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Private Sector Support & Services

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PRIVATE SECTOR SUPPORT & SERVICES 2015

ABSTRACT: Private sector support to the Department of Defense (DoD) has become a key enabler in the sustainment of U.S. preeminence in defense technology and dominance on the battlefield. The industry itself is characterized by intense competition caused by uncertainty and tightened government budgets especially with sequestration and the scaling down of overseas contingencies. Key firms however, are positioned to weather the storm through such strategies as diversification of product/service lines and markets, and through the prevalent partnering strategy referred to by industry representatives as *competimates*. Overall, analysis of the competitive landscape, the financial results and business strategies of firms representing the entire spectrum of government service providers reveals a robust and vibrant industry, replete with providers that are, and are likely to remain, highly responsive to the needs of the DoD, even in the event of significant surges. To be sure, there are issues that sometimes sub-optimize industry's ability to support the government and the government's ability to realize best value for its contracted dollar, but they are not of the scope that could diminish the capability and capacity of the services industry as a valuable partner in the defense of the Nation. Broadly summarized, these issues address the need for DoD to improve the capability and capacity of the acquisition and contract support workforce engaged in the management and oversight of contracts. It must continuously and systematically evaluate contracting techniques and approaches such as LPTA to ensure the department is indeed obtaining best value for increasingly constrained funding. As a critical input to National Military Strategy, DoD should redouble its efforts to evaluate what has historically been defined as inherently governmental and in doing so, determine the most effective and efficient mix of military, DoD civilian and contractors in executing the department's mission. And finally, DoD must commit to and work toward improving the planning, oversight and accounting for contractors at home and abroad.

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PLACES VISITED

Domestic:
Goldman Sachs , New York, NY
JF Lehman, New York, NY
Jefferies LLC, New York, NY
Sierra Nevada, Hagerstown, MD
DynCorp, Hagerstown, MD
Leidios, Hagerstown, MD
AASKI, Hagerstown, MD
BAE, Washington, D.C.
US State Department, Washington, D.C.
USSOCOM, Tampa, FL
USCENTCOM, Tampa, FL
Lockheed Martin, Bethesda, MD
FLUOR, Arlington, VA
In-Q-Tel, Arlington, VA

International:
Bolloré Africa Logistics, Paris, FR
Sodexo, Paris, FR
Kings College, London, UK
UK Ministry of Defense, London, UK
KBR, London, UK
Thales, London, UK

INTRODUCTION

Private sector support to the DoD is not new, but a 66 percent reduction in troop strength in the decade from 1990 to 2000, coupled with demands from contingency operations in Iraq and Afghanistan at the onset of the following decade increased reliance on contractors to the degree that today, this component represents 46-56 percent of the total force with more than $200B or 50 percent of the current DoD acquisition budget spent on the services they provide.[1] All indications are that this will not change anytime in the foreseeable future and that contracts for services will remain not just a critical component to expeditionary, stability and reconstruction operations,[2] but also a key enabler in the sustainment of U.S. preeminence in defense technology and dominance on the battlefield.[3] Recognition of this criticality is reflected in the Undersecretary of Defense for Acquisition, Technology and Logistics (AT&L) initiative to conduct an ongoing Sector-by-Sector, Tier-by-Tier (S2T2) analysis to inform its Annual Industrial Capabilities Report to Congress.[4] Although the 2013 Report did not address any major concerns with the service industry's ability to support the needs of the DoD, the Private Sector Support Services (PS3) landscape is not without challenges posed by both the U.S. Government (USG) and the market itself.

The purpose of this paper is to synthesize information gathered from independent research, classroom instruction, both domestic and international field studies and interviews with USG and industry representatives in order to analyze and assess the health of the industry and its preparedness to meet both current and future needs of the DoD. This will be accomplished in defining the PS3 industry itself, reviewing the competitive landscape, providing an economic analysis for its key firms and identifying relevant challenges for both the USG and industry. In concluding, policy recommendations responsive to the most significant of these challenges will be addressed.

THE INDUSTRY DEFINED

In defining the PS3 industry, it is useful to first understand what is meant by services. For the purposes of this paper, a service contract is one that "directly engages the time and effort of a contractor whose primary purpose is to perform an identifiable task rather than to furnish an end item of supply."[5] The spectrum of services provided by the private sector to defense are extremely diverse and range from grass cutting to highly technical research and development. The DoD, through the Federal Procurement Data System (FPDS) identifies 1,350 subcategories of services. These are further summarized in eight portfolio groups which are representative of the types of contracts within this industry (Appendix Table 1).

Based on annual revenue of its firms, the PS3 industry can be categorized by large, mid-sized, and small businesses. The five largest contractors, Lockheed Martin, Boeing, General Dynamics, Raytheon, and Northrop Grumman[6] are commonly referred to as the *Big Five* and represented 22.4 percent or $99.3B of the Federal Procurement Data System in 2013.[7] These firms play a key role in influencing both Congress and the DoD. In addition to their sizeable share of the defense budget, they play a key role in supporting lobbyists as well. For example, three of the five are among the top nine lobbyist contributors from 2009 to 2014, with Boeing contributing $90.3M, Northrop Grumman, $87.9 M, and Lockheed Martin, $78.8M.[8] They also play a significant role in designing, developing, deploying and supporting the majority of U.S. and international partner Major Defense Acquisition Programs (MDAPs), also known as Acquisition Category (ACAT) 1 programs.[9] These programs are designated by the Secretary of Defense or have Research, Development, Test, and Evaluation (RDT&E) costs totaling over $365M (updated to FY00 constant dollars) or an eventual total expenditure for procurement greater than $2.2B.[10] Often these firms are called on to provide initial Contract Logistics Service (CLS). Their considerable involvement with initial development often allows them the intellectual property and data rights required to provide related service and support, thus increasing their competitiveness in the servicing tail of those programs. In the interest of understanding these firms and their place in the industry, it is important to note that the Big Five are not single companies, but rather a conglomerate of several other highly influential companies that have been acquired or have merged over the course of several years.

The mid-sized category includes a large number of firms which perform below the Big Five but by virtue of their revenue, are ineligible for small business set aside contracts. In assessing the industry, the seminar focused specifically on DynCorp, CACI, KBR, FLUOR and Engility as representatives of firms at this level. With less product/service and market diversification than the Big Five, these firms are much more susceptible to shrinking government budgets and changing procurement strategies, as will be explored later.

The U.S. Small Business Administration (SBA) determines the small business designation as a function of the firm's income and number of employees. For example, to compete for a small business set aside contract, a PS3 provider cannot exceed $15M for engineering, $20M for security guard services, and $38M for facility support services. There are many and often very specialized firms represented in this category. As with mid-sized firms, government budget cuts pose a significant challenge, but this specialization is often the foundation for successful mitigation strategies.

CURRENT CONDITION/HEALTH OF THE INDUSTRY

A healthy services industry is critical to U.S. national interests in that it supports both the national military strategy and is essential to a robust economy. Overall, the 2012 S2T2 assessment concluded that, "Since almost every requirement has multiple, highly competitive, experienced sources of supply, the contract services sector remains generally healthy. In company interviews conducted as part of the S2T2 assessment, the Department found that recent Government in-sourcing has to date not presented a significant challenge to industry's ability to recruit and retain talented personnel. Additionally, the fluidity and mobility of the contract services workforce appear to contribute to healthy competition within the sector and ensure optimal cost for Department service contracts."[11] Still, an analysis of the competitive landscape and economic performance of key firms in the industry is necessary to understand factors that have the potential to change this.

Competitive Structure of the Industry

The American defense industry is unique among major industries in that it is highly dependent on one customer - the U.S. military. Because the USG's needs often have no commercial equivalent, defense firms find themselves simultaneously competing and cooperating to serve the Pentagon. A company may lose a bid for work as the prime contractor for example, but win subcontractor or supplier work from its competitor.[12] Such cooperation and collaboration is referred to in the industry as the *competimates* strategy. The organization of the services industry is relatively simple with primarily two tiers: primes and subcontractors. "Both tiers draw from a sizable professional labor pool. Prime companies that have a requirement to obtain a specialized skill set often satisfy the requirement through one or more subcontractor arrangements. In this two-tier construct, there are usually no additional demands for a third or lower-tier provider unless they are highly specialized."[13]

Rivalry among Existing Firms

Although the Big Five often have intellectual property or data rights that lead to initial sole source CLS, recent emphasis on full and open competition and small business set-asides (representative of the DoD's attempt to limit this practice), is changing the way large companies approach service contracts. During several seminar visits with industry, firm leaders underscored the fierce competition within the industry, noting that USG efforts to use Low Price Technically Acceptable (LPTA) award methodology have significantly leveled the playing field. They noted that any vendor can write a technically acceptable proposal, and that the award is inevitably based on price, which is counterintuitive to providing best value for the customer. While senior acquisition professionals concur that LPTA is appropriate for the purchase of commodities, industry leaders are quick to point out that not all service contracts are commodities.[14] Likening this approach to a "race to the bottom" they cited a decrease in average profit margin for service contracts to between three and seven percent. Industry representatives also complained about poorly written requirements saying, "Service contracts are written more people specific than performance based, thus limiting competition to the incumbent or contractor that can hire the current employees."[15] These factors coupled with fiscal austerity related to sequestration and the Budget Control Act are shaping an anomalous type of competition within the industry that will not necessarily impart the benefits that the USG expects.

Threat of New Entrants

The PS3 industry presents few barriers to entry. Although larger firms in the industry have more flexibility to cut costs in order to remain competitive, economies of scale are not a factor and there are no major capital requirements for entry. Furthermore, the existing competition, coupled with the *competimates* partnering strategy among those already in the market, make it much less appealing to those would be new entrants. Stringent government regulatory requirements and lack of agency mission and requirements knowledge pose additional difficulties for potential newcomers.[16] Decreasing profit margins may also diminish the attractiveness of opportunities within the industry. While globalization would otherwise result in increased interest from foreign firms, the Buy American Act and a bi-partisan push for economic growth minimizes this potential threat. Although BAE's success in the market could add a 6th to the Big Five, representatives of the firm were quick to point out the complexities of its business model, underscoring that it would be very difficult for other foreign firms to replicate. Therefore, while not an impossibility, the threat of foreign entrants is low, at least in the foreseeable future.

Threat of Substitutes

The greatest threat of substitution stems from potential insourcing, where the USG supplies necessary services and support with organic resources. As the government responds to findings of the GAO and the 2011 Report of the Defense Science Board Task Force in Improvements to

Services Contracting, calling for an assessment of the appropriate mix of civilian, military, and contractor capabilities, in-sourcing will be a threat worthy of consideration for those in the industry. Another threat stems from the government's tendency to extend the lifecycle of existing platforms rather than procure new equipment in times of tightened budgets. Typically, it is those platforms with the most longevity whose related services are performed by in-house assets. In this regard, new opportunities for industry are lost and must be supplemented through other markets, domestic or international. There are indications, discussed later in the paper that the Big Five are already on this trajectory.

Buyer Power

Defense spending is the primary source of revenue for most of the industry, especially the Big Five. For this reason, sequestration, the Budget Control Act and future reductions in military forces will continue to threaten revenue for these firms and increase the USG buying power. Further, evolving approaches to acquisition aimed at generating efficiencies and best value from contracts increases the government's buying power. In the course of seminar field studies, industry leaders shared that the extensive use of LPTA contracting has reached the point that in order to win, companies must price in such a way that requires cuts in employee salary, making it very difficult to retain talent. In other words, firms will bid low and, upon winning, will try and recruit the current employees for less money. Often, these employees leave rather than take a cut in pay and the firm is left to recruit less qualified, less experienced staff which ultimately decrements the quality of the service to the customer. This "brain drain," as it was termed, can also lead to warfighter risk depending on the services provided. However, it is evident that industry is hedging against this threat by pursuing opportunities to diversify both markets and service lines, so it is not implausible that this buyer's advantage could be short-lived.

Supplier Power

Within the services industry, suppliers are the workforce. In a market characterized by fierce competition, the capability to attract, recruit, train and retain talented and affordable employees is critical, not just to profitability, but to survival in the long run. Representatives from many firms visited by the seminar said that they are extremely challenged in accomplishing this because the LPTA approach hamstrings them in doing what they must to achieve low price status among competitors. As such, related cost cutting, especially for those firms who provide services exclusively, will always be absorbed by the workforce, whether it is the number of employees, their salaries, benefits or training, which in turn will compromise retention – a difficult *Catch 22* cycle that is not easily broken.

Foreign Competition and Markets

<u>*U.S. Markets*</u>

The number of defense contracts is declining as a direct result of decreased defense spending. This increases competition in the industry, pushing firms to look beyond their traditional markets and into the global economy. As the U.S. economy is favorably disposed to investment from abroad, commercial and contract law provides equal access for foreign firms bidding on DoD contracts. On macroeconomic and global levels, this should bring an overall benefit to the USG by driving efficiency and lowering costs. However, this is also a direct threat to U.S. firms already providing services to DoD in a fiscally constrained environment. BAE, one of the world's largest defense contractors, competes on a level stage with U.S. firms, having established a U.S. subsidiary that in 2014 was awarded $4.9B in DoD contracts.[17] Moreover, as the Department is now looking to avoid duplication in developmental costs, it is more willing to purchase already established weapons systems (and potentially their supporting service packages) from foreign sources.[18] In order to offset competition from abroad, U.S. firms have developed highly specialized skills (engineering, systems integration, etc.) needed to meet defense requirements. They also support the informal, yet strong protections provided by Congress in its role within the *Iron Triangle*, and use the processes in place to protect national security and to thwart foreign firms' penetration of the markets to their advantage. These processes include, for example, layers of review for requisite security clearances and the Committee for Foreign Investment in the United States.

Foreign Markets

Although expanding into the international market appears to be a logical step for service providers in search of new revenue streams, this is a risky strategic decision. Success in the international marketplace requires companies to overcome significant challenges such as; unsupportive U.S. domestic regulations (Foreign Protections Corruption Act) and agencies; a lack of transparency in foreign government acquisition processes; off-sets, nationalistic tendencies and an unfamiliar business culture; including significant levels of corruption – and this is all prior to winning a contract.[19] Despite these challenges, select U.S. firms have been successful abroad. These firms however fall within one of three groups: 1) companies who provide direct services in support of major weapons systems; 2) those that provide a service which has industry-wide applications; and 3) those already established on the international scene in a separate industry.

An example within the first group is Lockheed Martin and its Joint Strike Fighter (F-35). The F-35 will provide a platform for aircraft construction, maintenance, training, and technological add-ons services based on proprietary equipment for decades. To date, the F-35 will be used or purchased by approximately a dozen countries with more considering adding it to their respective air forces.[20] In the second group is Academi, an international security firm that, despite its mixed reputation, has multiple contracts abroad. It has succeeded because it provides a range of general security services required by both public and private sectors.[21] In the third group is KBR. Prior to venturing into U.S. government services, it was a well-established international construction and oil/gas firm with strong ties to the Middle East and Africa.[22] Although there is the rare award that goes to a U.S. company such as the $400M base logistics award by the Australian government to DynCorp International,[23] a strategy of going abroad is realistic for very few firms.

Assessment of Key Firms

The Big Five

As a lagging indicator, the health of the industry can be gauged through the financial performance of its key firms. Appendix Table 2 illustrates and contrasts three-year trends for the Big Five in the areas of revenue from operations, operating profit, net profit, cash generated by operating activities and employment. In addition to these indicators, it is useful to consider risk analysis in terms of the firms' current ratio and long term debt-to-equity ratio. The current ratio ascertains whether a company's short-term assets are readily available to pay off its short-term liabilities.[24] As illustrated in Appendix Table 3, these ratios are well within the margins for the Big Five. Raytheon and Northrop Grumman are higher than the industry average but below S&P 500 average. Long-term debt to equity ratio is the best measure in determining how much leverage the firm is taking on to execute its strategy.[25] In analyzing the Big Five, Lockheed Martin and Raytheon are carrying significantly higher debt than the industry standard. On the other hand, Boeing and General Dynamics appear to be sitting on excess cash that could be invested (Appendix Table 4).

Companies "create business value by investing capital from investors to generate future cash flows at rates of return exceeding the cost of that capital."[26] Value creation, or return on investment (ROI) is best expressed with a formula that begins with the firm's profit and then is divided by Capital Invested with the Weighted Average Cost of Capital (WACC) subtracted from that result. If ROI is greater than WACC, the firm is adding value. The desired target is generally around 10 percent.[27] However, during seminar field studies and research with industry leaders, it became apparent that the service sector falls short of that. In evaluating the Big Five, each is adding value to the company (Appendix Table 5). Lockheed Martin and Boeing however, are adding significantly more value, thus demonstrating the benefits of having a diversified portfolio.

The Mid-Sized Firms

Five firms either visited or studied by the seminar are used to gauge the health of this group - DynCorp, CACI, KBR, FLUOR and Engility. Because they are not as diversified in terms of their product/service lines and markets, these firms are more likely to be adversely impacted by decreased DoD budgets than the Big Five. Nevertheless, the overall health of this group is strong, capable of meeting existing peacetime requirements and rapidly responding to future *black swan* operations. Supporting this analysis are their financial results.

All firms that were visited or studied have realized dramatic decreases in revenue over the past three years with the exception of CACI which has maintained annual revenue at approximately $4B. DynCorp's DoD revenues are trending downward from over $4B in FY12 to $3.2B in FY13 due to reductions in the LOGCAP IV contract serving the DoD in Afghanistan. A continued decrease in revenue can be expected for both DynCorp and its competitor, FLUOR, as operations in this area wind down. However, through diversification in other sectors, DynCorp's overall financial health appears to be stable. KBR and Engility have also experienced decreased revenues, with KBR falling from $9.1B in 2011 to $7.2B in 2013 and Engility falling approximately 35 percent from $2B in 2011 to $1.4B in 2013 (Appendix Table 6).

As service-oriented firms, cost cutting in response to decreased revenue almost inevitably comes from workforce reductions. Although several industry representatives cited the potential for losing talent and expertise as a result, further discussion revealed that at least three of the five firms studied had large non-Federal and non-DoD contracts, giving them the ability to shift this expertise, thereby retaining it for future requirements. In fact, when asked about the impact of lost talent on meeting surge requirements of the DoD in the future, all firms felt strongly that their ability to respond is not in jeopardy.

There were however, several common denominator concerns from representatives within this group that could threaten the longer-term sustainability of this health. As previously discussed, diminishing profit margins is one of those concerns. The second is what they referred to as the *squeeze in the middle*. This squeeze refers to the ability of the Big Five to achieve competitive advantage and to weather the fiscal tides by virtue of their size and diversification. Small firms are able to do this with benefits and privileges extended through small business set asides. These conditions put even greater pressure on mid-sized firms to remain competitive in a volatile and unpredictable market.

Small Business

The U.S. Small Business Administration maintains a table of small business size standards by North American Industry Classification System (NAICS) code[28] which associates the maximum average receipts or number of employees that a firm may have to qualify for small business loans or set aside contracts. This table can be reduced to roughly seventeen NAICS codes that are most applicable to the PS3 industry (Appendix Table 10). The seminar interviewed two small businesses and small business dealings were discussed throughout engagements with large- and mid-sized firms as well as government agencies. Both industry and government representatives indicated that small businesses are a source for innovation and niche skills. U.S. Special Operations Command and Department of State (DoS) officials noted that partnering with small business afforded them substantial benefits in attaining highly sought after and specialized technical skills.

The seminar met with a company that qualifies as a Service-Disabled Veteran-Owned Small Business. The company was purchased in June 2008 when it was averaging only $36,000 per year in revenue over a four year period. Under new leadership, it sustained steady growth over six years and anticipates revenue to exceed $23M for 2014. As a government services provider, the company focuses on program management, daily business operations and systems engineering for national security customers and earned its inclusion on a large indefinite delivery, indefinite quantity (IDIQ) contract. The CEO indicated LPTA was driving down costs and that historic wrap rates from 10 years ago of $2.00, are now in the range of $1.45 to $1.65. Despite the competitive environment and low profit margins, the CEO is expecting to grow beyond small business standards within two years, so his strategy is to maximize the small business opportunities where possible and identify emerging opportunities with current clients.

The seminar later met with the president of a firm who qualifies as a Woman Owned Small Business and a Minority Woman Owned Business Enterprise.[29] Her company provides the government with program management, logistics, operations, field support, systems engineering, cyber security, software engineering, modeling and simulation, and network integration and testing services. From her perspective, the government's approach to small business is good, as it helps companies grow and learn how to compete. Her company had two employees in 2003, slowly grew to 18 in 2007, picked up momentum with 109 in 2011 and now employs a staff of nearly 350.

Federal law and DoD policy lower the barriers to entry and stable legislation facilitates business startup and development in the PS3 industry. Reduced budgets will increase small business competition for services contracts, but good companies will thrive through differentiation that comes from quality services and unique skill sets. Indications are that small business will remain a viable contributor to the services support industry and that they will continue to provide valuable, niche, high-tech skills and capabilities for the USG.

INDUSTRY OUTLOOK

Overall, analysis of the competitive landscape, the financial results and business strategies of firms representing the entire spectrum of government service providers reveals a robust and vibrant industry, replete with providers that are and are likely to remain highly responsive to the needs of the DoD, even in the event of significant surges. To be sure, there are issues that sometimes sub-optimize industry's ability to support the government and the government's ability to realize best value for its contracted dollar, but they are not of the scope that could diminish the capability and capacity of the services industry as a valuable partner in the defense of the Nation.

Most critical to sustaining this strategic advantage in increasingly volatile and unpredictable geopolitical and economic environments is diversification. For the Big Five, entry into international markets is a strategy that is already harvesting results. All five have increased their international business by either setting up offices or purchasing existing business with ties to international government agencies. Secondly, the need to be diversified both in terms of market and product/service lines has been, and will continue to be a viable strategy for the entire industry as it looks to the future. While the ease of entry into international business is more challenging for mid-sized businesses, financial results for those firms diversifying their product/service lines or their domestic markets indicate that they are better positioned to weather the storm of fiscal austerity than those who have not. Diversification strategies that will keep small business viable include the identification of both public and private niche markets to serve and evolving product and service lines to remain on the cutting edge of technology.

Seminar interviews with industry and government leaders as well as banking representatives who invest in companies providing services to the DoD, reinforced that the outlook for the PS3 industry is good. Its firms are responding to changes in environment with strategies that are already proving effective. Further, these strategies pose little threat to the industry's ability to meet the needs of the DoD over the long term since services typically do not require significant investment in start-up costs. After all, if past proves present, that major firms in the industry have weathered this storm successfully in the past, is indicative of their ability to do so again.

USG CHALLENGES IN THE INDUSTRY

With industry's challenges identified, this section further examines USG responsibilities in optimizing value for services contracts. Collectively, the Special Inspector General for Iraq Reconstruction and Afghanistan Reconstruction [SIGIR/SIGAR], the Government Accountability Office (GAO), and the Commission on Army Acquisition and Program Management (Gansler Commission), and the Professional Services Council (PSC) all cite significant shortcomings with planning, oversight and accounting for contractors."[30] To be certain, many of the related findings are not new. Contract management, for example, is included in every GAO High Risk bi-annual report since 1992. While much has been done to address the deficiencies contained in these reports, broad areas for further work include the acquisition and contract support workforce, contracting techniques and approaches, service acquisition and operational contract support (OCS).

Acquisition and Contract Support Workforce

In order to avoid fraud, waste and abuse, to optimize the value of DoD contracts and to best support the warfighting mission, the department has yet to issue an updated strategic plan specific to the acquisition workforce. [31] The Gansler report found that "the workforce is inadequately prepared to acquire and execute service contracts. Specific guidance, training and experience are needed." The Defense Science Board Task Force on Improvements to Services Contracting recommended that the DoD strengthen the skills and capabilities of people involved in services contracting.[32] Further, in a 2014 survey of industry and acquisition professionals, the PSC found that both government and industry are concerned about lack of key skills – gaps in negotiating skills, business acumen and the ability to acquire complex information technology.[33] In her essay, Ms. Gail Burton discusses the critical role that Contracting Officers' Representatives (COR) play as vanguards in the day-to-day management of contracts and discusses how the DoD might further equip and incentivize this workforce in carrying out their contract management responsibilities.

Contracting Techniques and Approaches

GAO's High Risk List calls for the DoD's continued commitment and demonstrated progress in choosing the most appropriate contract type and the effective use of competition.[34] The Defense Science Board Task Force report found that buying services is fundamentally different from buying products, and that current policies, processes and acquisition regulations are not responsive enough to how services are acquired.[35] This is evidenced in the use of LPTA contracting as a means of acquiring services. Seminar interviews with both industry and government representatives parallel those of the PSC survey results. Specifically, that a stark difference of opinion exists between government acquisition professionals and their private sector partners about the role, use and implications of LPTA procurement. Industry respondents were in diametric opposition to government respondents, with 84 percent responding that LPTA is used too frequently and over 50 percent believe it is rarely used appropriately. Ms. Debra Jordan's essay will address these two perspectives and demonstrate how this contracting approach ultimately contributes to value in contracted services.

Service Acquisition

DOD faces challenges in meeting its statutory requirement to prepare an annual inventory of contracted services - one that could help it manage its acquisition of services; make more strategic decisions about the right workforce mix of military, civilian and contractor personnel; and better align resource needs through the budget process to achieve that mix.[36] Also within the parameters of service acquisition, the Gansler Report found that there is a need for "detailed guidance to clarify the inherently governmental functions to eliminate the confusion over work that is critical or closely associated with inherently governmental activities, much of which can be done better and more efficiently through contracting."[37] Mr. Randy Samples will demonstrate in his essay how comprehensive identification, development and utilization of the DoD expeditionary workforce decreases expeditionary costs, improves expeditionary personnel accountability and right sizes the expeditionary requirement for private sector contract support. LTC Shannon Lucas examines the inherently governmental designation, and makes recommendations for the appropriate mix of federal civilians and contracted services in providing security for installation access control.

Operational Contract Support

In response to sharp criticism from the SIGIR and SIGAR, the GAO and the Gansler report, calling on the DoD to improve planning, oversight and accounting for contractors in contingency environments, [38] the Joint Requirements Oversight Council (JROC) approved the OCS Initial Capabilities Document (ICD).[39] The existing capability gaps identified by the document contain such actionable findings as the lack of capacity to administer, oversee and close contracts to achieve desired outcomes and the ability to visualize, track and monitor the types, location and status of OCS capabilities in theater.[40] CDR Dimitry Poisik addresses many of these gaps in his essay and argues that most can be effectively addressed through improved information systems capability.

ESSAYS

#1: Contract Oversight- COR Workforce

Although acquisition reforms over the past ten years are yielding positive results, DoD contract management is still on GAO's High Risk List. This is due to ineffective acquisition processes in procuring services resulting in paying too much and not getting the right services for the mission.[41] GAO recommends that DoD continue its planning and alignment of funding to increase its capacity to oversee contracts by right-sizing and elevating training for the acquisition workforce, implementing a plan to assess its effectiveness in enhancing competition and strategically managing the acquisitions of services by expressing outcomes, instituting metrics and collecting the appropriate data to monitor progress.[42]

Similarly, the Southwest Asia Joint Planning Group states in their 2014 Comprehensive Oversight Plan for Southwest Asia that "contract oversight responsibility was given to a contracting workforce, including the contracting officers' representatives, that was not properly sized, sufficiently trained nor possessing the experience necessary to manage the complexities of these acquisitions."[43] Until these factors are adequately addressed, contract oversight is at high risk and vulnerable to fraud, waste and mismanagement of taxpayers' dollars.[44] In addition, recent seminar discussions with industry, government and CORs from three DoD organizations confirm the accuracy of GAO findings.

The DoD concurs with GAO's recommendations and continues to address deficiencies by focusing on hiring and training the core acquisition workforce, executing the Better Buying Power (BBP) Initiative and issuing memorandums aimed at improving OCS.[45]
Therefore, a great deal of the training effort focuses on the Category I (Contracting) core acquisition workforce and not nearly enough on the CORs that are conveying the technical requirements, overseeing the technical work of vendors, assessing if contract deliverables meet requirements and certifying payment.

In most cases, COR activities are additive to their current occupational series duties. Therefore, CORs have little incentive to take on this additional responsibility and the repercussions of not effectively performing acquisition tasks can adversely impact their performance evaluation and their ability in moving to other positions or gaining promotions. The guidance for this added responsibility comes from acquisition professionals (contracting officers and contract specialists) who are over extended and are arguably the most vital and the weakest link in the acquisition process. In contrast, many CORs also find this added responsibility rewarding and a vital component in sustaining operational capabilities.[46] It is also important to note that CORs interact daily with contactor program managers and other contractor personnel that possess superior acquisition knowledge, and at times a greater understanding of the contract requirements, sometimes resulting in undue influence on their oversight effort.[47] One recommendation at this point is to explore other measures of equipping the COR workforce to carry out their responsibilities in contract surveillance.[48]

At first blush, one would expect the implementation of some sort of compensation program similar to Foreign Language Proficiency Pay as a measure in motivating and retaining proficient CORs. Another suggestion is to increase the acquisition workforce by establishing a COR occupational series to support carrying out the complete acquisition process. These ideas are not new. Senior DoD officials continue to discard these measures as a result of implementation costs, even though DoD IG report 2012--134 cites that contract oversight is one of the top 5 systemic problems in contract management relating to contingency operations.[49] Moreover, billions of taxpayer dollars are lost as the result of poor planning, oversight and fraud in contract management. As GAO states, "DoD lacks an action plan to guide its efforts in improving the acquisition workforce and service acquisitions and the department has not resolved capacity shortfalls." Following are a few recommendations for consideration.

The DoD, as the customer, must have the necessary knowledge and oversight to guard its interests, which is achievable by adequately equipping the COR workforce and using its expertise to drive improvements in service acquisition. These vanguards can achieve greater effectiveness by receiving support from the entire DoD workforce by arming them with basic knowledge of the DoD acquisition apparatus. This is a necessary step since contractors will continue to play a central role in military operations. Adding contextual defense acquisition training as part of the curriculum at service schools, civilian developmental training, military technical schools and in unit readiness training further grows a culture that supports CORs and the core acquisition workforce in contract management.

The DoD acquisition community provides an array of training and policy materials to aid the CORs in performing their duties to include in-house training, Defense Acquisition University on-line training and the Acquisition Community Connection (ACC) knowledge sharing web site. Links from the ACC include acquisition policy, various work tools, handbooks, newsletters, acquisition community of practice and DAU social sites to name a few. However, many reports clearly state that CORs' current training structure is not sufficient in managing complex contracts driving negligence, massive waste and fraud. Therefore, DoD must elevate COR training by refining the format to a scenario-based e-Learning or "job experience in a box – designed to be unpackaged and stored in the learner's memory."[50] The key is to build the scenarios upon the most important defense oversight issues of the 21st century that include writing quality requirements, and providing oversight for complex contracts in ever-changing and unstable environments as found in highly technical work and OCS. The scenarios are designed with a realistic structure of events guiding learning in a controlled manner.[51] A repository of well-thought out COR YouTube videos could serve as an effective training tool as well.

The next step is to maintain a permanent workforce by adding a COR Additional Skill Identifier that requires continuous training to at least 10 percent of all career specialties (CIV/MIL) on the activity unit manning document. This action institutionalizes the COR proficiency resulting in sustaining technically competent personnel to perform contract administrative duties for their organization.

It is equally important to seize the opportunity to gain input from a technical perspective on achieving operational and budget efficiencies by formalizing the requirement for CORs to complete an evaluation via the Contractor Performance Assessment Rating System (CPARS) of the acquisition process in conjunction with the evaluation of the contractor's performance. This review and analysis can drive adjustments in processes, requirements, operations, accountability and policy while elevating.

Lastly, the DoD should provide meaningful recognition of excellence in contract administration for CORs from an organizational level to support the importance of acquisition to the DoD mission and to change the department's culture that views contract oversight as a low priority.

These recommendations are achievable through current processes. A modest amount of education, training, funding and further discussion are likely to produce such outcomes as cost savings, more effective contract management, operational effectiveness and the industry's enhanced ability to deliver support and services.

Ms. Gail Burton, DIA

#2: LPTA: Value Proposition or Value Opposition

> *"We must wring every possible cent of value for the war fighters we support from the dollar with which we are entrusted by the American taxpayers."*[52]
>
> *Honorable Frank Kendall*
> *(Under Secretary of Defense Acquisition, Technology and Logistics, 2012)*

The Best Value LPTA acquisition strategy is an approach the USG uses to contract for goods and services. The USG promotes LPTA as a cost efficiency objective to achieve greater efficiency and productivity in defense spending. The Federal Acquisition Regulation (FAR) established specific guidelines that disclosed LPTA may be used when: 1) additional value may not be realized for a proposal that exceeds acceptability standards; 2) technical approaches to performance require objective judgment; 3) requirements can be expressed clearly in the Statement of Work; and 4) to consider cost factors only (not non-cost factors such as performance). LPTA does not allow the USG to award a contract to a bidder that offers and charges the government for more service than is requested. In contrast, the Best Value Trade-off approach allows the USG to award a contract to a bidder whose cost is not necessarily the lowest cost. The requested non-cost factors however, were deemed either equal or more important. Regarding the LPTA approach, recent GAO reports substantiated that:

- LPTA and the BBP Initiative fostered a tendency for contracting officials to more closely assess the complexity level of service required, meticulously determine specific risks associated with non-cost factors and more clearly define technically acceptable standards and requirements. Also, in more and more cases, BBP led officials to more frequently choose LPTA as an acquisition approach offering more value to the government.
- The DOD utilizes Trade-off more than LPTA to acquire contracted services.[53] However, from FY08-FY13, program managers and contracting officials increased the selection encouraged continued use of LPTA when there was no additional value in trading-off the *lowest cost* factor for any non-cost factor.[54]
- Program managers and contracting officials' selection of LPTA over Trade-off was generally consistent with the FAR and it also added value to the acquisition administration and focus on cost efficiency.[55] For clarity, the FAR gives the contracting official broad

> discretion to select the appropriate acquisition approach. The official however, must be selected prior to solicitation for bids. In fact, the agency may use LPTA, Trade-off or a combination of the two when seeking cost-informed and cost effective decisions for contracted services.

While it is true that LPTA is not the correct approach for all services, the facts are that LPTA has been increasingly used since the USG implemented the BBP Initiative and it provides opportunity for innovation without trading quality. Fundamental to the success of LPTA is the writing of clear requirements which DoD acknowledges that the defense contracting community has expressed concern in formal correspondence and bid protest. This is a systemic issue that applies to all acquisition strategy (including Trade-off) and is not merely limited to LPTA. Although DoD contracting officials base an LPTA final decision on lowest evaluated cost, the Source Selection Evaluation Board, dispelling another myth, reviews non-cost factors as well.

Bottom line: GAO acknowledges the DoD's increased use of the LPTA approach, appropriately applied, equates to less risk of excessive procurement. Additionally, DoD acknowledges that LPTA opposes value in three instances: when requirements threshold is set too low; if LPTA is the default acquisition strategy without proper assessment of needed performance; and when innovation and technological requirements are unknown. Nevertheless, DoD recognizes LPTA value as a tool, when used appropriately, to increase savings, reduce waste of taxpayers' money and ensure our war fighter's capabilities remain dominant when providing national security.[56]

Ms. Debra Jordan, USA

 # 3: Right Sizing the Expeditionary Workforce

As the United States conflict with ISIS escalates, many contractors are eager to cash in on the next war on terror.[57] It is no wonder considering that during the height of escalations in Iraq and Afghanistan in 2008, there were more than 240,000 contractors providing OCS to USCENTCOM.[58] However, DoD could ameliorate its over-reliance on contractors to satisfy critical non-combatant functions if it better developed and integrated the civilian expeditionary workforce (CEW). Unfortunately, DoD guidance regarding proper identification of and support requirements for the CEW are inadequate. Some positions are easier than others to identify. For instance, positions performing inherently governmental work are by law designated as not eligible for fill by contractors.[59] Other non-combatant requirements may be perfect fits for the CEW, but due to a lack of coherent guidance, fail identification. Comprehensive identification, development and utilization of the DoD CEW not only satisfies statutory requirements, but also decreases expeditionary costs and improves expeditionary personnel accountability. It also right- sizes the requirement for OCS which falls directly in line with the recommended actions necessary to remove OCS from the GAO's 2015 High Risk List.[60]

<u>Are Federal Civilians Really Ready to Deploy?</u>

Much work still needs to be accomplished to fully prepare the DoD civilian workforce to fill expeditionary requirements. While many senior leaders have advocated for the CEW, the Office of the Secretary of Defense (OSD) has yet to force the services to identify this workforce.

OSD's reluctance to be prescriptive is unfortunate. There are examples within the service components that validate the capability to deploy federal civilian workers to non-combatant expeditionary requirements with great success. The Air Force Engineering and Technical Services (AFETS) Program (where I served as Chief of Operations) is one example. The AFETS program disproves naysayers that suggest federal civilian employees will resign if tasked to deploy. To the contrary, following the terrorist attacks on 11 September 2001 the AFETS program met more than 600 civilian deployment requirements without once having an employee refuse to deploy. Their key to success was clearly identifying the mobility requirements for the position during the hiring process and working with the planners in the Air Expeditionary Forces requirements offices to have them included in the Unit Type Code packages called upon for deployments.

Cost Analysis between Operational Contractors and the DoD CEW

According to the Mission Statement of Principal Deputy Assistant Secretary of Defense (Program Support) the "DASD (PS) develops and implements Departmental policies on OCS, Contingency Program Management and related Operational Logistics that assure the optimum mix of military and non-military means within a whole-of-government framework and an element of national power to support combatant commander mission success throughout the operational continuum."[61] Given the shrinking size of the active duty force, their manpower focus is toward combatant duties. This narrows the decision to determine if non-combatant expeditionary requirements are better contracted or retained within the DoD civilian workforce. The key criteria for the decision are capability, affordability and accountability.

In January 2015, the Project on Government Oversight (POGO) issued a report comparing total annual compensation for federal and private sector employees on federal contracts. Their findings suggest that it is a myth that OCS are always cheaper than using federal civilian employees to satisfy like requirements - like requirements in this case being U.S. citizens contracted to fill highly technical OCS requirements. In determining comparative costs, POGO considered the fully burdened costs (salary plus benefits) of federal employees and the actual total billed for contracted services.

> POGO's study analyzed the total compensation paid to federal and private sector employees, and annual billing rates for contractor employees across 35 occupational classifications covering over 550 service activities. Our findings were shocking-POGO estimates the government pays billions more annually in taxpayer dollars to hire contractors than it would to hire federal employees to perform comparable services. Specifically, POGO's study shows that…contract billing rates…that pay contractors 1.83 times more than the government pays federal employees in total compensation.[62]

POGO recommended, "Agencies should use their existing authorities to hire federal employees for short-term projects."[63] While this seems rather simple, it deserves emphasis. Many of the claims that OCS is less expensive incorrectly compare short-term contractors to full- time permanent federal employees. A more appropriate comparison would be between federal employees filling term positions (not leading to a federal pension) to short-term U.S. citizen contractors. This apple-to-apple comparison provides much needed clarity to decision makers.

In 2013, the Congressional Research Service (CRS) issued a report that identified "just as the effective use of contractors can augment military capabilities, the ineffective use of contractors can prevent troops from receiving what they need, when they need it, and can lead to the wasteful spending of billions of dollars."[64] The report also highlighted that greater than 50 percent of troops on ground in Afghanistan and Iraq were private sector contractors. This is alarming given the CRS report that the "Contracting Officers Representatives responsible for managing contractors…receive little, if any, training on how to work with contractors."[65]

The Expeditionary Personnel Accountability Dilemma

DoD civilians assigned to CEW positions receive counseling on their legal status under the Uniform Code of Military Justice as prescribed in Public Law 109-364, the Military Extraterritorial Jurisdiction Act and Secretary of Defense Memorandums on accountability and implementing regulations.[66] DoD civilians deploy as regular components of the DoD Total Force with their focus and allegiance on the DoD mission and fellow DoD Total Force teammates. They are intimately familiar with DoD processes and norms. In contrast, OCS personnel fall under a confusing mix of host nation laws, status of forces agreements and local jurisdictions. Violations of those laws can have extreme impacts on U.S. foreign policy and overall mission objectives. One CRS report cautioned that "contractors can also compromise the credibility and effectiveness of the U.S. military and undermine operations, as many analysts believe happened in Iraq and Afghanistan."[67] An article in *Brookings* in October 2007, just one month after the shooting of 20 Iraqi civilians by Blackwater contractors in the Mansour District in Baghdad, reported "The Blackwater mess has roiled Capitol Hill and shined light on the many questions surrounding the legal status, management, oversight and accountability of the private military force in Iraq" as well as identifying that "when we evaluate the facts, the use of private military contractors appears to have harmed, rather than helped, the counterinsurgency efforts of the U.S. mission in Iraq, going against our best doctrine and undermining critical efforts of our troops".[68] This begs the question if the anticipated savings from using OCS is worth the risk.

Mr. Randy Samples, USAF

#4: DoD Installation Access Control: Reform Needed to Allow for Contracted Support

The volatile, uncertain, complex and ambiguous world today presents numerous challenges to the DoD. In order to meet these demands, the DoD must execute due diligence to properly leverage limited resources and capabilities and balance readiness, innovation and modernization and force structure to defeat and deter current adversaries and future threats to our national security both home and abroad. Specifically, this includes the security and protection of America's most precious resources - its Soldiers, Sailors, Airmen, Marines, Civilians and Family Members that live and work on DoD installations worldwide. Understanding that installation or facility security and force protection require integrated and complex plans that encompass a layered approach for effectiveness by leveraging numerous structural designs, capabilities, skill sets and technologies, this example specifically focuses on the Continental United States (CONUS) based installations and the facility security staffing options that DoD should be able to consider. Acknowledging that DoD consists of numerous posts, camps and stations worldwide with varying levels of residential and workforce population numbers, DoD CONUS-based installation and facility security will be commonly referred to as facility security throughout. With a limited budget and finite resources, DoD must examine the most cost effective and risk- averse approach to properly resource this inherent, enduring and regulatory facility security requirement; using federal civilians or private contracted security services.

In accordance with the Department of Defense Instruction (DoDI) 5200.08, incorporating change 2, April 8, 2014, it is DoD policy that, "DoD installations, property, and personnel shall be protected and that applicable laws and regulations shall be enforced."[69] It provides authorities for a DoD commander to take "reasonably necessary and lawful measures to maintain the law and order and to protect installation personnel and property," but previous United States Codes (U.S.C.) limit this authority and provide strict guidance and hindrances to a DoD commander's option of utilizing contract security guards to meet their facility security and force protection requirements.[70] Specifically, Congress' passing of the 5 U.S.C. § 3180 (the Anti-Pinkerton Act) and the 10 U.S.C § 2465 (Prohibition on Contracts for Performance of Firefighting or Security Guard Functions) remove the option of sourcing this requirement with contracted security, contrary to what the DoS executes for the majority of its CONUS-based facilities.

DoD's legislative struggles for cost effective facility security staffing options has been a long battle with limited success. Despite past DoD temporary reliefs, such as the Patriot Act, §332, and §1010, further discussion and reconsideration for a permanent option to utilize contracted security guards to meet current and future DoD facility security requirements is warranted. In order to consider DoD's best option to meet its facility security requirements, an analysis which focuses on the cost-benefit and quality of organic civilian Federal law enforcement capabilities versus contracted security guards which focuses on a cost-benefit and quality analysis is essential. As a note, private sector contracted security guards were temporarily utilized by DoD, especially the Department of the Army (DA), for short durations until the culmination of Operation Enduring Freedom (OEF) in accordance with public law. Today, they can continue to provide great potential for cost savings over more costly Government Service (GS) law enforcement.

From a cost-benefit perspective, contract security guards are usually procured based on the hours of service provided (not the number of staff that are utilized by the contractor that provides the services), and these costs are fixed within the contract, which helps reduce the risk of budget fluctuations, thus enhancing DoD's ability to predict and manage cost effective staffing for facility security.[71] For example, with daily manning of organic GS law enforcement, shortfalls or surges in manning requirements based on increased threat can occur, requiring paid overtime to meet staffing requirements, whereas contracted security hours and coverage are fixed within the terms of the contract. Second, OSD Cost Assessment and Program Evaluation (CAPE) pay rates for GS security guards are loaded with and include base and premium pay, health care and medical benefits, severance pay, overhead costs (recruitment and advertising), training costs, and non-DoD government retirement contributions.[72] To further highlight additional DoD expenses, DA civilian (GS) security guards are required to take routine medical exams which historically cost the Army an estimated $2.1 million dollars annually.[73] By contrast, contract security guard rates are generally loaded with unique company benefits, recruitment, pay, social security, mandatory unemployment and workman's compensation insurance and all medical exams are covered by the contracted vendor.[74]

Considering the rise in health care coverage and benefits for the DoD, contract security guards can offer considerable long-term savings as the contractor is responsible for providing these benefits to its workforce as opposed to DoD.[75] Further, a DA cost-benefit analysis was conducted on 11 CONUS active duty installations and showed that utilizing GS security guards instead of contract security guards resulted in a cost increase of $1.8 million dollars from FY12-18.[76] Imagine the enormous cost savings considering DoD has over 523 active installations worldwide.

Unlike the cost-benefit analytical approach, an analysis of workforce quality is subjective, but as a services provided capability, essential to assist in determining what is the best option for DoD. In summary, GS security guard staffing provides enhanced confidence and fidelity in the overall quality of each hired guard as they have been hired and trained to the level directed by the secretary of that service within the DoD. As an added advantage, once hired, DoD can further train and develop these employees to ensure consistency with the organizations' values and culture while continuing to train, groom and develop them. To the contrary, when deciding to hire a contract security workforce, staff manning and selection decisions are typically made by the contractor and not the DoD organization.[77] This can create some level of ambiguity and/or uncertainty for DoD. With deciding to procure contracted security guards with no direct DoD training oversight comes a risk that the contracted security guards are not trained to the same DoD standards and do not share the same DoD organizational values and loyalties. This contracted security training issue can, however be mitigated in multiple ways. First, when drafting the details of the Performance Work Statement, DoD can explicitly stipulate that detailed training (general and individual facility specific) and certification prerequisite specifications (in accordance with previously stated §2465) be adhered to. Additionally, DoD could include unique or service-specific requirements and mandate such things as a minimum level of previous law enforcement experience, thresholds for past criminal misconduct, security clearance requirements, mandate U.S citizenship and/or direct a minimal level of completed education. Lastly, DoD's requirement for contractors to be part of the new hires process once the contracted security entity is already in place can further mitigate this risk.

A second criterion for DoD to consider when conducting a qualitative analysis is flexibility when raising or lowering manning levels. From a contract security guard perspective, the previously listed GAO report noted that in addition to cost savings, the flexibility to increase and decrease security staff levels to meet immediate security needs was an added advantage and one that DoD facilities could greatly benefit from as opposed to the rigid GS fixed force structure.[78]

The last area to consider is oversight and management. As opposed to the existing DoD supervision structure for GS security guard compliance, procurement of contracted security guards will require the internal sourcing of a contracting officer technical representative(s) (COTR) to oversee contracted security entities and ensure a systematic managerial approach is used to monitor overall contractor performance, execute inspection schedules on contracted security, ensure DoD mandated training compliance and certifications and assess appropriate security postures. This individual must be well versed in and be part of the DoD security profession in order to ensure the strictest compliance in this critical area. If GS security guards are replaced with contracted security guards, the increased COTR requirement could be easily offset by the reduced number of needed GS supervisors, thus reducing DoD manpower and administrative requirements and associated costs.

Despite the existing prohibitive laws, it is now time for Congressional reform when it comes to providing our DoD commanders increased flexibility to meet their regulatory requirements to properly secure their installations and facilities. They must not be constrained by the previously discussed outdated policies. Defense spending, along with decreased military and GS force structure, are unfortunately reducing despite an increasing need for heightened DoD force protection and facility security. Specific recommendations would be to:

- Rescind 10 U.S.C § 2465 (Prohibition on Contracts for Performance of Firefighting or Security Guard Functions). Title 10 § 2674 (Operation and control of Pentagon Reservation and defense facilities in National Capital Region), allows for the Secretary of the Army to, "appoint military or civilian personnel or contract personnel to perform law enforcement and security functions" under DoD control in the National Capital Region. Additionally, contracted security is utilized in DoD OCONUS bases in areas such as Korea and Germany.
- Execution of a DoD-wide cost-benefit analysis (similar to the referenced DA CBA) and qualitative assessment to reflect overall cost savings, both short- and long-term.
- Allow DoD contract acquisition flexibility to pursue performance-based/best value contracts for effective and efficient use of general contract security guard services.[79] This approach, as opposed to a current DoD commodity-based LPTA strategy, is more suited for the contractual services required as it takes into consideration more than just the lowest price but more importantly the previously listed qualitative criteria which are tantamount to security and force protection.

LTC Shannon Lucas, USA

#5 – OCS Information Systems

DoD execution of OCS functions has been widely criticized by the SIGIR/SIGAR, the GAO, and the Commission on Army Acquisition and Program Management (Gansler Commission) all [of whom] found serious problems in planning, oversight, and accounting for contractors."[80] Even before the above investigations, starting in 1992, various aspects of OCS have been included in every GAO High Risk bi-annual report. The latest one highlighted "the lack of an adequate number of trained acquisition and contract oversight personnel, the use of ill-suited contracting arrangements, and the absence of a strategic approach for acquiring services [which] placed DoD at risk of not getting needed goods and services in a timely manner or potentially paying more than necessary."[81]

Use of contractors is not a novel idea for the DoD, but two major factors have pushed contingency OCS issues beyond the proverbial tipping point, bringing it to the forefront of the American political discussion and necessitating the appearance of action to satisfy Congressional inquiries and GAO audits. First, the protracted length, trillions of dollars in costs, and the resource-intensive nation building strategies in Iraq and Afghanistan brought about proportionately and necessarily huge expenditures in contractor support. Second, the use of contractors relative to uniformed personnel in the two conflicts significantly expanded compared to previous American contingency operations, further contributing to the increase in OCS-related expenditures. For example, "contractors comprised more than 50 percent of the 2007 U.S. force in Iraq."[82] This reliance (or overreliance) on contractors is not likely to go away. Reversion to DoD's Cold War self-sufficiency, note Christopher Kinsey and Malcolm H. Patterson, is not likely:

> Such a step is improbable for reasons of entrenched neoliberal economic philosophy, legal obligations arising from statutory requirements, executive policy direction, growing financial constraints as the US economy struggles with prodigious debt, and the momentum of foreign policies predicated on recruitment of personnel by means other than civil and/or military conscription.[83]

The exact amount of OCS expenditures lost to contractor fraud, waste and abuse is not known, but estimates range from $300 million to more than $30 billion. Just as unclear is the total monetary cost of the two conflicts. Again, estimates range from nearly $2 trillion to $6 trillion if the future costs of related national debt and veterans' healthcare expenses are taken into account. Worst case estimates of these costs put fraud, waste and abuse at 1.5 percent of the conflicts' price tag. Despite these statistics however, DoD is actively pursuing solutions to a barely existing problem.

In 2011, on the heels of the highly critical investigations, commissions, and audits and governed by the Joint Capabilities Integration and Development System (JCIDS), the JROC approved the OCS ICD.[84] The existing capability gaps, identified by the ICD and approved by JROC, are summarized in Appendix Table 11.[85] Non-materiel ICD recommendations focus on updating policy and doctrine to further integrate OCS into Joint, Whole of Government, and multinational operations, establishing a human capital strategy to enhance DoD acquisition corps capacity and effectiveness, and developing training and education framework to support OCS integration into future exercises and operations.[86] Time will tell if the above efforts prove effective, but this essay focuses on the assessment of the other (i.e., materiel) ICD recommendations, all of which rely on information systems to address existing gaps. Specifically, Appendix A, Figure 11 capability gaps 2, 5, 7, 8 and 10 all can and should be in part or in whole, addressed through an information system approach.

Following the 2011 ICD, Deputy Assistant Secretary of Defense for Program Support (DASD (PS)) and Joint Staff Logistics, Vice Director (VJ4) serve as the principal overseers of the OCS improvement efforts. They exercise this authority through their roles as the Chairman and Vice Chairman, respectively, of the OCS Functional Capabilities Integration Board which is charged with addressing the above capability gaps. An action plan, generated by the office of the DASD (PS), details "the actions to transform OCS and ready it for the needs of JF2020" and "designates an office of primary responsibility for every task and a lead for every gap."[87] So, at first glance, DoD seems to have the OCS problem under control with gaps identified, OPRs designated, a plan of action identified and published and deadlines determined. Unfortunately, despite significant efforts by the DoD to address long-standing OCS issues, fragmented, the cost-over-effectiveness approach to solving the issues will likely keep services contracting on the GAO high-risk list for the foreseeable future.

CDR Dmitry Poisik, USN

CONCLUSION AND RECOMMENDATIONS

Despite the ebbing of contingency operations in both Iraq and Afghanistan, service contractors will continue to be a vital component of the force charged with defense of the nation. It is therefore in the best interest of the USG to support a healthy, robust services industry, capable of quickly and effectively responding to national security requirements today, in the future, in times of peace and in times of war.

Through analysis of independent research, field studies, interviews with both industry representatives and government officials engaged in acquisition for the DoD, the seminar concludes that overall, the PS3 industry is highly capable of supporting national security needs for the foreseeable future. This assessment however is not without cautious concern for evolving threats stemming from fiscal austerity and budget uncertainty. Neither does it dismiss the government's responsibility to improve planning, oversight and accountability for this force multiplier so that value for the DoD and the American taxpayer can be optimized.

Although the PS3 industry is fiercely competitive and the market unpredictable, key firms are positioned to weather the storm through such strategies as diversification of product/service lines and markets, and through the prevalent partnering or *competimates* approach among large, mid and small sized firms. As representatives of the larger industry, the Big Five are all adding value for the company and reporting revenue and current ratios within desirable ranges. Some carry excess cash and others report debt outside the range of what otherwise would be sought, but the projected financial outlook for all of them is optimistic.

Enjoying protection against market penetration through the interests of Congress' role within the Iron Triangle, foreign competition does present a threat to the industry, but rather introduces healthy competition to encourage efficiency and lower cost. While diversification into overseas markets presents many challenges for firms in the industry, there is opportunity for some, particularly those who provide direct services in support of major weapons systems and those who are already established in foreign areas.

Recognizing that improvements have been made in response to numerous audit and report findings addressing the USG's shortcomings in acquiring services, continued effort must be sustained in four key areas. Specifically, the DoD must improve the capability and capacity of the acquisition and contract support workforce engaged in the management and oversight of contracts. It must also continuously and systematically evaluate contracting techniques and approaches such as LPTA to ensure the department is indeed obtaining best value for increasingly constrained funding. As a critical input to National Military Strategy, the DoD should redouble its efforts to evaluate what has historically been defined as inherently governmental and in doing so, determine the most effective and efficient mix of military, DoD civilian and contractors in executing the department's mission. And finally, the DoD must commit to and work toward improving planning, oversight and accounting for contractors at home and abroad.

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