

RECORD VERSION

STATEMENT BY

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(FORCE MANAGEMENT, MANPOWER AND RESOURCES)

BEFORE THE

SUBCOMMITTEE ON CONTRACTING OVERSIGHT

COMMITTEE ON HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

SECOND SESSION, 112TH CONGRESS

ON CONTRACTORS: HOW MUCH ARE THEY COSTING THE GOVERNMENT?

MARCH 29, 2012

NOT FOR PUBLICATION UNTIL RELEASED BY THE

SENATE COMMITTEE ON HOMELAND SECURITY

AND GOVERNMENTAL AFFAIRS

Introduction

Chairwoman McCaskill, Senator Portman, Distinguished Members of this Committee, thank you for the opportunity to appear before you to discuss: 1) the Army's contractor inventory and what information the Army maintains regarding the costs of contractors to perform different types of services; 2) how the Army is using this data to inform the budget process and acquisition planning; 3) how the Army is addressing the comparison of the actual cost of contractors with the actual cost of federal civilian employees; and 4) proposed government-wide solutions for determining contractor cost effectiveness. Before moving to those topics, it is important to note at the outset that the contractor inventory is one of many efforts to buy smarter and drive down contract prices. Implementation of DoD's "Better Buying Power" acquisition reform initiative is directed towards decreasing the use of high-risk contracts, reducing spending on management support services and low-priority acquisitions, increasing use of vehicles that leverage the Government's buying power through strategic sourcing, and increasing small business participation.

Contractor Inventory

The Army began collecting contractor cost information in the Contractor Manpower Reporting Application (CMRA) initiative established by the Secretary of the Army in January 7, 2005, after obtaining approval of the Department of Defense Business Initiatives Council (BIC) on September 13, 2002 and Office of Management and Budget Approval in a Paperwork Reduction Act (PRA) filing on November 24, 2003. (The PRA has been renewed on three occasions and is currently effective through December, 15, 2014.) At that time, the CMRA was sponsored and supported by the Assistant Secretary of the Army (Financial Management and Comptroller), the Assistant Secretary of the Army (Acquisition, Logistics and Technology), the Vice Chief of Staff of the Army and led by the Assistant Secretary of the Army (Manpower and Reserve Affairs), with the stated purpose captured in a memorandum co-signed by these sponsors: "The initiative is the only process that would capture information on funding source, contracting vehicle, organization supported, mission and function performed, and labor hours and costs for contracted efforts. Existing financial management and

procurement systems do not clearly distinguish between goods and services, nor do they identify the organization for which the work is being performed. This initiative will enable us to (a) fully understand the composition of the total Army workforce – military, civilian, and contractor, and allow for more informed workforce staffing and funding decisions; (b) provide better oversight of our workforce, avoid duplication of effort, or shifting of in-house reductions to contract; (c) ensure the Army is getting full value from our contractor workforce; and (d) better account for and explain our total Army workforce.”

The initiative placed the responsibility for reporting the information on the “requiring activity,” which is the Army organizational customer requesting the work to be performed. Reporting was effectuated through a requirement/deliverable in every contract statement of work, with a help desk to minimize reporting burdens on contractors. The labor hour and labor dollar data associated with contractor performance within the prior fiscal year is reported annually to a secure web site. This data collected is treated as proprietary when associated with specific contractor names and contract vehicles. The web-based reporting was implemented prospectively as options were exercised or contracts initiated and included numerous features to minimize industry reporting burdens resulting from meetings and input from industry representatives (in 2003, over fifty senior executives from large defense contractors and small businesses) and informal feedback during help desk sessions with industry users throughout the course of implementation of the reporting. These include a bulk-loader or Excel drop down feature allowing contractors to upload data from their own internal payroll systems in a single spreadsheet rather than making individual entries on the web site; as well as various edit features and pop-ups to assist users in completing data fields. Reporting burdens were so de minimis that most users did not separately bill for reporting once they understood the reporting requirement and how it was collected. Subsequently, when the contractor inventory requirement was codified in Title 10, United States Code section 2330a (enacted in the Fiscal Year 2008 National Defense Authorization Act section 806), the Army has submitted the required reports through the Office of the Secretary of Defense to Congress and published the inventory as required by law on a public web site in an electronic format that may be downloaded, screening

out contract numbers and contractor names to make the data publicly accessible. Enforcement of this reporting requirement was strengthened in a Secretary of the Army policy issued in July 10, 2009 and related Army Federal Acquisition Regulation Supplement (AFARS) Subpart 5107.503 requirement that required Commanders and HQDA Principals to be responsible for ensuring that an accountable senior official reviewed the contracted requirement and certifying various issues related to inherently governmental functions, personal services, validation of the requirement and its priority, appointment of sufficient number of Contracting Office Representatives, and that the reporting requirement for CMRA was included in the Statement of Work and contract. No Army contracting office may process a contract action from an Army requiring activity without this certification. There are no exceptions to this requirement and no thresholds that limit its application because of the magnitude of contracted services that could go unreported if such a threshold were in place. However, the accountable Senior Executive Service or General Officer can delegate to a GS-15 or O-6 the certification for contracts valued at \$100,000 or less over the life of the contract.

The Army has reported contracted services cost and labor data by function, location, Army command, funding source and types of contract vehicles for Fiscal Year 2009, 2010 and has completed the compilation of Fiscal Year 2011 data. Until Fiscal Year 2011, the Army collected the invoiced amount, direct labor costs and direct labor hours by function, location where performed, and other data, all of which are linked to contract information in the Federal Procurement Data System-Next Generation (FPDS-NG) and accounting data on funding source through pre-loading of the data base on the web site so contractors can look up their contract vehicle after authenticating their status. In Fiscal Year 2011, the Army also collected "other direct non-labor costs". These are defined as supply costs plus Other Direct Costs (ODCs) for the fiscal year. ODCs are charged directly to the Government and include but are not limited to special tooling, travel expenses, relocation expenses, pre-production and start-up costs, packaging and transportation cost, royalties, spoilage and rework, computer expenses, federal excise taxes and reproduction costs. Direct labor dollars are the total unburdened salary/wage (not including goods, overhead, retirement or benefits) dollar amount for direct labor performed. The overhead costs are inferred from subtracting the

direct labor costs and other direct non-labor costs reported by contractors from their invoiced amount for the fiscal year. The overhead costs include profit, management and administrative support structure within the contractor, the leave, benefits and retirement costs of the contracted direct labor hours. The direct labor hours reported are converted to a full time equivalent by dividing them by 2,080 or 2,088 hours for a forty hour work week for 52 weeks per year. The different factor depends on whether or not a leap year is involved. These results are summarized by service portfolio at Table 1.

<h2 style="text-align: center;">FY 2011 Army Contract Services Inventory</h2> <p style="text-align: center;">(Contractor Manpower Reporting Application)</p>							
Knowledge Based	\$13,174,041,467	\$ 6,750,200,903	\$1,554,721,748	\$4,869,118,815	50,910	82.5%	71.1%
Equipment Related	\$5,541,496,412	\$ 4,039,104,914	\$403,436,965	\$1,098,954,533	16,963	68.6%	85.5%
Electronics & Communication	\$2,279,606,794	\$681,956,726	\$554,807,233	\$1,042,842,835	8,928	83.9%	77.3%
Medical	\$368,645,920	\$59,310,779	\$8,444,247	\$300,890,894	2,353	76.3%	76.1%
Transportation	\$150,346,172	\$62,043,944	\$18,365,042	\$69,937,186	874	64.8%	47.8%
Facility Related	\$4,347,515,339	\$2,089,402,528	\$895,749,207	\$1,562,363,604	28,103	87.3%	61.9%
PSC Not Assigned to Portfolio Group	\$5,660,000,402	\$2,953,230,350	\$816,667,112	\$1,890,102,941	16,878	47.4%	45.5%
Total	\$31,521,652,505	\$16,635,250,145	\$4,052,191,553	\$10,834,210,807	125,010		

***Overhead = Total Invoices - (Direct Labor Costs + Direct Non-Labor Costs)**

OCO: \$8,782,993,082 Total Invoices / 90,537 Contractor FTEs

** Contractor FTEs = Direct Labor Hours + 2088 [2088 is the number of compensable hours in FY 2011]

*** PSCs that are not assigned to a portfolio group include R&D, quality control, testing, inspection, operation of government owned facilities, and lease / rental of facilities / equipment

Table 1

As this is the first year all this information has been collected, we are just beginning to analyze the implications of this data. However, we plan to evaluate it in

terms of the function, location, type of contract vehicle and the impact of different buying practices.

We also plan to start assessing this data for overlap and duplication with other contracted work, as well as between the contract workforce and organic workforce. At this stage, our primary use of the inventory has been to fulfill the statutory requirement to identify inherently governmental functions, closely associated with inherently governmental functions, ensure that personal services contracts are entered into under proper statutory authority, and to evaluate whether sufficient organic capacity exists to oversee the contracted workforce as required by Title 10 United States Code section 2330a and 2383. The elements of section 2383 that we evaluate with the aid of the inventory and additional information provided by commands in our Panel for Documenting Contractors (PDC) process established by the Secretary of the Army in July 10, 2009 are as follows: 1) Evaluating the span of control and sufficiency of the number of contracting officer representatives; 2) the capacity of the organic workforce to make informed and independent judgments of the work performed; 3) the impact of tiers of sub-contractors; and 4) the potential for organizational conflicts of interests when looking holistically at the work provided by contractors to an organization. Our review is within the framework of "Total Force Management," the Title 10 and Department of Defense term for multi-sector workforce planning and considers not just the appropriate mix between civilian employees and contractors but also evaluated the military, civilian and contractor mix. Our review evaluates contracted work both by individual contract and task order on a pre-award basis but also on a functional basis in the post award review conducted by the PDC. The risk of inherently governmental contractor performance of closely associated with inherently governmental functions is more visible in the post-award review required by section 2330a because statements of work can be written to avoid expressly mentioning inherently governmental work. However, the realities of actual contract performance may be another matter when one holistically evaluates all the contracts performing a function in support of an organization. We are working to improve compliance with what we find in the course of these reviews. The Secretary of the Army recently issued guidance on February 10, 2012, that will withdraw funds by May 2012 from organizations that continue to contract inherently governmental

functions or unauthorized personal services contracts within a 90 day period (See Table 2 below).

Panel Review of Contract Service Inventory Manpower Mix Determination / Budget Projections		
Inherently Governmental	615	\$ 143,986,733
Closely Associated w/ Inherently Governmental	25,788	\$ 4,327,663,614
Unauthorized Personal Services	254	\$ 60,470,107
Critical Functions	39	\$ 7,865,662
Divest	216	\$ 42,159,730
Authorized Personal Services	1,718	\$ 240,686,288
Appropriate to Contract	56,326	\$ 9,728,224,441
Not Reviewed	29,905	\$ 7,056,598,197

Table 2

The Army has established a steady reporting baseline of around \$31B in invoiced amounts in the Generating Force and \$7.5B to \$9.6B in the Operating Force in this inventory as depicted in Table 3 below for Fiscal Year 2009 through 2011. Based on the Object Classes/Element of Resources and Product Service Code categories that the original SecArmy policy required to be reported, we believe we have covered at least 78 percent of the contracted services required to be reported in the Generating Force and 28 percent in the Operating Force. This is a conservative estimate that errs on the low side because we are a large organization and we anecdotally learn of particular contracts that have not complied with the requirement from time to time.

	Generating Force (BASE)			Contingency Operations (SUPP)		
Fiscal Year	CMRA Total Invoices	Accounting System Obligations*	CMRA Report %	CMRA Total Invoices	Accounting System Obligations*	CMRA Report % **
2009	\$33.7B	\$31.5B	107%	\$9.6B	\$24.4B	39%
2010	\$31.9B	\$35.6B	90%	\$7.5B	\$28.2B	28%
2011	\$31.5B	\$40.4B	78%	\$8.7B	\$26.9B	32%

* Includes all appropriations except military personnel (MPA) and military construction (MCA)

* Includes all contract service elements of resource that were excluded in the PB 2012 contract service budget request (Table 4). CMRA reported in base climbs above 90% if all exclusions in table 4 are applied

** CMRA reporting shortfall of contingency operations contractors is due to: 1) limited electronic reporting capability of contractors in the theater of operations; and 2) misidentification of OCO funds in obligation lines of accounting

Table 3

We derive this estimate by comparing the obligated dollars in the accounting system for a fiscal year to the invoiced amounts reported in CMRA, and filtering for Overseas Contingency Operations funds from base funded contracted services. There is no perfect comparison because an invoiced amount will differ from an obligated amount, and while a substantial amount of OCO-funded contracted services can be identified in the accounting system, the accounting is not perfect or complete. That said, the original metric approved by the BIC and Secretary of the Army at the time CMRA was established recognized that there were no other viable metrics for assessing reporting coverage, given the constraints of the accounting and procurement systems.

Uses of Contractor Inventory in Budget and Acquisition

The contractor inventory has not yet been fully used in the budget and acquisition processes, as it has been primarily used by the Manpower community in its Total Force Management reviews to identify inherently governmental, closely associated with inherently governmental, critical functions and authorized and unauthorized personal services contracted functions. Beginning in FY12, the Army Acquisition Executive is obtaining Army-wide semi-annual services requirements forecasts and quarterly cost reports for services acquisitions valued at \$10M and above to provide program management and funding visibility for services acquisitions. This initiative implements part of the Army's 2011 Services Optimization Implementation Plan to increase effectiveness, efficiency and promote cost savings as the Army acquires essential services to support our Soldiers and their families. The amount of contracted services covered in CMRA that fall below this threshold are about 27% percent or \$10B of services. As mentioned above, the Panel for Documenting Contractors started this contractor inventory review in 2009 in the midst of Secretary Gates's in-sourcing initiative that was budgeted with an assumed 40 percent savings assumption. During the course of this budget-driven in-sourcing, and long after, the PDC evaluated command in-sourcing plans developed in response to these budgetary targets, as well as inherently governmental functions on the contractor inventory that had not been identified for in-sourcing in the budget. The review found that most of the in-sourcing plans were for inherently governmental, closely associated with inherently governmental or critical functions, exempt by DoD policy and Title 10, United States Code section 2463 from cost analysis. The review did find, however, that about 1,091 of the 7,215 programmed for in-sourcing required cost analysis. Although, the DTM 09-007 fully-burdened costing rules were not promulgated until January 29, 2010 (nine months after the budget decisions to in-source were made), the principles in the DTM were consistent with the largely cost-based in-sourcing used by the Army in its concept plan process in effect prior to Secretary Gates' in-sourcing initiative reflected in the budget.

When the Department of Defense civilian FTE cap was instituted in the January 2011 budget, this resulted in suspending the in-sourcing of inherently governmental acquisition and law enforcement functions that had been identified by the PDC in the

contractor inventory review process. However, Secretary of the Army policy dated 10 February 2012 directs Commanders to submit for approval in-sourcing actions for inherently governmental functions and unauthorized personal services contracts within 90 days or lose funding.

After Title 10 United States Code section 235 was enacted, the PDC started working with Army commands to project their future contract services requirements based on the contractor inventory review. The budget exhibits submitted since the President's Budget for Fiscal Year 2012 pursuant to section 235 have not been based on the contractor inventory or review process. The Army's contractor inventory includes OCO and base funded contracts and included all appropriations except for Military Personnel and Construction. The Army's contractor inventory includes more object classes and element of resources than included for these budget exhibits which were also limited to the Operations and Maintenance Appropriations. The Table 4 below summarizes the differences:

Service Element of Resource (EOR) 2500	Excluded Service EORs
251* Consulting Services	
252* Other Services (Not from US Government Accounts)	252C Civilian and Military Tuition and Training Costs 252D Scholarships 252E Study Contract Awarded in Accordance w/OMB Circular A-76 252H Demilitarization Ammunition
253* Purchases of Goods and Services from US Government Accounts	253C Training Courses 253D Civilian Retirement Costs
254* Total Operation and Maintenance of Facilities	
255* Research and Development Contracts (RDT&E) Only	
256* Medical Care	2568 Other Purchased Medical Support Services
257* O&M of Equipment by Contract	2578 Temporary Storage
258* Sustainance and Support of Persons	258A Subsistence and Support of Persons
25A Defense Working Capital Fund (DWCF) of Other Revolving Funds	25AB Depot Maintenance
25B Total Industrial Fund Purchases - Navy/USMC	25BK MSC Other Purchases
25C Total Industrial Fund Purchases - USAF	
25D Total Industrial Fund Purchases - Defense Agencies	25DY Defense Finance and Accounting Services
25E Total Industrial Fund Purchases - Other	25EA Cost Reimbursable Purchases
25F Other Intra-Army Purchases (Not Revolving Fund)	25FB Intra-Army Non-IT Purchases
25G Other Intra-Governmental (Non Army) Purchases (Non Revolving Fund)	25GX Non Army IT Purchases
25H Other Tact Equip Maint (Below Depot-LVL) by Contract	

Table 4

Reliability of Civilian Cost Data and Comparing Costs of Government Workforce to Contractors

Under the revised Office of Management Budget Circular A-76 (2003-2009), the Department of Defense reported completing 107 public-private competitions encompassing 12,117 positions (military and civilian). Of these completed competitions, 64 competitions (5,757 positions) favored government performance and 43 competitions (6,360 positions) favored contract performance. Public-private competitions conducted between 1997 and 2003 (under the previous Circular) are reported by the Department of Defense to have reduced the annual operating cost of commercial activities by \$1B during the period from Fiscal Year 1997 to Fiscal Year 2009. Combined with competitions conducted under the revised Circular (those competitions conducted between 2005 and 2009), a total of more than \$9B in cumulative cost reductions were reported by the Department of Defense, compared to the pre-competition operating costs of these same activities. In 2009, Congress began limiting the Federal government's use of the public-private competition process under A-76 through appropriation and authorization language. The Department is prohibited from using the A-76 process pursuant to Public Law 111-84, National Defense Authorization Act for Fiscal Year 2010, Section 325, so competitive sourcing cannot be done at this time. Three recurring issues pertaining to A-76 competitions within the Army included: (1) the growth of requirements after the competition and savings were computed resulting in questions whether the pressures to compete captured the real requirement, whether the government or contractor won the bid; (2) the Panel for Documenting Contractors subsequently identified issues with the adequacy of government oversight of contracted work because of the inclusion of "closely associated with inherently governmental" function within the Performance Work Statements; and

(3) the failure to account for the full costs of military when military end strength was not adjusted from competitions because of reapplication of the military structure to other requirements within the Army.

When the Department started in-sourcing pursuant to Title 10, United States Code Section 2463, it developed fully-burdened costing rules (similar to A-76 costing rules) which were eventually issued as Defense Technical Memorandum 09-007 by the Director for Cost Analysis and Program Evaluation on January 29, 2010, with further revisions issued on September 2, 2011. In fiscal years 2008-2009, the Army in-sourced 921 positions with an average reported savings of 30 percent, with caveats that savings in a specific in-sourcing action cannot be extrapolated to other situations without performing appropriate cost analysis. Most of the in-sourcing actions resulting from Secretary Gates's in-sourcing (initiated in April 2009 within the Army) involved critical or closely associated with inherently governmental functions that are exempt by law and policy from cost analysis when necessary to mitigate the risks of contract performance of such functions with insufficient government oversight. Nonetheless, Secretary Gates's in-sourcing initiative realigned \$400M in savings from contract spending in Fiscal Year 2010 to other priorities in the budget. In the four in-sourcing actions approved involving cost analyses since the imposition of the civilian full time equivalent cap in January 2011, the estimated cost savings have been 16.5 percent. However, these were for critical or closely associated with inherently governmental functions where risk considerations exempted them from being based on cost alone pursuant to Title 10 United States Code section 2463. During the much smaller period from Fiscal Year 2008 to 2010 when the Department instituted an active in-sourcing program in conjunction with its service contract pre-award approval process and contractor inventory review process, contract services obligations not identified to Overseas Contingency Operations funding decreased from \$51B in Fiscal Year 2008 to \$36B in Fiscal Year 2010. However, spending has increased to \$40B in Fiscal Year 2011, as depicted in the Chart 1 below.

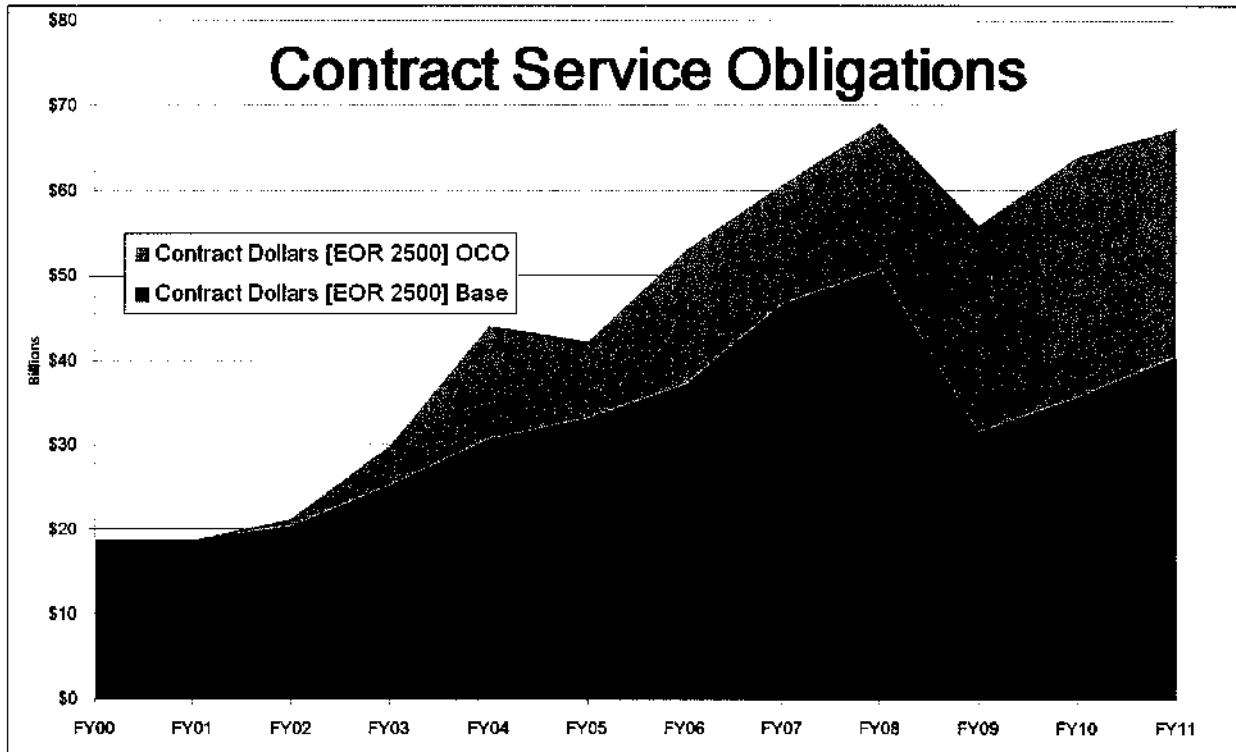


Chart 1

Through the history of public-private competitions and in-sourcing, there is broad consensus on the need for making “apples to apples” comparisons. Cost comparisons are made of “functions” in a public-private competition, whereas in-sourcing actions may involve comparing the costs of individual positions when in-sourcing inappropriately contracted personal services. Cost comparisons of a function include the cost of the military performing the function and not just the civilian employee workforce when comparing the costs to contract performance. Some earlier A-76 competitions did not properly account for the cost of military performance when a military component did not adjust its end strength based on an A-76 competition, but instead reapplied the military to higher priority force structure. Likewise, when in-sourcing a function, the term is not simply limited to converting from contractor to civilian employee performance but also must account for the costs of military performance when this occurs as well. Accordingly, the DTM 09-007 is consistent with the Total Force Management principles that apply to the Department in Title 10, United States Code Section 129a which

requires the Department to holistically consider both the costs and risks of military, civilian employee and contractor performance, rather than simply making a comparison of contractor to civilian employee performance.

Because there has been some confusion regarding the costs to be considered under the DTM 09-007, Table 4 below summarizes the various costs included for both civilian employees and military to ensure a fully burdened “apples to apples” comparison. Within the Army, these cost factors have been developed specific to location, occupational series for civilian and military occupational specialty and grade level in the Army Manpower Cost System (AMCOS) model. The results of a valid cost comparison are very sensitive to the grade level, skill set and local labor market used for comparison, as well as the number of manpower requirements validated for government performance. Just as occurred in the context of A-76 competitions, a key issue often exists as to whether the same requirement is being compared between the function described in a statement of work and the position description of the government workforce.

Civilian Cost Factors by Grade Skill and Location

FTE = 1740 hours / year

- Basic Pay/Locality Pay/Title 38 Special Salary Rates
- Title 38 Medical Premium Pay
- Overtime/Holiday/Other Pays
- Incentive/Performance Awards
- Retention Allowance
- Social Security & Medicare (Employer's contribution)
- Specialty Pays (e.g. medical)
- Discount Groceries (OCONUS only)
- Child Development
- Recruitment/Relocation Bonuses
- Health Care (Employers share FEHBP)
- Personal Travel/PCS
- Federal Employee Group Life Insurance (FEGLI)
- Transportation Subsidies
- Worker's Compensation payments
- Education Assistance
- Severance Pay/Separation Incentive
- Retirement Accrual (Employer's contribution)
- Federal Retirement Thrift Investment Board payments (TSP matching)
- Unemployment insurance payments (FUTA)
- Severance Health Benefit
- Training
- Recruitment, Advertising, Etc.
- Unfunded Civilian Retirement (CSRS only)
- Postretirement Health Benefit (Government's share FEHBP)
- Postretirement Life Insurance (Government's share FEGLI)

Contractor Cost Factors

- FTE = 2088 hours / year (Note: leave is covered in overhead not in direct labor hours)
- Overall Contract Costs for the Specific Contract
- Cost to Administer the Contract

Military Cost Factors by Grade, Skill and Location

FTE = 1740 hours / year

- Basic Pay
- Basic Allowance for Housing (BAH) / for Subsistence (BAS)
- Special Pay - Board Certification / Incentive / Multi-Year / Other
- Allowance - Uniform Clothing / OCONUS stationing / CONUS COLA / Family Separation
- Other Pays and Allowances - Family Subsistence / Adoption / Partial Dislocation
- Social Security & Medicare (Employers Contribution)
- Health Care (AD and AD FM)
- Personal Travel/PCS
- Education Assistance
- Discount Groceries
- Child Development (Day Care Facilities)
- Family Support Services
- Transportation Subsidies
- Retired Pay Accrual
- Separation Pay
- Unemployment Benefits
- Death Gratuities
- Survivor Benefits
- Health Care (RET and RET FM < 65)
- Health Care Accrual (MERHCF)
- Health Care (Transitional Assistance Management Program (TAMP))
- Health Care (Continued Health Care Benefit Program (CHCBP))
- Discount Groceries
- Separation Travel
- Education Assistance (e.g., portion of GI Bill)
- Training
- Recruitment, Advertising, Etc.
- Child Education
- Manpower Management
- Other Personnel Support
- Other Costs
- Child Education (Impact Aid)
- Employment Training
- Income Tax Benefits (Non-Taxed Income)
- Concurrent Receipts
- Veterans' Benefits, Cash / In-Kind

Table 5

Conclusion / Potential for Government-Wide Solution

The “multi-sector workforce” for DoD and the Army is called Total Force Management in Title 10 and is a more complex issue than simply comparisons of costs between civilian employees and contractors. It includes the costs of military across all three components (Active, Guard and Reserve). It requires an assessment of operational risk associated with the use of contractors in the operating force which our DCS, G-3, G-4 and Joint Staff are reviewing, taking into account the recommendations of the War Time Commission on Contracting. It requires an assessment of the impact on readiness and the viability of the all volunteer force if Soldiers are pulled from units to replace contractors or civilian employees in the generating force.

The Army initiated its contractor inventory reporting because it could not wait for the “perfect” solution for managing this growing percentage of our obligation authority, which has increased from \$19B in FY2000 to \$67B in FY2011. The Department of Defense and Full Year Continuing Appropriations Act, 2011, Public Law 112-10, section 8108 directed “leveraging the Army’s Contractor Manpower Reporting Application” to meet the contractor inventory statutory requirements in Title 10, United States Code sections 235 and 2330a. In a December 20, 2011 communication to the House Armed Services Committee, the Secretary of Defense stated that he was “committed to making the Department’s information technology and business enterprise systems available to support and enable the efforts of the rest of the Department to quickly implement the Army’s ‘Contractor Manpower Reporting Application’ tool this fiscal year, while also leveraging the Army processes, lessons learned, and best practices to comply with the law in the most cost efficient and effective manner.” Within the Army, the web-based reporting application and data base was designed for less than \$1 million and is currently maintained by a five person cell that performs help desk, data base administration, software design updates, policy oversight and Panel for Documenting Contractors functional reviews for the entire Army. The blending of policy with data management, analysis and help desk functions helps improve data quality, reduce burdens on industry reporting, and make the system responsive to needed changes to accommodate users. The Army’s inventory has helped us to improve Total Force

Management by identifying functions at risk of inherently governmental performance, and collected cost information that we plan to use to assess our buying practices for contracted services, particularly when we examine the issues of overhead costs and potential redundancies between contracted functions and the organic workforce. Successful implementation of what the Army has done so far over the past few years can be more quickly implemented in smaller, less complex organizations, but will take longer in larger executive agencies. As occurred within the Army, cooperation across functional stovepipes of manpower (or personnel in other agencies), financial management, and acquisition is critical. While the budget process currently is not yet informed by information compiled in the contractor inventory and related analysis, we fully intend to expeditiously move in that direction to fully comply with statutory mandates to do so. As stewards of public monies, we are obligated to do no less.

Thank you for the opportunity to appear before you. I look forward to answering your questions.