or reliability of the underlying data supporting the fiscal year inventories. However, we reviewed our prior work, which addressed limitations of the inventory data. Due to the lack of consistent reporting of contractor FTE data, we reviewed the obligated dollars for contracted services from fiscal year 2001 through fiscal year 2012 and the projected obligations for contracted services from fiscal year 2013 through fiscal year 2014. We relied on budget data on obligations for contracted services (object class 25). Based on discussions with various OSD officials, we excluded object classes 25.3 that represent dollars obligated for goods and services from federal sources. We adjusted the current dollars to constant fiscal year 2013 dollars using the Fiscal Year GDP Price Index to eliminate the effects of inflation. GAO has designated DOD's financial management area as high risk due to long-standing deficiencies in DOD's systems, processes, and internal controls. Since some of these systems provide the data used in the budgeting process, there are limitations to the use of DOD budget data. However, based on discussions with appropriate DOD officials and our comparison

of the trends in the budget data against other data sources, we believe the contracted service obligation data are sufficiently reliable for showing overall trends for contracted services.

To determine the extent to which DOD has taken action to determine the appropriate workforce mix to accomplish its mission, we reviewed relevant legislation<sup>1</sup> and departmental guidance<sup>2</sup> concerning requirements for DOD to carry out such analysis. We also interviewed DOD and military service officials to assess the actions DOD has taken to ensure it is employing the appropriate workforce mix. Specifically, we discussed the process of categorizing parts of the workforce based on the nature of the work they perform, DOD's process for identifying mission critical occupations as part of its strategic workforce planning process, and efforts by the services to improve implementation of its total workforce management in the future. We compared statutory requirements concerning the processes by which DOD is to determine its appropriate workforce mix to its efforts to date, and noted any differences.

To determine the extent to which DOD conducts analysis to identify core or critical functions, we reviewed relevant legislation,<sup>3</sup> federal policy,<sup>4</sup> and departmental guidance<sup>5</sup> concerning the process for identifying core or critical functions. We interviewed DOD and military service officials to explore the various ways in which "core" or "critical" functions could be defined and reviewed documents that supported those definitions.<sup>6</sup> We interviewed DOD and military service officials to determine the actions DOD has taken to define critical functions and respond to federal requirements. Additionally, we met with officials from the Office of Federal Procurement Policy within the Office of Management and Budget to

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<sup>1</sup>Including 10 U.S.C. §129a and 10 U.S.C. § 2330a.

<sup>2</sup>DOD Directive 1100.4, *Guidance for Manpower Management*, (Feb. 12, 2005) and DOD Instruction 1100.22, *Policy and Procedures for Determining Workforce Mix*, (Apr.12, 2010).

<sup>3</sup>Including 10 U.S.C. §§ 129a, 235, 2330a, and 2463.

<sup>4</sup>Office of Federal Procurement Policy Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions-* (Sept. 12, 2011, effective date Oct. 12, 2011).

<sup>5</sup>For example, DODI 1100.22 (Apr. 12, 2010).

<sup>6</sup>For example, DOD, *Quadrennial Defense Review Report*, February 2010. DOD, *Quadrennial Roles and Missions Review Report*, January 2009.

discuss their views on DOD's implementation of those requirements. We compared federal policy concerning the identification of critical functions to DOD's efforts to date, and noted any differences.

To determine how the military departments and defense agencies used the inventory of contracted services to inform their fiscal year 2013 and 2014 budget submissions, we focused our efforts on five DOD components—the departments of the Army, Navy, and Air Force, and the Defense Logistics Agency (DLA) and Defense Information Systems Agency (DISA). We selected these components based on the amount of their obligations for contracted services and the large number of contractor full time equivalents they identified in their fiscal year 2011 inventory of contracted services, the most current inventory available at the time of our review. We reviewed relevant guidance that directed the DOD components on how to use the inventory of contracted services to provide contractor FTE information in their budget submissions for fiscal years 2013 and 2014. We also interviewed officials from the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, Office of Defense Procurement and Acquisition Policy; the Office of the Under Secretary of Defense for Personnel and Readiness; and the Office of the Under Secretary of Defense (Comptroller) regarding the guidance and ongoing initiatives that will impact how the inventory data can be used to inform future budget submissions. In addition, we interviewed relevant budget and workforce officials from the five components we included in our review regarding the use of the inventory in the development of their fiscal year 2013 and 2014 budget submissions, and we obtained corroborating documentation from the three components that could provide it to determine the processes used to develop contractor FTE information included in these budget submissions.

We conducted this performance audit from October 2012 to May 2013 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 our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix III: Comments from the Department of Defense



READINESS AND  
FORCE MANAGEMENT

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
4000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-4000

MAY 17 2013

Ms. Brenda Farrell  
Director, Defense Capabilities and Management  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Ms. Farrell,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-13-470, "HUMAN CAPITAL: Additional Steps Needed to Help Determine the Right Size and Composition of DoD's Total Workforce," dated April 26, 2013 (GAO Code 351758). The Department appreciates the opportunity to review and comment on this draft report. The Department has two general concerns with the outcome and findings of the GAO in this report.

First, the Department remains concerned by the emphasis the GAO places on the strategic human capital plan as it relates to the Department's Total Force management and subsequent workforce size and structure. As noted in the Department's January 2013 response to GAO-13-188, "HUMAN CAPITAL: Critical Skills and Competency Assessments Should Help Guide DOD Civilian Workforce Decisions" (GAO Code 351695), we are committed to delivering a comprehensive Strategic Workforce Plan that helps address the demographic (talent, competency, education, skill) make-up of our civilian personnel inventory. However, the Department's Total Force of military (active and reserve), government civilians, and contract support is sized and structured based on the capabilities necessary to implement the national military and security strategies of the United States; as well as delivering the readiness and support to organize, train, and equip a force capable of executing operational plans in support of those strategies. This capabilities-based approach is predicated on a mission, function, and task hierarchy, and informed by current and projected workload, risk mitigation, and resource availability. The Department aligns its workforce (both in size and structure) to mission and, as such, justifies the current size or possible reductions/increases to that workforce based on mission workload; rather than competency or skills gaps. For example, a competency gap might be addressed through training or targeted recruitment. This gap would not change the fundamental workload demand. As such, the Strategic Workforce Plan is an integral tool in informing the Department's policies and procedures for recruitment; retirement and accession planning; professional training and education; and retention in order to guard against a skill shortfall or erosion of competencies as workforce actions are implemented.

Second, the Department is concerned by the apparent lack of reference in the GAO's report to the Planning, Programming, Budgeting, and Execution (PPBE) process executed annually across the Department, specifically as these processes relate to the sizing and shaping of

the Total Force. This process, beginning with the annual Defense Planning Guidance (from the Secretary of Defense) and subsequent budgetary guidance, provides direction on spending levels, mission priorities and strategic goals of the Department. Subsequent force structure, operational capabilities, and workforce constructs are driven by this process, which includes Service development of their Program Objective Memorandums and a “corporate” assessment during the Program and Budget Review. This assessment addresses priorities and resource alignment, including Total Force allocation and apportionment.

With regard to the two recommendations offered by the GAO, the Department provides the following:

**RECOMMENDATION 1:** To help ensure DoD’s workforce mix guidance reflects the current statutory requirements for total force management policy set forth in 10 U.S.C. § 129a as well as the regulatory requirements set forth in the Office of Federal Procurement Policy’s September 2011 policy letter, GAO recommends that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise DoD’s existing workforce policies and procedures to address the determination of the appropriate workforce mix and identification of critical functions.

**DoD RESPONSE:** The Department partially concurs with this recommendation. Updates to DoD Directive 1100.4, “Guidance for Manpower Management”, have already been proposed and informally reviewed by all Components of the Department. The directive is now entering the formal issuance process for signature by the Deputy Secretary of Defense. Among other things, the updated directive 1100.4 will authorize and direct the updating of DoD Instruction 1100.22, “Policy and Procedures for Determining Workforce Mix”. At this time, additional direction from the Secretary of Defense is not necessary.

**RECOMMENDATION 2:** Until such time that DoD is able to accurately project contractor FTE estimates it presents in budget submissions using the inventories and required reviews, GAO recommends that the Secretary of Defense direct the Comptroller to include an explanation in annual budget exhibits of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied.

**DoD RESPONSE:** The Department partially concurs with this recommendation. The Office of the Under Secretary of Defense, Comptroller (OUSD(C)) Financial Management Regulation and annual budget submission guidance memorandums are the vehicles for explaining budget exhibit preparation methodologies. The guidance provides instructions for how to develop and display the estimate, and provides any special supporting material requirements. In addition, “supplementary instruction” memorandums are issued on an “as needed” basis to amplify guidance included in the OUSD(C) memorandum.

The purpose of budget exhibits is to explain the program requirements. The explanations include key assumptions used to derive the estimates and any program changes that will result in increases or decreases to the program requirement. The explanations also

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Appendix III: Comments from the Department  
of Defense

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include a discussion of the type of resource needed, e.g., civilian labor, travel, supplies, contract labor, equipment.

OUSD(C) will continue to strengthen the annual guidance as improvements are made in the inventory of contracts for services. To the extent Component contracted services data is based on a methodology that deviates from the annual guidance, a footnote explaining the deviation will be included in the contract services section of the O&M Overview book.

Should you have any questions, please contact my primary action officer Mr. Thomas Hessel, Associate Director of Total Force Requirements & Sourcing Policy, at 703-697-3402, or at [thomas.hessel@osd.mil](mailto:thomas.hessel@osd.mil).

Sincerely,



Rich Robbins  
Director, Total Force Planning &  
Requirements



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# Appendix IV: GAO Contacts and Staff Acknowledgments

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## GAO Contacts:

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## Staff Acknowledgments:

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