November 25, 2014

The Honorable Chuck Hagel
Secretary of Defense
1000 Defense Pentagon
Washington, DC 20301-1000

Dear Secretary Hagel:

The Project On Government Oversight (POGO) is a nonpartisan, independent watchdog that champions good government reforms. POGO’s investigations into corruption, misconduct, and conflicts of interest achieve a more effective, accountable, open, and ethical federal government. We are particularly concerned about the waste caused by the Pentagon’s overreliance on service contracts and its adverse impact on the Department of Defense’s (DoD) mission and readiness capabilities.¹ In fiscal year 2013, for example, DoD spent $161 billion on services.² According to the Government Accountability Office (GAO), “DOD relies on contractors to perform functions as varied as professional and management support, information technology support, medical services, and weapon system and intelligence support.”³

The purpose of this letter is to bring to your attention actions within your office that are greatly hindering efforts to bring service contract spending under control. DoD spends more taxpayer

¹ In 2011, POGO released a report entitled Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors. http://www.pogo.org/our-work/reports/2011/co-gp-20110913.html; This report 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. POGO estimated that it cost the government billions more annually to hire contractors than it would to hire federal employees to perform comparable services. Specifically, POGO’s study showed that the federal government approves service contract billing rates—deemed fair and reasonable—paying contractors 1.83 times more than the cost of federal employees in total compensation, and more than 2 times the total compensation costs in the private sector for comparable services. In 2012, POGO detailed DoD’s overreliance on service contracts, documenting the fact that service contracts cost the taxpayers nearly three times what it costs for federal civilians to perform those services. POGO Blog, DoD Contractors Cost Nearly 3 Times More than DoD Civilians, November 30, 2012. http://www.pogo.org/blog/2012/11/20121130-dod-contractors-cost-nearly-3-times-more-than-civilians.html; In 2012, POGO also sent a letter to members of Congress highlighting DoD service contract expenditure and contractor employee data, concluding that the data is unreliable and misleading. http://www.pogo.org/our-work/letters/2012/20121024-pogo-dod-disclosure-budgeting-spending-service-contract-data.html

² According to usaspending.gov data, DoD service contract spending has ranged from $161 billion in FY 2006 to a high of $204 billion in FY 2008. DoD service contract spending has declined annually since 2008 and in FY 2013 service contract spending totaled $161 billion.

dollars on service contractors than it does on military or civilian personnel, respectively,\(^4\) but service contract spending receives only a fraction of the scrutiny afforded to the other two elements of the total force.

There is a concerted effort by officials in the Office of the Under Secretary of Defense for Personnel and Readiness (OUSD (P&R)) to willfully breach laws and congressional mandates to implement an improved service contract tracking system. Rather than implement an effective inventory of contracts for services (ICS) system pursuant to 10 U.S.C. § 2330a,\(^5\) P&R is shirking its total force management responsibilities, and perpetuating billions of dollars in unnecessary service contracting costs.\(^6\) These actions are inhibiting the collection of service contract data that is necessary for DoD and Congress to reduce wasteful or illegal service contract spending. Additionally, the lack of genuine information is limiting your senior leaders’ ability to review their ICS to make better sourcing decisions. Furthermore, without a credible ICS review process, it is almost certain that service contractors are performing inherently government functions, in violation of the law.\(^7\)

Specifically, P&R is hindering the implementation of the Enterprise-wide Contractor Manpower Reporting Application (ECMRA) as well as the staffing of the Total Force Management Support Office (TFMSO) in P&R. Not only has P&R stalled ECMRA’s implementation, it has come to our attention that P&R might altogether abandon ECMRA in favor of the inadequate System for Award Management (SAM) to collect service contract inventories.\(^8\) POGO has reason to believe that this is being done at the urging of the service contractors themselves.

\(^4\) Department of Defense, *The Total Force and the Top Line*, no date. DoD’s FY 2013 data shows that contracted services total $152.1 billion as compared to military personnel at $146.2 billion and civilian personnel at $71.9 billion. [http://www.pogoarchives.org/m/co/Total-Force-Manpower-Top-Line-Chart-201405.pdf](http://www.pogoarchives.org/m/co/Total-Force-Manpower-Top-Line-Chart-201405.pdf); The actual amount of DoD service contract spending is a mystery. DoD’s data does not match the data in usaspending.gov, which indicates the lack of completeness and accuracy in current efforts to determine service contracting costs.

\(^5\) According to the GAO, “[t]his inventory is intended, in part, to help provide better insight into the number of contractor full-time equivalents (FTEs) providing services to the department and the functions they are performing, and determine whether any of these functions warrant conversion to DOD civilian performance.” Government Accountability Office, *Defense Contractors: Additional Actions Needed to Facilitate the Use of DoD’s Inventory of Contracted Services* (GAO-15-88), November 19, 2014, pp. 1-2. [http://www.gao.gov/assets/670/667059.pdf](http://www.gao.gov/assets/670/667059.pdf) (Downloaded November 19, 2014) (hereinafter GAO-15-88).

\(^6\) 10 U.S.C. § 129a(a) requires that “[t]he Secretary of Defense shall establish policies and procedures for determining the most appropriate and cost efficient mix of military, civilian, and contractor personnel to perform the mission of the Department of Defense.” It also states “[t]he Under Secretary of Defense for Personnel and Readiness shall have overall responsibility for guidance to implement such policies and procedures.” 10 U.S.C. § 129a(e)(1).

\(^7\) 31 U.S.C § 501, Note. See 10 U.S.C § 2383 (requiring DoD “military or civilian personnel ... to perform all inherently governmental functions associated with the functions to be performed under the contract”). Additionally, 10 U.S.C § 2463 requires DoD to create guidelines and procedures for certain functions performed by contractors that should be converted to performance by civilian employees.

\(^8\) SAM does not capture contract non-labor costs and would be of no value in determining the indirect costs of service contracts, overhead costs, and profits. Additionally, the ability to link service contract data to budget submissions would be lost because SAM’s reliance on Federal Procurement Data System—Next Generation (FPDS-NG) data lacks granular identification of funding sources. The use of product and service codes from FPDS-NG or SAM will obstruct any attempt to accurately identify inherently governmental functions and functions closely associated with inherently governmental functions that should be performed by DoD personnel. As a result, SAM lacks the capacity to accurately inform Congress of the extent to which DoD’s reliance on service contracts is wasting taxpayer money.
Abandoning ECMRA, despite a nearly ten-year track record of successful use by the U.S. Army of the Contractor Manpower Reporting Application (CMRA), and replacing it with SAM would be an enormous mistake that will further hinder efforts to identify service contract waste.

In response to Freedom of Information Act requests, DoD and the military service branches are providing POGO with records that document the excessive costs of outsourcing government services to contractors. The documents show how DoD’s failure to address Congress’s concerns over the past 15 years has resulted in billions of dollars in waste. Our initial review of civilian and contractor costs, using valid data and cost comparisons, indicates savings, in some cases, approaching 30 percent, if the work is performed by civilian personnel. That waste, combined with budget cuts, is causing DoD to fall further behind in bolstering its readiness to meet ever-changing contingencies around the world.

As you are well aware, Congress has expressed concerns about service contract spending and, since 2001, has mandated that DoD implement a better management structure for the procurement of services. In short, DoD is statutorily required to annually submit an ICS. In an effort to ensure that the data submitted in those contractor inventories provide the most accurate data, Congress instructed DoD in 2011 to adopt the Army’s CMRA Department-wide.

On November 22, 2011, then-Acting Under Secretary for Acquisition, Technology and Logistics (USD (AT&L)) (Frank Kendall) and then-Acting USD (P&R) (Jo Ann Rooney) sent Congress DoD’s plan to comply with relevant statutes. This included short and long-term actions, among them the “establishment of a common hardware and software support platform.”

In December 2011, then-Secretary of Defense Leon Panetta responded to House Armed Services Committee inquiries concerning compliance with 10 U.S.C. § 2330a by committing to the Army CMRA solution and its implementation department- or enterprise-wide by the end of FY 2012.

The following year, Secretary Kendall, USD (AT&L) and then-Acting Principal Deputy Under Secretary for P&R Jessica Wright directed DoD to ensure that officials and their contractors began reporting in the ECMRA—a system modeled after the Army’s CMRA.

---

11 Office of the Secretary of Defense, Department of Defense Compliance Plan for Section 8108(c) of Public Law 112-10, November 22, 2011.
12 DoD Compliance Plan for Section 8108(c), Enclosure 1, p. 2.
Fred Vollrath, the former Assistant Secretary of Defense for Readiness and Force Management who retired in June 2014, supported the efforts to implement the ECMRA, the input of information into the system by DoD and contractors, and the creation of the TFMSO. This backing was consistent with a statement of unequivocal support that Secretary Wright, USD (P&R), provided the Congress in May 2014.\textsuperscript{15} Following Vollrath’s retirement, however, P&R took a much different approach.

Now, the management, business processes, and analytic support positions which were expected to be provided by the TFMSO are vacant and anticipated staffing of those positions is on hold. This means that post-ICS review action plans that components must construct and implement\textsuperscript{16} will be based on inferior data and will lack effective oversight.

Despite DoD’s promises through the years, Congress has repeatedly expressed in statute, report language, and letters that it is dissatisfied with DoD’s progress on providing service contract information. Unfortunately, Congress is justified in its frustration.

A just released GAO report summarizes the lack of accurate ICS data and movement in resolving service contract inventory issues:

A key factor hindering the components’ inventory reviews is the lack of accurate and reliable data. DOD has not resolved issues with implementing its planned common data system based on the Army’s existing system. Further, in September 2014, DOD initiated a new review, due by December 2014, to identify and develop options to collect these data. This review raises a question of whether DOD will continue to implement a common data system modeled after the Army’s system or attempt to develop a new system. DOD continues to lack a plan with timeframes and milestones to measure its progress toward implementing a common data system. These factors jeopardize DOD’s goal to have all components, by 2016, collect statutory-required contractor manpower data. Further delays in resolving these issues will undermine the inventory’s usefulness.\textsuperscript{17}

According to the GAO, the implementation of the ECMRA and the TFMSO was formally set for the summer of 2014.\textsuperscript{18} As recently as early June, DoD had promised to comply with existing law and commitments to Congress by:

\begin{itemize}
  \item Implementing a unified ECMRA based solely on the Army’s nearly 10 years of experience with its CMRA;
  \item Creating a TFMSO in the Office of the Under Secretary for Personnel and Readiness;
\end{itemize}


\textsuperscript{16} 10 U.S.C. § 2330a(f).

\textsuperscript{17} GAO-15-88, Highlights.

\textsuperscript{18} GAO-14-491R, p. 8.
- Implementing a system that would provide accurate data and analysis to meet all applicable statutory and regulatory requirements at minimal costs; and
- Integrating ICS information into the budgeting and human capital planning processes.

Stephanie Barna, Acting Assistant Secretary of Defense for Readiness and Force Management, testified at a July 2014 hearing before the House Armed Services Committee that her office was working to staff the TFMSO, which had designated funds, and would use ECMRA. A few weeks later, Barna stated during a briefing with the House Armed Services Readiness Subcommittee that ECMRA and the TFMSO would be “stood up” in fiscal year 2015, which conflicts with previous statements that things would be running by 2014.

Recently, Secretaries Wright and Kendall, Acting Assistant Secretary Barna, and Comptroller Mike McCord have reported to Congress, the GAO, and the DoD Inspector General that implementation efforts were on track. However, some of those statements are misleading, if not blatantly false, because of P&R’s reversal.

Unhappy with the lack of movement on ECMRA and the TFMSO, Senator Claire McCaskill (D-MO), Chairman of the Senate Homeland Security and Governmental Affairs Committee, Subcommittee on Financial and Contracting Oversight, sent a letter to you on July 21, 2014, posing eight questions about contractor data, the TFMSO, and the Army’s role in assisting to implement CMRA DoD-wide. DoD’s response to Chairman McCaskill on September 24, 2014, admitted that P&R could not answer the questions. Dr. Laura Junor (the Principal Deputy (USD (P&R)) signed for Under Secretary Wright, stating, “[p]rompted, in major part, by a lack of specific factual information required to respond to seven of the eight questions you posed in your letter, Ms. Barna has appointed Mr. Lernes Hebert … as a Strategic Review and Planning

---

20 Source who has knowledge of the meeting.

5
Officer.\textsuperscript{25} However, Barna officially ended any hope of moving forward with ECMRA or the TFMSO when she appointed Hebert,\textsuperscript{26} who does not appear to have any knowledge or historical perspective of the previous efforts to create a new system for ICS requirements.\textsuperscript{27} Furthermore, she did not mention the previous plans or systems and left open the question of whether Congress’ intent will be followed at all. Barna set a date for Hebert to brief senior officials by December 1, 2014.\textsuperscript{28}

Barna’s testimony and statement and her appointment of Hebert are troubling. POGO has learned that efforts to staff TFMSO and move forward with ECMRA were placed on hold approximately one week after the July House Armed Services hearing. Nothing was submitted for the record detailing the change in course.

In fact, Barna sent a response to the DoD Inspector General on August 25, 2014, that omitted the fact that efforts were actually underway to terminate ECMRA and TFMSO. Barna declined to acknowledge she had scuttled implementation of TFMSO, stating instead that “the Department cannot provide specific dates for establishing the Total Force Management Support Office or implementing an approval form for service contracts.”\textsuperscript{29} In addition, Barna failed to mention that ECMRA was not moving forward.\textsuperscript{30}

According to GAO’s November 2014 report, “[a] P&R official told us that, until such time as there has been a decision whether to pursue a new approach or continue forward with implementation of ECMRA, DOD will defer using the additional resources allocated for the Defense Human Resources Agency.”\textsuperscript{31} P&R finally appears to be coming clean about putting the entire process on hold, which does not bode well for obtaining and analyzing service contract data and using it effectively to manage the total force.

The DoD IG’s September report documented DoD’s repeated failure to comply with service contract inventory compilation and certification requirements.\textsuperscript{32} The report highlights the fact that “Congress intended that DoD use the results of the ICS to help inform budgeting and manpower decisions; however, Components generally did not use the results of the ICS for this purpose.”\textsuperscript{33}

\textsuperscript{26} Wright Letter, Enclosure 1, p. 1. Stephanie Barna, Acting Assistant Secretary of Defense (Readiness and Force Management), Department of Defense, Memorandum for Lernes Hebert, Principal Director, Military Personnel Policy, Appointment as Strategic Review and Planning Officer, September 17, 2014.
\textsuperscript{27} Department of Defense, Office of the Under Secretary for Personnel and Readiness, Biography of Lernes Hebert, Director, Accession Policy. http://prhome.defense.gov/Leadership/lernesHebert.aspx (Downloaded November, 24, 2014)
\textsuperscript{28} Wright Letter, Enclosure 1, p. 1.
\textsuperscript{29} DODIG-2014-114, p. 18.
\textsuperscript{30} DODIG-2014-114, pp. 29-30.
\textsuperscript{31} GAO-15-88, p. 22.
\textsuperscript{32} DODIG-2014-114.
\textsuperscript{33} DODIG-2014-114, p. 16.
GAO’s latest report goes further, stating that the “military departments have not developed plans or enforcement mechanisms to use the inventory of contracted services to inform strategic workforce planning, workforce mix, and budget decision-making processes, as statutorily required.”

Unfortunately, DoD’s financial management regulations do not require military departments to use the ICS in formulating and presenting their budgets. Gaps like these and efforts to backtrack on effective systems confirm P&R’s lethargic efforts to control service contract work and spending.

P&R has caused DoD to take major steps backward on overseeing service contracts, which raises questions about DoD’s stated commitment to implement the ECMRA and to fund and implement the creation of the P&R TFMSO. Not only do these actions jeopardize DoD’s most effective service contract reporting tools, but they are also a complete contradiction of everything AT&L and P&R have promised over the years.

P&R’s actions have far-reaching consequences, and, without remediation, will result in reductions in mission, program, and readiness capabilities. Moreover, DoD was on the path to produce the useful service contract inventories and associated action plans that the law requires. Now it is on a path that will result in less funding for urgent needs.

Despite repeated assurances by P&R officials to Congress, the DoD IG, and GAO that efforts to fully implement ECMRA and the TFMSO were progressing on schedule, it is clear that this is no longer the case. POGO has reviewed documents which convincingly disclose that these efforts have been effectively killed by P&R.

In conclusion, POGO requests that you take the following actions:

1. Review AT&L and P&R actions regarding service contract inventories and contracting to determine whether they are in compliance with the law and congressional mandates.
2. Affirm the Army’s CMRA as the standard for the ECMRA and linchpin of the Inventory of Contracts for Services.
3. Evaluate whether components are contracting out inherently governmental functions, functions closely associated with inherently governmental function, or critical functions

---

34 GAO-15-88, p. 22.
36 Government Accountability Office reports in 2013 and 2014 analyzed the budgetary and human capital benefits of accurate and complete service contract inventories. GAO’s finding and results highlighted the benefits of the Army’s CMRA, “including information on the direct labor dollars, labor hours, total invoiced dollars, and the functions and mission performed,” and limits of the FPDS-NG. DOD’s Efforts to Implement a Common Contractor Manpower Data System, pp. 2 and 6; Government Accountability Office, Human Capital: Opportunities Exist to Further Improve DOD’s Methodology for Estimating the Costs of Its Workforces (GAO-13-792), September 25, 2013, p. 25, http://www.gao.gov/assets/660/658131.pdf (Downloaded November 14, 2014); Government Accountability Office, Human Capital: Additional Steps Needed to Help Determine the Right Size and Composition of DOD’s Total Workforce (GAO-13-470), May 29, 2013, p. 42. http://www.gao.gov/assets/660/654879.pdf (Downloaded November 14, 2014); GAO-15-88, p. 6 (stating “FPDS-NG does not capture the number of contractor FTEs or direct labor hours used to perform each service, does not capture any services performed under contracts that are predominately for supplies, and does not identify more than one type of service purchased for each contract action.”).
that should be converted to civilian personnel. This should include a review of Secretary of Defense Offices, including AT&L and P&R.

4. Investigate whether misleading or false statements have been provided to the GAO, DoD IG, and Congress.

We would be glad to meet with you or your staff to answer your questions or provide additional information. Feel free to contact me at 202-347-1122 or at dbrian@pogo.org or Scott Amey at scott@pogo.org.

Sincerely,

Danielle Brian
Executive Director

cc: Senator Claire McCaskill, Chairman, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial and Contracting Oversight
Senator Ron Johnson, Ranking Member, Senate Committee on Homeland Security and Governmental Affairs, Subcommittee on Financial and Contracting Oversight
Senator Carl Levin, Chairman, Senate Armed Services Committee
Senator James Inhofe, Ranking Member, Senate Armed Services Committee
Senator Richard Durbin, Chairman, Senate Committee on Appropriations, Defense Subcommittee
Senator Thad Cochran, Vice Chairman, Senate Committee on Appropriations, Defense Subcommittee
Senator John McCain
Representative Howard McKeon, Chairman, House Armed Services Committee
Representative Adam Smith, Ranking Member, House Armed Services Committee
Representative Robert Wittman, Chairman, House Armed Services Committee, Readiness Subcommittee
Representative Madeleine Bordallo, Ranking Member, House Armed Services Committee, Readiness Subcommittee
Representative Rodney Frelinghuysen, Chairman, House Committee on Appropriations, Defense Subcommittee
Representative Pete Visclosky, Ranking Member, House Committee on Appropriations, Defense Subcommittee
Representative Darrell Issa, Chairman, House Oversight and Government Reform Committee
Representative Elijah Cummings, Ranking Member, House Oversight and Government Reform Committee
John Podesta, Counselor to the President
Karen Lee, Office of Federal Financial Management, Office of Management and Budget
Jon T. Rymer, Inspector General, Department of Defense
Robert O. Work, Deputy Secretary of Defense
Jessica L. Wright, Under Secretary of Defense for Personnel and Readiness
Frank Kendall, Under Secretary of Defense for Acquisition, Technology and Logistics
Mike McCord, Under Secretary of Defense (Comptroller) and Chief Financial Officer