

GAO

Report to the Chairman, Subcommittee
on Military Readiness, Committee on
Armed Services, House of
Representatives

August 2000

DOD COMPETITIVE SOURCING

More Consistency Needed in Identifying Commercial Activities



G A O

Accountability * Integrity * Reliability

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Abbreviations

DOD	Department of Defense
DRID	Defense Reform Initiative Directive
FAIR Act	Federal Activities Inventory Reform Act
OMB	Office of Management and Budget



United States General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

B-285615

August 11, 2000

The Honorable Herbert H. Bateman
Chairman, Subcommittee on Military Readiness
Committee on Armed Services
House of Representatives

Dear Mr. Chairman:

The Department of Defense (DOD) has annually compiled an inventory of commercial functions and activities¹ performed in-house, in compliance with Office of Management and Budget (OMB) Circular A-76. These inventories are important as DOD has sought in recent years to identify commercial activities involving thousands of positions that could be subject to competition to determine whether it would be more cost efficient to maintain the activities in-house or contract with the private sector for their performance. A commercial activity is one that is performed by a federal agency and that provides a product or service, such as aircraft maintenance or base operating support, that could be obtained from a commercial source.² Questions have arisen about the extent to which these inventories have fully and consistently identified positions associated with commercial activities.

To improve identification of commercial activities, the Deputy Secretary of Defense signed the Defense Reform Initiative Directive 20 in January 1998, which directed the Department to develop an inventory that fully accounted for positions that performed inherently governmental and commercial activities. In October 1998, Congress passed the Federal Activities Inventory Reform Act requiring all federal agencies, including the Defense Department, to publish annual inventories of commercial

¹ Functions and activities are used interchangeably in this report.

² Office of Management and Budget Circular A-76, Revised Supplemental Handbook (1996) Appendix I.

activities being performed by federal employees and the number of employees associated with these activities starting in 1999.³

You asked that we provide information on DOD's efforts to identify functions that could be studied for potential competition between the public and private sectors. Accordingly, this report assesses (1) whether DOD has improved the identification of commercial activities that could be studied under A-76 and (2) the likelihood that DOD will increase the number of functions and positions studied under A-76. In addition, as requested, we are providing additional information on DOD's challenges and appeals under the Federal Activities Inventory Reform Act in appendix I. Our scope and methodology are included in appendix II.

Results in Brief

The Department of Defense has improved the identification of commercial activities that could be studied under A-76. In its 1998 Defense Reform Initiative inventory, DOD components identified over 283,000 commercial positions (231,000 civilian and 52,900 military)—81,000 more positions than had been identified previously. DOD's 1999 Federal Activities Inventory Reform Act inventory, which built upon the Reform Initiative inventory, identified commercial functions and activities involving over 300,000 civilian positions, excluding military personnel that had been included in the 1998 Reform Initiative inventory. Both inventories are viewed by DOD and Office of Management and Budget officials as having improved the quality and consistency of the Department's data on commercial activities. However, our analysis suggests that the military services and Defense agencies did not always consistently categorize similar activities, in part because of the lack of clear guidance on how to identify which activities are inherently governmental, commercial and exempt from competition, and commercial and eligible for competition. Although some inconsistencies are likely to continue to exist, their resolution could lead to more activities, or fewer, being identified as eligible for A-76 study. The number of commercial functions and associated positions contained in the inventories will likely change over time based on iterative improvements the Department plans to make to the inventory process and guidance. In addition, DOD's manpower and business process reengineering initiatives and changes in the Defense components' missions and operations could

³Section 5 of the Federal Activities Inventory Reform Act, Public Law No. 105-270, defines an inherently governmental activity as "a function that is so intimately related to the public interest as to require performance by Federal Government employees."

result in changes to the numbers of commercial functions and associated positions in the inventories.

The Department does not expect to significantly increase the number of functions studied under its A-76 program based on the identification of additional positions in functions eligible for competition. Several factors, such as geographic dispersion of positions and the inability to separate commercial from inherently governmental activities, may prevent DOD from developing studies for competition under A-76.

This report contains a recommendation to the Secretary of Defense concerning the need to continue efforts to improve the consistency of DOD's inventory of inherently governmental and commercial activities and positions across the Department. DOD agreed with the recommendation and noted ongoing actions designed to increase consistency in the inventory.

Background

Since 1995, DOD has emphasized potential savings from competitive sourcing⁴ under OMB Circular A-76. This emphasis is in keeping with long-standing federal policies that encourage agencies to consider contracting with the private sector for commercial activities rather than relying on government employees to provide them. However, over time, various studies and observers questioned whether DOD had identified all its commercial activities that could be competed. The 1995 Report of the Commission on Roles and Missions of the Armed Forces, the 1996 Defense Science Board report on outsourcing and privatization, and the 1997 Quadrennial Defense Review⁵ all identified outsourcing of commercial-type

⁴ Instead of the term outsourcing, DOD currently uses the term competitive sourcing.

⁵ *Report of the Commission on Roles and Missions of the Armed Forces: Directions for Defense*, Department of Defense (May 24, 1995); *Report of the Defense Science Board Task Force on Outsourcing and Privatization*, Office of the Under Secretary of Defense for Acquisition and Technology (Aug., 1996); *Report of the Quadrennial Defense Review*, Department of Defense (May 1997).

activities performed by thousands of civilian positions as a source of potential savings.⁶ Defense components, however, had difficulty identifying activities to study under A-76. As a result, the Department decreased its goal from studying nearly 230,000 positions between 1997 and 2005 to 203,000 positions.

To improve the commercial activities inventory process, DOD convened a working group in April 1997 to develop standard criteria for identifying functions that were inherently governmental and commercial. Subsequently, the House National Security Committee directed DOD to develop a departmentwide definition for categorizing activities as either inherently governmental or commercial.⁷ On January 16, 1998, the Deputy Secretary of Defense signed the Defense Reform Initiative Directive (DRID) 20, directing the Under Secretaries of Defense for Personnel and Readiness and for Acquisitions and Technology⁸ to coordinate a review of inherently governmental and commercial activities performed by all authorized military and civilian positions. The directive called for uniform guidelines, criteria, and codes to classify functions and positions as inherently governmental in nature; commercial but exempt from OMB Circular A-76 competition; or commercial activities that should be competed. DOD grouped its functions and positions into categories as follows:

- Inherently governmental, defined in OMB Policy Letter 92-1 as a function so inherently related to the public interest as to mandate performance by government employees.⁹

⁶ On the other hand, others believe that DOD needs to assess the extent to which it already relies on contractor support. To this end, Congress enacted section 343 of the National Defense Authorization Act for Fiscal Year 2000, Public Law 106-65, which requires DOD to report by March 1, 2001, the number of direct and indirect labor work years (or equivalent) performed by contractors in fiscal year 2000.

⁷ Report number 105-132 on H.R. 1119, the National Defense Authorization Act of Fiscal Year 1998 (June 16, 1997).

⁸ Now titled Acquisition, Technology and Logistics.

⁹ Office of Federal Procurement Policy Letter 92-1, "Inherently Governmental Functions" (Sept. 23, 1992), defines inherently governmental for purposes of executive branch policy and provides a list of illustrative services and activities that are as a matter of policy considered inherently governmental and a list of activities that are not considered inherently governmental.

- Commercial but exempt from OMB Circular A-76 competition because of risks to mission performance, impact on mission effectiveness, or other specific reason that the activity should be performed by agency employees. For example, functions required to augment combat troops or for military rotation between sea and shore assignments are exempt from competition. Additional activities that must by law be performed by agency employees, such as firefighters on military installations, are also exempt from competition.
- Commercial and eligible for competition, which includes all functions and positions not performing inherently governmental activities or not otherwise exempt from competition.

DOD used the baseline data derived from the DRID 20 inventory to develop the inventory required by the Federal Activities Inventory Reform (FAIR) Act¹⁰ of 1998. The act directed federal agencies to submit by June 30 of each year an inventory of all their activities that are performed by federal employees but are not inherently governmental (i.e., are commercial). The act does not require that agencies compete positions associated with commercial activities identified on the inventory, although it requires agencies to review the inventories and to use a competitive process to select the provider,¹¹ if it considers contracting with the private sector. The act requires each agency to transmit its inventory to Congress, after OMB review and consultation, and to make it available to the public. The act also established a process under which an interested party¹² may challenge an activity's omission from or inclusion on the inventory. We reported on the

¹⁰ P.L. 105-270.

¹¹ The FAIR Act does not apply to Non-appropriated Funds Instrumentalities or certain depot maintenance and repair as defined in 10 U.S.C. 2460.

¹² As defined in section 3 of the FAIR Act, interested parties are (1) a private sector source that is a prospective or actual offeror for any contract who has a direct economic interest in performing the activity and would be adversely affected by a determination not to procure the performance of the activity from a private sector source; (2) a representative of any business or professional association whose membership includes private sector sources described in (1) above; (3) an officer or employee of an organization within the executive agency that is an actual or prospective offeror to perform the activity; and (4) the head of a labor organization, referred to in 5 U.S.C. § 7103 (a) (4), which includes members who are officers or employees within an executive agency involved in performing the activity.

act's initial implementation in selected civilian agencies in April 2000 and found that the usefulness of the inventories was limited.¹³

DOD Improved the Identification of Inherently Governmental and Commercial Functions, but Inconsistencies Remain

DOD's development and application of standard guidelines and criteria for identifying inherently governmental and commercial activities improved the quality and consistency of the Department's information on commercial activities compared to its previous efforts, according to DOD and OMB officials. Through review and categorization of over 2.95 million¹⁴ positions held by military and government civilians, DOD identified over 283,000 positions associated with commercial activities that were potentially eligible for competition between the public and private sector in its 1998 DRID 20 inventory. Having already performed an inventory of its inherently governmental and commercial activities for internal management uses, DOD used the information as the basis for its response to FAIR Act reporting requirements. DOD's FAIR Act inventory identified functions involving 504,000 civilian positions, of which 308,000 positions were associated with functions considered potentially eligible for competition.

Increasing the clarity of the guidance with respect to which activities should be exempt from competition and the consistency with which the military services and Defense agencies apply the guidance could lead to identifying more commercial activities. However, there is a possibility that more consistency could reduce the numbers of activities potentially eligible for competition. While the DRID 20 inventory improved identification of commercial activities over prior efforts, tight time frames for completing the inventory, inadequate definitions of function codes, and variations among the components in categorizing positions reduced the usefulness of the data for identifying similar activities and for ensuring consistency, where appropriate, departmentwide. DOD has initiated some actions to increase the consistency and accuracy of future DRID 20 and FAIR inventories and has identified long-term improvement goals.

¹³ *Competitive Contracting: The Understandability of FAIR Act Inventories Was Limited* (GAO/GGD-00-68, April 14, 2000).

¹⁴ DOD included active duty, active guard and reserve, and civilian government personnel in the DRID 20 inventory. It excluded nonappropriated fund manpower and some military positions (such as transients, patients, prisoners, and students) because they were not subject to competition.

Improved Guidelines Helped Defense Components Identify DOD's Inherently Governmental and Commercial Functions and Associated Positions

In developing the DRID 20 inventory, DOD's components examined functions involving 2.2 million military and 754,160 government civilian positions in the military services and Defense agencies in fiscal year 1998. The effort involved inventorying activities and positions in the 3 military departments, 14 Defense agencies, and 7 field activities. The DRID 20 guidance directed the military services and Defense agencies to identify functions and positions they considered essential to their missions (or core), including military and civilian positions associated with inherently governmental activities and with commercial activities that required performance by federal employees because of national security or operational risk concerns. Positions associated with activities that were not considered mission essential (noncore) were deemed eligible for competition under A-76 unless they were restricted from competition by law, executive order, treaty, or international agreement, or as a result of legislatively mandated personnel levels or DOD management determination. DOD's inventory guidelines and instructions provided codes for categorizing positions that specified (1) the function performed (e.g., health services, depot repair, and management headquarters)¹⁵ and (2) the type of manpower required (whether an activity required military or civilian employees or whether the functions could be considered for contract performance). (App. III provides additional information on the manpower criteria coding used in developing the DRID 20 inventory.) These guidelines were designed to help the components determine which positions were associated with activities that were (1) inherently governmental, (2) commercial but require(s) government performance (i.e., exempt from competition) due to legislative restrictions or operational concerns, or (3) commercial and subject to competition. The Department was directed to report the DRID 20 inventory to the Secretary of Defense in December 1998.

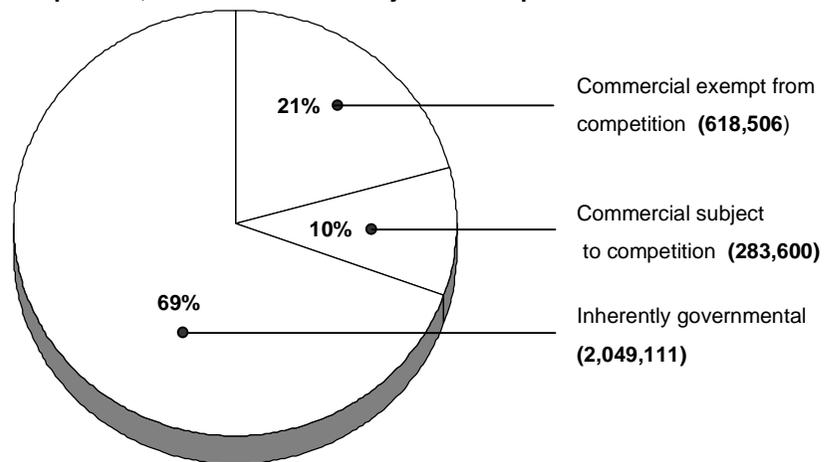
DRID 20 Inventory Described DOD's 1998 Workforce

The DRID 20 inventory was based on 1998 manpower data. As figure 1 shows, DOD categorized 69 percent (about 2.05 million) of the 2.95 million

¹⁵ The 12 major functional groups and function codes are listed in OMB Circular A-76 Revised Supplemental Handbook. DOD added one functional group (Management Headquarters and Other Selected Centralized Functions). DOD also created another group of codes to define more clearly the core and noncore activities. This was done to show the reasons activities were inherently governmental or commercial but exempt or commercial and eligible for competition under OMB Circular A-76.

total military and civilian positions as being associated with inherently governmental activities.¹⁶ Overall, 21 percent (618,506 positions) were categorized as associated with activities that are commercial but that should not be competed for a number of reasons, including national security concerns and legislative prohibition. About 10 percent (283,600) of the positions examined were categorized as associated with commercial activities subject to competition. According to DOD's analysis, this represented about 81,000 more positions than had been identified in the 1997 commercial activities inventory.

Figure 1: DRID 20 Inventory of All DOD Functions and Associated Positions Categorized as Either Inherently Governmental, Commercial but Exempt From Competition, and Commercial Subject to Competition



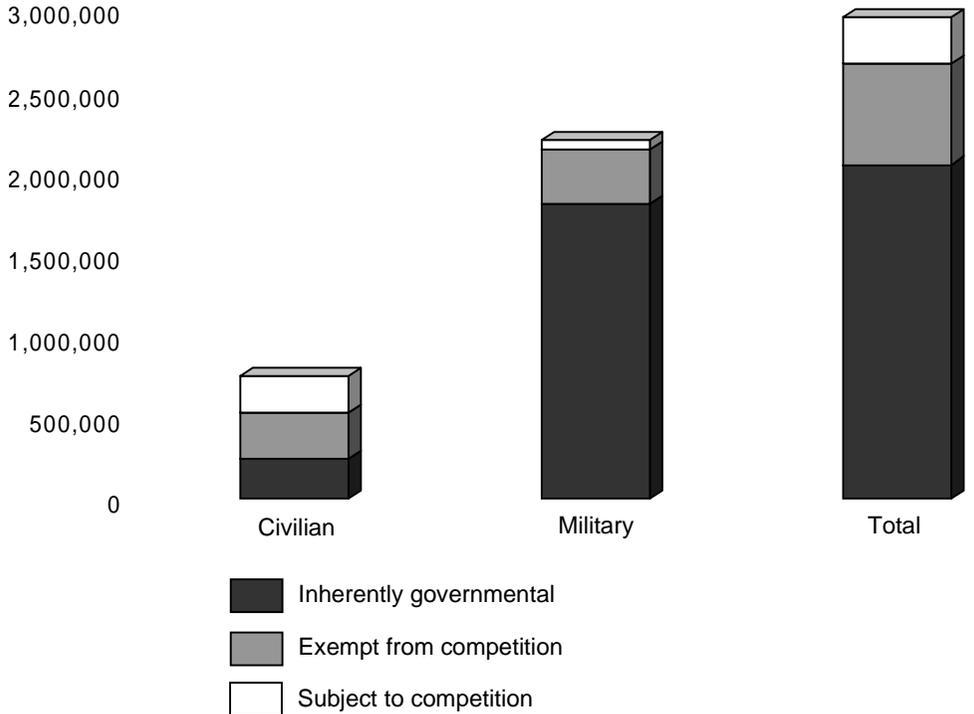
Source: Department of Defense.

Analysis of the inventory that broke out activities and associated positions held by military and civilian personnel showed differences in the proportion of positions associated with functions categorized as inherently governmental, commercial but exempt, or commercial and subject to competition. DOD found most military positions were associated with activities that were considered either inherently governmental or commercial but exempt from competitions. As figure 2 shows, about 1.8 million (82 percent) military positions were associated with activities

¹⁶ The number of positions authorized for 1998 was 82,700 more than authorized for 1999.

that were considered inherently governmental; 335,299 (15 percent) with activities commercial but exempt; and 52,879 (3 percent) with commercial activities subject to competition. On the other hand, it found government civilian positions were more evenly divided between being associated with functions that were inherently governmental, commercial but exempt from competition, or potentially eligible to be considered for competitions. About 240,240 civilians (32 percent) were associated with inherently governmental activities; 283,207 (37 percent) with commercial activities exempt from competition; and 230,715 (31 percent) with commercial activities subject to competition.

Figure 2: DRID 20 Civilian and Military Manpower Authorizations by Inherently Governmental, Commercial but Exempt From Competition, and Commercial Subject to Competition Categories



Source: Department of Defense.

FAIR Inventory Identified Over 308,000 Positions Associated With Functions Potentially Eligible for Competition

When the FAIR Act required information on federal agencies' commercial activities, DOD used the civilian portion of its 1998 DRID 20 inventory as the baseline for developing its FAIR Act inventory. DOD made several changes to its DRID 20 inventory to comply with the FAIR Act requirements. In implementing the FAIR Act, OMB revised Circular A-76 and called for agencies' inventories to contain "reason codes" that agencies used to categorize whether the commercial activities listed were exempt from or could be considered for competition. For example, Code A indicated that the function is specifically exempt from the cost comparison requirements of A-76, while Code B indicated that an activity is performed by federal employees and is subject to the cost comparison of the A-76 process. DOD adapted the manpower mix criteria codes it used in the DRID 20 inventory to assign reason codes.¹⁷

DOD made its FAIR inventory available to the public on December 30, 1999. Of the 904,000 positions associated with commercial activities that were reported under the act by 98 federal agencies, DOD's inventory represented over half—about 504,000 (56 percent) civilian positions associated with commercial activities. This represents about 67 percent of DOD civilian positions. Of the 504,000 civilian positions associated with commercial activities, the Department designated activities involving 308,000 positions (61 percent) as potentially eligible for competition. The remaining 196,000 positions (39 percent) were associated with commercial functions considered exempt from competition by the military services and Defense agencies.

The FAIR Act inventory of civilian positions associated with commercial activities potentially eligible for competition represents a net increase of about 25,000 full-time positions (or equivalent) from the 1998 DRID 20 inventory. In general terms, this difference represents DOD's exclusion of about 53,000 military positions associated with commercial activities that were reported in the DRID 20 inventory and the Army's addition of about 84,000 civilian positions associated with functions that were candidates for competition. DOD excluded military positions associated with commercial activities from its FAIR Act inventory because in its opinion, they were not subject to the act. After the final guidance for implementing the FAIR Act was published, OMB agreed with DOD's opinion. DOD also excluded

¹⁷ Reason codes are described in appendix 2 of OMB's Circular A-76 Supplemental Handbook. DOD identified some errors in its adaptation of DRID 20 manpower codes to OMB reason codes. DOD plans to correct these errors in the 2000 FAIR inventory.

positions associated with DOD's Inspector General's office that were reported in conjunction with other Inspectors General. DOD also excluded some positions from its published inventory because of national security concerns, but it maintains this information in a classified report that is not made public.¹⁸

Another change by the Defense Finance and Accounting Service subsequent to the DRID 20 inventory increased the number of civilian positions associated with commercial activities in the FAIR inventory. During the 8 months between the completion of the 1998 DRID 20 inventory and the 1999 FAIR inventory, the agency directed that many financial management functions be reclassified from inherently governmental to commercial but exempt from competition pending restructuring. Based on this shift, functions involving over 85 percent (19,224) of the Defense Finance and Accounting Service's 22,215 positions were classified as commercial in the FAIR Act inventory, in contrast to the DRID 20 inventory where functions involving only about 10 percent of positions (1,781) were categorized as commercial. DOD plans to reflect these changes in future updates of the DRID 20 inventory.

Under the FAIR Act, interested parties have 30 days after publication of an agency's inventory of commercial activities to challenge its decision to include an activity on or exclude an activity from the inventory. DOD published its first FAIR Act inventory on December 30, 1999. Defense's components received a total of 213¹⁹ challenges. The services and Defense agencies did not agree with any challenges completely. However, the Army, Air Force, and Defense Logistics Agency plan to make some changes to their inventories based on challenges to functions that result in a net decrease of 3,800 positions that will be reflected in the 2000 inventories. The components received a total of 50 appeals of their decisions on challenges. No changes to the inventory resulted from appeals. (See app. I for more information on DOD's challenges and appeals.)

¹⁸ DOD's 1999 FAIR Act inventory included about 40,000 foreign national employees overseas, according to a DOD official. About 10,000 were considered subject to competition. DOD's General Counsel has advised that foreign nationals should not be included in subsequent FAIR Act inventories because they are not covered under the act. DOD will continue to include them in future DRID 20 inventories for internal management purposes.

¹⁹ As of July 18, 2000, the Defense Logistics Agency had not responded to one challenge and three appeals. These are not included in totals.

As we reported in April 2000, the usefulness of the initial inventories some civilian agencies developed under the FAIR Act was limited, in part, because of problems with vagueness in functional coding guidelines and inconsistency in format across agencies. Users of the DOD inventory made similar complaints about vagueness, although they said that DOD's inventory, provided on the Internet,²⁰ was easily accessed and user-friendly and the site provided procedures and contacts for challengers. Based on the experience governmentwide in implementing the FAIR Act for the first time, OMB has revised its guidance to agencies, standardizing the format for reporting activities and requiring that all agencies' inventories be available on the Internet.

Clearer Guidance and More Consistency in Applying Criteria Could Increase Competition Opportunities

The DRID 20 process was the first step in what DOD views as an iterative process to inventory inherently governmental and commercial activities accurately. However, the Department encountered a number of difficulties in collecting consistent data across the military services and Defense agencies. These included tight time frames, differences in components' approaches, and problems with the guidance and codes DOD used to categorize positions by the type of function performed and the type of manpower needed to perform the function. Because the FAIR inventory was developed from the DRID 20 inventory, it suffered from the same data limitations.

The services and Defense agencies had about 6 months between the time the Office of the Secretary of Defense issued guidance on implementing the DRID 20 inventory on April 20, 1998, and the inventory's due date of October 31, 1998. DOD officials noted that the tight time frames hampered components' abilities to perform thorough reviews of all functions and positions. In particular component officials said they were unable to assess workloads and whether in-house manpower was needed. They also indicated that they did not have sufficient time to review all inherently governmental functions to see if workload could be realigned into fewer inherently governmental positions. DOD officials believe that more functions and associated positions may be identified as commercial as the components have time to complete these assessments.

²⁰ <http://gravity/Lmi.org/dodfair>

DOD Components' Approaches to Identifying Inherently Governmental and Commercial Positions Differed

DOD components' differing approaches to categorizing activities and positions resulted in some inconsistency in application of codes describing functions and what category was appropriate (i.e., inherently governmental, commercial but exempt from competition, or commercial and eligible for competition). For example, the Army used a centralized approach that standardized coding across the Army. In contrast, the Navy, Air Force, and Marine Corps used more decentralized approaches to enable commands to apply codes reflecting their unique missions and situations. These approaches created differences in the coding of similar functions and positions within and across the three services. Some Defense agencies also took a more decentralized approach. For example, the Defense Logistics Agency and Defense Finance and Accounting Service tasked their component commands to do the initial coding of their inventories with management reviews at the headquarters level. As discussed earlier, differing judgements about whether activities were commercial resulted in changes to the Defense Finance and Accounting Service's inventory between the 1998 DRID 20 inventory and the 1999 FAIR Act inventory. The Service initially categorized activities involving almost 90 percent of its positions as inherently governmental in the DRID 20 inventory. Subsequently, new management at the Service determined that activities initially coded as inherently governmental and involving 85 percent of its positions were actually commercial.

Inadequacies in Codes and Guidance Used to Categorize Positions

Inconsistencies in the DRID 20 inventory also arose because of inadequacies in the codes themselves and lack of clarity in guidance for applying them. While the functional codes identified both general functional groups (such as social services and base maintenance) and particular activities within the larger functional group, components found that all the functions they perform were not included in the function codes. For such functions, components used miscellaneous "other" function codes, which obscured the nature of the work performed and thus reduced the usefulness of the inventory for identifying common functions across categories. For example, according to DOD, the functions of almost 11 percent of its manpower were categorized as part of an "other" functional group— such as "Other Health Services"—because no specific functional code properly identified the type of work being performed. In other cases, function codes in the DRID 20 guidance appeared redundant. For example, in addition to a functional group for automated data processing support, the guidance provided specific function codes for automated data processing support in other functional groups. Inadequacies in the function codes led to inconsistent coding across and

within components, which means that DOD does not have a complete picture of the activities being performed by its in-house workforce.

Defense components also encountered problems applying the manpower criteria codes to characterize the type of manpower needed due, in part, to lack of clear guidance about how to decide which activities could be exempted from competition. Differing judgments resulted in inconsistencies in the application of codes within and across components and reduced the data's usefulness for meaningful cross-service analysis. For example, DRID 20 guidance on manpower criteria codes did not include a clear definition of what constitutes core capabilities,²¹ how to define core capabilities, or what would be acceptable risks from contracting functions. Components exempted some functions and associated positions from competition to ensure availability of core capabilities, such as support for combat forces, although DOD officials said it was not clear how the components assessed operational risks in making their decisions.

Function Titles Do Not Always Indicate Whether Activities Are Inherently Governmental or Commercial

It is difficult to determine whether a function is inherently governmental or commercial based only on its title. For example, motor vehicle operations take place on bases and in combat areas and can involve transport of widely varying cargo, from people to nuclear weapons. Differing missions and functions among the services and Defense agencies can lead to differing categorization of manpower. Personnel could be performing similar activities but under different circumstances. Circumstances of performance should be considered in deciding how to categorize the manpower required. However, even with full knowledge of the activity and circumstances, making decisions about the amount of risk that contract performance of a function would involve is not an easy task.

The degree to which discretion is exercised in setting policy and managing governmental property, for example whether decision authority is exercised at the headquarters or installation level, is also a factor in determining whether an activity is inherently governmental, according to

²¹ According to the A-76 Supplemental Handbook, a minimum of specialized, scientific or technical in-house or contract employees, and related commercial workload may be maintained, without cost comparison, to ensure that the government has the necessary capabilities to fulfill its mission responsibilities or meet emergency requirements. For purposes of the inventory, core positions included both military and civilian positions in activities that were inherently governmental or commercial but needed to be retained in-house to meet mission requirements.

DOD officials. This could lead to justifiable differences in whether activities are considered inherently governmental, commercial but exempt from competition, or commercial and subject to competition. However, our review identified inconsistencies among components' judgement on whether similar functions were inherently governmental or commercial where consistency might be expected. For example, the Army determined that public affairs activities at its military academy were commercial, while the Navy classified most public affairs activities at its academy as inherently governmental based on the requirement for civilian direction and expertise.

In performing their analysis of the completed DRID 20 inventory data, DOD officials reviewed function codes that indicated activities that might be commercial, such as maintenance and repair of buildings, to determine if positions associated with those functions were identified as commercial. They found that some activities and associated positions that appeared to be commercial were identified as inherently governmental or exempt from competition in the inventory. For example, about 2,000 positions were associated with maintenance and repair of buildings and were categorized in the inventory as requiring military manpower. Some of these may result from the services' needs to set aside positions to facilitate rotation and career progression. Also, military training functions—including about 600 civilians—were exempted from competition because of national security risk concerns. DOD officials said that the activities' coding could be correct or it could indicate an error in categorizing what type of manpower is required. Such anomalies are currently under discussion among DOD and component officials. Our review identified child care services as an additional activity that was exempted from competition by the services, although it does not appear to be a core capability under A-76 and is widely available from the private sector.

DOD Has Begun Initiatives to Improve Accuracy and Consistency in Future Inventories

DOD expects to update its inventories annually, and it has begun to take some steps to improve the accuracy and consistency of the data in future DRID 20 and FAIR Act inventories. DOD officials stressed that the inventory process is iterative, and improvements in the inventory process will evolve as the inventory is updated. The Department's December 1999 report on the 1998 DRID 20 inventory process²² concluded that the

²² *Report on the DRID 20 Inventory: Analysis and Recommendations*, Department of Defense, December 1999.

inventory process provides the best avenue for identifying opportunities for military to civilian conversions and for competitions. The report discusses near-, mid-, and long-term actions the Department needs to take to improve the inventory process. To date, DOD has taken the following actions:

- Established a team of representatives from functional, Joint Staff, and Defense components to develop and implement improvements to the process. The team, which has met weekly over the past year, is currently addressing consistency issues and working on guidance to help the components assess risks and determine core capabilities.
- Revised the manpower criteria codes for future inventories by adding four new codes—converted to in-house performance based on cost comparison, converted to in-house performance without cost comparison due to unsatisfactory performance or unreasonable price, no satisfactory commercial source, and cost comparison waiver.
- Clarified how components should classify manpower funded through separate accounts and appropriations, such as the Army Corps of Engineers' activities funded through the civil work appropriations, and how components should handle positions assigned to joint functions, such as military manpower assigned to other Defense agencies.

Longer term recommendations from the report include (1) analyzing inherently governmental and exempt categories of manpower to ensure that activities and positions meet the criteria for these categories and (2) clarifying guidance for determining core capabilities so components can determine the manpower needed to provide a minimum core capability to meet their mission(s) or emergency requirements. DOD has taken some steps to begin implementing these recommendations. For example, designated officials from the Defense components and the Office of the Secretary of Defense meet weekly to address various issues in categorizing activities. According to DOD, these meetings have provided a starting point toward improving consistency in coding and have enabled the components to gain insight into each other's coding strategies and philosophies, and have, in some instances, resulted in immediate adjustments to mistakes in coding.

DOD's completed, ongoing, and planned actions should help address many of the weaknesses identified in its 1998 DRID 20 inventory process. Specifically, DOD is taking steps to address some inconsistencies by improving definitions and guidance, especially on assessing the risks of contract performance of mission-essential requirements. However,

additional efforts may be required to address other inconsistencies that do not arise from differences in Defense components' missions and requirements, such as coding inconsistencies related to public affairs services and exemptions for activities such as child care.

Unclear Whether DOD Will Increase Number of Positions It Studies in the Near Future Based on Recent Inventories

Although it was expected that the DRID 20 inventory process would identify more functions and positions that could be reviewed for competition, it is unclear whether the Department will significantly increase the numbers of functions it studies in the near future. Department officials told us that the DRID 20 inventory identified few new functions and associated positions that could be studied under A-76 and that the increased numbers of positions identified in the inventories did not automatically translate into the potential for large numbers of additional studies to be initiated. Additionally, service officials told us that they had already identified as many competition opportunities as they could to meet savings goals, and they believed that their capacity to conduct studies beyond those already planned over the next few years was limited.

DOD had established goals for positions that the services and Defense agencies should study and the savings to be achieved even before it undertook the 1998 DRID 20 inventory. In 1999, the Department's goal was to study nearly 230,000 positions and save \$11.2 billion between 1997 and 2005. As we recently reported, DOD has fallen behind in its timetable for initiating A-76 studies and has had difficulties in completing its studies within the average 2-year goal it established for these studies.²³ For example, studies involving nearly 29,000 positions were announced for study in fiscal year 1997; however, completed studies covered only 11,716 positions from fiscal years 1997-1999. Because of these difficulties, DOD has recently lowered its goal to studying 203,000 positions and saving \$9.2 billion between 1997 and 2005 and now plans to augment its A-76 program with business process reengineering efforts to help it achieve additional savings. DOD refers to its A-76 and reengineering efforts together as strategic sourcing.

While DOD intends to use the results of its future DRID 20 inventories as a management tool to identify commercial activities that it can study under A-76 and strategic sourcing, it does not expect to study all the functions

²³ *DOD Competitive Sourcing: Some Progress, but Continuing Challenges Remain in Meeting Program Goals* (GAO/NSIAD-00-106, Aug. 8, 2000).

categorized as commercial and potentially eligible for competition. In developing competitions, DOD reviews activities (such as audio-visual services or base operating support), which are the basic unit of study under A-76, rather than positions. The number of positions that will actually be studied for possible competition may be limited by a number of factors. These include the following:

- Geographic dispersion of candidate activities. Having positions associated with commercial activities that are scattered over many locations may prevent some of them from being grouped for competition.
- Whether certain work categorized as commercial can be separated from inherently governmental or exempted work. In some cases, commercial activities classified as subject to competition are in activities that also contain work that is inherently governmental or exempt from competition, and the commercial workload may not always be separable from the workload performed by the exempted positions.
- Availability of resources for conducting A-76 studies. Officials of several military service commands told us that they already have aggressive competition programs under way and that they lack sufficient resources and staff to conduct more competition studies in the near future.

These are valid reasons why DOD may not compete all the functions and positions that are currently categorized as eligible for competition. Some positions (about 6,400) categorized as subject to competition have already been studied and retained in-house on the basis of a cost comparison with the private sector.²⁴ Also, DOD had no means of clearly identifying positions associated with commercial activities that had already been reviewed and the decision made to keep or bring the activities in-house. These functions and positions were identified as eligible for competition, although they would probably not be competed again in the near future. In addition, the 1998 DRID 20 and FAIR Act inventories were based on 1998 manpower data, so some of the commercial functions and associated positions potentially eligible for competition may have already been eliminated as a result of organizational changes or downsizing. Downsizing efforts ongoing in DOD will continue to reduce significantly the pool of civilian and military positions, included those associated with commercial activities. The manpower authorized for DOD for fiscal year 1999 was

²⁴ Historically, about half of the activities competed between the public and private sectors have been won by the public sector.

about 82,700 positions fewer than that authorized for fiscal year 1998. Further, implementation of current efficiency initiatives, such as business process reengineering, could increase or decrease the numbers of positions in activities that could potentially be studied under A-76.

Conclusions

The 1998 DRID 20 inventory process improved the quality and consistency of information on both inherently governmental and commercial activities and associated positions, and it identified additional functions that could be subject to competition. However, variations in how the Defense components developed the DRID 20 and FAIR Act inventories and lack of clear guidance on categorizing activities that are not core activities may have limited the potential for identifying additional commercial positions. DOD's efforts to resolve inconsistencies in the components' classifications of positions could lead to identifying additional activities that might be considered for competition, although it could also mean that activities which were erroneously considered commercial are determined to be inherently governmental. However, absent clearer guidance for determining whether a commercial activity is core and therefore exempt from competition, these efforts may not resolve differing judgements. Even if additional commercial functions and positions are identified, DOD does not expect to increase the number of functions reviewed under the A-76 process above its already aggressive competition goals. Factors such as the inability to group positions due to geographic dispersion or to separate commercial activities from inherently governmental work may limit the number of functions that could be studied.

Recommendations

To improve the way the Department of Defense's components categorize activities, we recommend the Secretary of Defense increase consistency in identification of commercial activities among and within the services and Defense agencies by making decisions on whether certain activities, such as child care and public affairs, are generally to be considered eligible for competition.

Agency Comments and Our Evaluation

The Department of Defense provided written comments on a draft of the report. The Department agreed with our findings and our recommendation concerning the need for increased consistency in identification of commercial activities that are eligible for competition. DOD's written comments on a draft of this report are reprinted in appendix IV. The

Department also provided some technical comments, which have been incorporated in the report as appropriate.

In its comments, DOD noted that the inventory was a large undertaking and, while improvements will have to be accomplished through an iterative process, it has made considerable efforts to address such consistency issues, including holding weekly meetings to develop and document clearer instructions. It also emphasized that it has been and will continue to work to improve the quality of the inventory.

We agree, as we noted in the report, that the inventory was an important step toward identifying inherently governmental and commercial activities in the Department and that the Department is taking actions that should increase consistency within the inventory. However, the Department has yet to address additional issues of consistency among the components, particularly regarding which activities should not be exempt from competition. We believe that the Department's leadership and sustained emphasis on increasing consistency and accuracy in how noncore activities are coded and how the coding is justified will be needed to help ensure the Defense components identify which activities are commercial and should be considered for competition.

We are providing copies of this report to Representative Solomon Ortiz, Ranking Minority Member, Subcommittee on Military Readiness, House Committee on Armed Services; Senator James M. Inhofe, Chairman, and Senator Charles Robb, Ranking Minority Member, Subcommittee on Readiness and Management Support, Senate Committee on Armed Services. We are also sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; the Honorable Louis Caldera, Secretary of the Army; the Honorable F. W. Peters, Secretary of the Air Force; the Honorable Richard Danzig, Secretary of the Navy; General James L. Jones, Commandant of the Marine Corps; and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will be made available to others upon request.

If you have any questions regarding this report, please contact me on (202) 512-8412 or Barry Holman on (202) 512-5581. Other key contributors to this report were Marilyn Wasleski, Margaret Morgan, and Robert Poetta.

Sincerely yours,

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal flourish extending to the right.

David R. Warren, Director
Defense Management Issues

FAIR Act Challenges and Appeals

According to the Federal Activities Inventory Reform (FAIR) Act, interested parties have 30 days after an agency publishes a notification of the availability of the inventory to file a challenge that a function was improperly included on the inventory or improperly omitted from it. The agency then has 28 days from receipt of the challenge to respond to the challenger in writing. The act also provides for interested parties to appeal any adverse decision within 10 days after receiving the decision. The agency then has 10 days after receiving the appeal to respond to the appellant. The Office of the Secretary of Defense delegated responsibility for receiving and responding to challenges and appeals to each component. Challenges to DOD's 1999 FAIR inventory were due by January 31, 2000. As of July 18, 2000, the Defense Logistics Agency was the only Defense component that had not completed responses to all appeals to the 1999 FAIR inventory.

The Department of Defense's (DOD) Internet site¹ contained DOD-wide and component specific procedures for mounting challenges and appeals. In general, these procedures described how and where to submit challenges and appeals, explained the overall decision process and deadlines, and defined important terms such as "interested party" and "commercial activity." Some components modified DOD-wide procedures to fit their needs. For example, the Army emphasized in its challenge and appeals procedures that challengers should review its definitions of activities to determine whether an activity was included on the inventory before considering a challenge. The Navy required challengers to furnish additional information, such as a specific location/installation and state of the challenged function, an explanation/justification for the challenge, and whether the challenge was directed to a Navy or Marine activity, so it could direct the challenge to the particular command or office that could best respond. The remaining Department components generally used the DOD procedures without change.

As shown in table 1, DOD received 213 challenges to its FAIR Act inventory, a majority from individual employees and employee unions challenging the Department's decision to include an activity on the FAIR inventory. Challenges from interested parties in industry generally challenged omission of a function that they contended should have been included on the inventory.

¹ <http://gravity/Lmi.org/dodfair>

**Appendix I
FAIR Act Challenges and Appeals**

Table 1: Summary of DOD FAIR Act Challengers

	Employees	Employee unions	Industry	Total
Army	107	15	5	127
Navy/Marines	25	34	6	65
Air Force	0	2	7	9
Defense agencies ^a	1	4	5	10
Office of the Secretary of Defense	0	0	2	2
Total	133	55	25	213

Note: Includes two challenges addressing DOD-wide issues sent to each of the military services, some of the Defense agencies, and the Office of the Secretary of Defense. The Office of the Secretary of Defense prepared one DOD-wide response to each of these challenges.

^aDoes not include one challenge that had not been addressed by the Defense Logistics Agency as of July 18, 2000.

Source: Department of Defense components and Office of the Under Secretary of Defense (Acquisitions, Technology and Logistics).

As shown in table 2, a majority of the challenges to the Department’s FAIR Act inventory were directed to the Army. The Army took an aggressive approach to identifying commercial activities, presuming that some activities were commercial unless otherwise justified. Of the 504,000 positions associated with commercial activities on DOD’s FAIR Act inventory, almost 222,000 (44 percent) were identified by the Army. Overall, the Department and its components denied 203 or about 96 percent of the challenges received and partially agreed with 10. Of the 203 challenges that were denied, challengers submitted 50 appeals. The Department decided none of the appeals in favor of the appellant.

**Appendix I
FAIR Act Challenges and Appeals**

Table 2: DOD FAIR Act Challenges, Appeals, and Decisions

Received	Challenges			Appeals		
	Received	Denied	Agreed ^a	Received	Denied	Agreed
Army	127	120	7	25	25	0
Navy/Marines	65	65	0	17	17	0
Air Force	9	7	2	2	2	0
Defense agencies ^b	10	9	1	5	5	0
Office of the Secretary of Defense	2	2	0	1	1	0
Total	213	203	10	50	50	0

Note: Challenges and appeals contain two challenges addressing DOD-wide issues sent to each of the military services, some of the Defense agencies, and the Office of the Secretary of Defense. The Office of the Secretary of Defense prepared one DOD-wide response to each of these challenges.

^aThe Army, Air Force, and Defense Logistics Agency did not agree with any challenge completely. The number in the chart indicates the number of challenges with which the Army and Air Force agreed in part.

^bDoes not include one challenge and three appeals that had not been addressed by the Defense Logistics Agency as of July 18, 2000.

Source: Department of Defense components and Office of Under Secretary of Defense (Acquisitions, Technology, and Logistics).

The components took different approaches in resolving challenges and appeals, reflecting their different organizational and management structures. The Army centralized the receipt and disposition of challenges and appeals delegating the Assistant Secretary of the Army (Manpower and Reserve Affairs) to receive and decide challenges. In resolving challenges, the Army looked at coding issues on an Army-wide functional basis rather than from an installation or employee position basis often described in the challenge, as the other military services did. Using this approach, the Army has decided to delete from future FAIR Act inventories about 3,800 full-time employees (or equivalent) that it determined to be performing inherently governmental activities in two functions: “Personnel Community Activities and Manpower Program Management” (44 labor negotiators identified by a specific occupational series and grade) and “Contracting” (3,750 employees under one specific occupational series).

The Navy and Marine Corps received challenges at the service level, responding to them with input from their commands. The Navy and Marine Corps did not change how any functions and positions were categorized based on the challenges and appeals process. The Air Force delegated to its commands the responsibility for receiving and resolving challenges and

appeals because commands were more familiar with the reasons for coding of particular associated activities and positions. The Air Force did not change any coding based on the challenges and appeals process. The Air Force Materiel Command agreed with one challenger that family services were inherently governmental and should not be part of the inventory based on its internal guidance. Although it did not remove the activity from the 1999 FAIR inventory, it plans to do so for the 2000 inventory.

**FAIR Act Challengers Cited
Problems With Coding and
Specificity**

Challengers raised issues about coding decisions the Defense components made and the level of detail provided by DOD in the inventory. In many cases, challengers questioned a component's decision to exempt or not to exempt particular functions from competition, a decision that may not be challenged under the act.² They also argued that greater detail was needed to enable interested parties to identify specific tasks being performed. Table 3 shows the basis for employee and union challenges of functions they asserted should be excluded from the FAIR inventory because they believed them to be inherently governmental and the basis for industry challenges of functions that they believe should be included in the FAIR inventory because they were not inherently governmental.

² We are currently completing a review of the FAIR Act challenges and appeals processes governmentwide and expect to include an analysis of DOD's challenges and appeals processes in a later report.

**Appendix I
FAIR Act Challenges and Appeals**

Table 3: FAIR Act Challenges by Military Services, Defense Agencies, and DOD-wide

Challenge basis	Army	Navy/Marines	Air Force	Defense agencies^a	DOD
Employee/union challenge of functions that should be exempt from FAIR Act inventory					
Privacy, confidentiality, and conflict of interest concerns	17	28		2	
Has control over government property and appropriations	17		1	2	
Actions bind the government to action	20	14			
Exempt by statute, regulations, guidance	50				
Develops policy and guidance; exercises discretion in interpreting laws and developing policy	5	42	1	2	
Knowledge not readily available in the private sector	2		1		
Function generally meets definition of inherently governmental	23	1			
Function treated as inherently governmental by other components	12				
Function is core and should be exempt		3		1	
Function not severable from inherently governmental work		1			
Other: Similar functions not included in the FAIR inventory	1				
Other: Insufficient information in inventory		1	1	1	
Industry challenge of functions that should be included in FAIR Act inventory					
Too many activities exempt from competition	1		4		
Function is commercial		2		1	
Other: Insufficient information in inventory		3	1	1	2

Note: We counted challenges received separately, although several challenges were focused on the same activity and location and used identical arguments for changing the inventory. We categorized challenges based on what appeared to be the primary reason(s) for the challenge.

^aDoes not include one challenge that had not been addressed by the Defense Logistics Agency as of July 18, 2000.

Source: Department of Defense components and Office of the Under Secretary of Defense (Acquisitions, Technology and Logistics).

Representatives of employees and of private industry expressed specific concerns about the contents and utility of the Department’s FAIR Act inventory through their challenges and in meetings with us. Employees usually argued that specific positions and activities should be characterized as inherently governmental and should not appear on the inventory. Several employees and employee groups took issue with DOD’s characterization of some functions as commercial when, they asserted, the activities involved sensitive or private information or might create liability for the

government. Generally, the services agreed that the government should maintain control and oversight of activities through accountable government employees, so particular employees might be performing inherently governmental activities even when an overall function is identified as commercial and is therefore properly included on the FAIR Act inventory. However, they said that deciding the appropriate number and type of positions associated with commercial functions that could and should be competed is part of a competition study.

Interested parties from outside the government generally criticized DOD's FAIR Act inventory as not including enough specific information to help them identify activities to challenge. Some challengers stressed that the summary level of data was inadequate to help them identify activities that should be challenged, particularly in the 30 days allowed under the act. For example, industry associations were concerned that the information presented did not sufficiently describe positions and tasks associated with functions or include information on functions or activities that were excluded from the inventory, such as information on inherently governmental functions and contractor work years. Industry representatives asserted that these limitations precluded informed industry review and evaluation of the inventory. Some industry representatives stated that the usefulness of the inventory could be improved by including the basis for exempting a function from competition due to law or executive decision and including information on inherently governmental activities. Although noting that DOD had provided the information required by the act, DOD officials agreed that it would be difficult for interested parties to identify opportunities for appeals from the summary information the act required and that DOD presented in its database.

**Defense Components
Rejected Most Challenges
Primarily for
Incompleteness**

As table 4 shows, the Defense components rejected FAIR Act challenges for a variety of reasons. About 15 percent of all challenges did not meet the challenge provisions of the act, which specified that interested parties could challenge an agency's decision to include an activity on the FAIR Act inventory or to omit an activity from the inventory. The primary reason for rejecting challenges to include activities on the inventory was the failure by the challenger to specify an activity being challenged. Some of the reasons for rejecting a challenge to remove an activity from the list of commercial activities included the availability of the function in the private sector and the lack of support from the challenger that a function requires a person to have government authority or to make value judgments for the government.

**Appendix I
FAIR Act Challenges and Appeals**

Table 4: Responses to Challenges by Basis for Decision by Component

Basis for component decision^a	Army	Navy/Marines	Air Force	Defense agencies^b	DOD
Responses to employee/union challenges					
Function does not suggest government authority or the making of a value judgment for the government	31	26			
Function commonly available in the private sector	64	40	1		
Challenge does not meet FAIR Act challenge requirements	6	3	1	2	
Function not entirely inherently governmental	54			1	
Personnel in function performed at grade lower than criteria for inherently governmental of GS-13 and above ^c	17				
Function is inherently governmental and erroneously included on list	7		1		
Function currently under A-76 study	21				
Other reasons	7	16	1	2	
Responses to industry challenges					
Challenge does not meet FAIR Act challenge requirements	4	6	3	5	2
Function too integrated into military workload to be severed for contractor performance			5		
Other reasons	2		1	1	

Note: We categorized challenge decisions based on what appeared to be the primary basis(es) for the response.

^aThe component's responses to challenges often included more than one decision rationale.

^bDoes not include one challenge that had not been addressed by the Defense Logistics Agency as of July 18, 2000.

^cThis is Army criteria that is not applicable to the other components.

Source: Department of Defense Components and Office of the Under Secretary of Defense (Acquisitions, Technology and Logistics).

Our analysis of the Department's responses to the challenges indicates that the military services and Defense agencies considered the substantive issues raised. The responses addressed the major points of challenges that related to whether a function was erroneously included in or omitted from the inventory. In most instances, the services' and Defense agencies' responses explained a rationale for their decisions regardless of whether

they agreed or disagreed with the challenge. To increase the usefulness of the challenge process to interested parties, the Army provided selected responses to challenges on its Internet site.³ In the cases of two interested parties that raised questions about compliance and format with all of the services, the Department responded on behalf of all the components, detailing its interpretation of the FAIR Act's requirements.

³<http://www.asamra.army.pentagon.mil/fair>

Objectives, Scope, and Methodology

The Chairman, Military Readiness Subcommittee, House Committee on Armed Services, requested that we provide information on DOD's efforts to identify functions that could be studied for potential competition between the public and private sectors. Accordingly, this report assesses (1) whether DOD has improved the identification of commercial activities that could be studied under A-76 and (2) the likelihood that DOD will increase the number of functions and positions studied under A-76.

To assess whether DOD has improved the identification of commercial activities that could be subject to public and private competitions, we held discussions on the 1998 DRID 20 inventory process with representatives of the Under Secretaries of Defense for Acquisition, Technology and Logistics and for Personnel and Readiness and with commercial activities officials from the Army, the Air Force, the Navy, the Marine Corps, the Defense Logistics Agency, and the Defense Finance and Accounting Service. To obtain a command level of perspective on DRID 20 implementation, we visited three Army, two Air Force, and four Navy major commands with competitive sourcing and strategic sourcing programs to discuss the implementation of the 1998 DRID 20 inventory and their plans to use the results of the inventory. We obtained and analyzed summary data from the completed 1998 DRID 20 inventory. We discussed the problems encountered with the application of the codes and inconsistencies with DOD and component officials. We also reviewed DOD's December 1999 report on the 1998 DRID 20 inventory, including information on its implementation, and discussed the recommendations and proposed improvements to the inventory process with DOD officials. Further, we analyzed DOD's FAIR Act inventory of commercial positions, including the functions eligible for competition and exempted from competition by military services and Defense agencies. We discussed implementation of the FAIR Act with representatives of the Under Secretaries for Acquisition, Technology and Logistics and for Personnel and Readiness.

To assess the likelihood that DOD will increase the number of positions studied under A-76, we reviewed our previous work on DOD's competitive sourcing programs and conducted interviews with cognizant DOD and component officials. We also reviewed DOD's analysis of the DRID 20 process and discussed the prospects for increasing the numbers of A-76 studies conducted in the near future with DOD and component officials.

To provide information on challenges and appeals to DOD's FAIR Act inventory, we reviewed the FAIR Act legislation and OMB's guidance on implementing the legislation. We also discussed implementation of the

FAIR Act and its results with DOD and service representatives and obtained pertinent guidance from representatives of the Under Secretaries of Defense for Acquisition, Technology and Logistics and for Personnel and Readiness; officials from the military services; selected Army, Air Force, and Navy commands, as discussed earlier; and officials from the Office of Management and Budget. We obtained and analyzed the basis for the challenges and appeals as well as DOD responses to the challenges and appeals, and we discussed DOD's decisions with DOD and component officials. As of July 18, 2000, the Defense Logistics Agency had not completed its responses to one challenge and three appeals; therefore, these are not included in our analysis. We met with representatives of the American Federation of Government Employees, a federal employee union, and industry groups, including the Coalition for Outsourcing and Privatization and the Information Technology Association of America, to obtain their views on DOD's implementation of the FAIR Act and its processes for challenges and appeals.

We performed our review from July 1999 through June 2000 in accordance with generally accepted government auditing standards.

DOD's DRID 20 Inherently Governmental and Commercial Activities Inventory Codes

To help in identifying commercial activities performed in-house that would be studied for competitive sourcing, the Defense Reform Initiative Directive (DRID) 20 directed the military services and Defense agencies to (1) use uniform criteria and guidelines for categorizing positions based on function and type of manpower required and (2) include in the review all manpower reported in the fiscal year 1999 President's Budget and DOD Manpower Requirements Report. The Office of the Under Secretaries of Defense for Acquisition, Technology and Logistics and for Personnel and Readiness established a senior-level working group and an action officer-level team to develop the guidance, criteria, and codes for the inventory. The criteria and guidelines used in the 1998 DRID 20 inventory are described below.

Manpower Coding System

DOD's inventory guidelines and instructions provided codes that (1) specified the reason for whether a position should be military, civilian employees, or contractors (manpower criteria codes) and (2) identified the function performed (function codes). Building on prior practices, the Department graphically portrayed the manpower criteria codes that differentiate between work that must be performed by the military or civilian employees as well as what work could be performed by contract employees if that proved cost-effective. Core positions are essential to the components' national defense mission and should be performed by department employees, and noncore activities are those that were not associated with essential functions and that can be performed by contractors with acceptable levels of risk. This coding scheme also enabled DOD to group the positions as inherently governmental, commercial but exempt from competition, or commercial and eligible for competition. Figure 3 shows the codes in relationship to core and noncore positions.

**Appendix III
DOD's DRID 20 Inherently Governmental and
Commercial Activities Inventory Codes**

Figure 3: Manpower Criteria Codes

Manpower Criteria Codes		Type of DOD Manpower	
Inherently Governmental ^a	Commercial but Exempt from Competition ^a		
A Military Combat	B Military Combat Augmentation	Military Essential	Core Manpower
C Military Unique Knowledge and Skills	D Military Image and Esprit de Corps		
	E Military Rotation		
	F Military Career Progression		
G Civilian Authority and Direction	I Civilian National Security and Operational Risk	Civilian Essential	
H Civilian Expertise and Control			
	J EO, Law, Treaty, or International Agreement	Restricted	Non-Core Manpower
	L DOD Management Determination		
	K Legislatively Mandated Floors		
Commercial and Subject to Competition or Direct Conversion			
M Based on Cost Comparison		Not Restricted	
N Pending Contract Award			
O Pending Cost Comparison Results			
P Pending Restructuring Decision			
Q Based on Terminated Cost Comparison			
R Subject to Review			

^aGovernment performance is required.

Source: Department of Defense.

DOD used function codes to categorize activities by the type of work performed so that it could identify similar activities being performed by different components departmentwide. The codes identified both general functional groups and particular activities within the larger functional group. Each function code begins with a letter associating the activity with 1 of 13 functional groups, such as social services, health services, education and training, and installation services. Table 5 shows the number and percent of military and civilian positions in these functional groups.

**Appendix III
DOD's DRID 20 Inherently Governmental and
Commercial Activities Inventory Codes**

Table 5: 1998 DRID 20 Inventory by Functional Group

Functional group	Military and civilian authorizations	Percent
(Y) ^a Management headquarters and other selected centralized functions (includes combat activities)	1,935,770	66
(S) Installation services	198,012	7
(T) Other nonmanufacturing	192,079	7
(U) Education and training	136,257	5
(H) Health services	134,111	5
(J) Equipment maintenance	98,418	3
(K) Depot repair	67,430	2
(R) Research, development, test, and evaluation	65,465	2
(G) Social services	47,174	2
(Z) Maintenance and repair of real property	46,258	2
(W) Automated data processing	21,000	1
(P) Base maintenance	5,518	0
(X) In-house manufacturing	3,719	0
Total	2,951,211	100

^aAlpha characters represent the individual functional groups.

Source: Department of Defense.

Numeric codes further categorized the activities by their specific functions. For example, the code "H101" represents hospital care within the functional group of health services, "J 502" represents aircraft engine maintenance within the functional group of intermediate, direct, or general repair and maintenance of equipment, and "Y100" represents combat forces within the functional group of management headquarters and other selected centralized functions. These function codes were used to categorize activities in both the DRID 20 and FAIR Act inventories.¹

¹ Appendix II of OMB's Circular A-76 Supplemental Handbook, as revised in June 1999, contains a complete list of function codes.

Comments From the Department of Defense



ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

July 27, 2000

Mr. David R. Warren
Director
Defense Management Issues
National Security and International Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the GAO draft report, "DOD COMPETITIVE SOURCING: Efforts Needed to Increase Consistency in Identification of Commercial Positions," June 23, 2000, (GAO Code 709427/OSD Case 2039). Overall, the Department concurs with the draft report. However, we have provided detailed technical comments to Ms. Marilyn Wasleski of your staff for consideration in finalizing the report.

We concur with the recommendation made in the report which states that "the Secretary of Defense [should] increase consistency in identification of commercial activities among and between the services and Defense agencies by making decisions on whether certain non-mission activities, such as child care and public affairs, are to be considered eligible for competition." Considerable effort is underway to address such consistency issues. We have held weekly meetings over the past year to develop and document inventory data call instructions, including function code definitions which have never been developed before. These meetings have been an excellent starting point toward improving consistency in coding and have enabled the components to gain insight into each others coding strategies and philosophies, and in some instances have resulted in immediate adjustments to mistakes in coding.

We recognize that a well-grounded inventory process provides one of the best avenues for developing effective strategies to achieve efficiencies. Accordingly, as indicated in the Department's December 1999 "Report on the DRID 20 Inventory," we recognize the need to continue to improve our inventory process. However, completing the inventory is a large undertaking given that it consists of roughly twenty-five distinct component agencies comprising approximately three million positions. As a result, further improvements will have to be accomplished through an iterative process that will take some significant time. The Department will continue to press on with this effort.

The report also notes that it is "unclear whether DoD will increase the number of positions it studies in the near-future based on recent inventories." The Department considers the Competitive Sourcing and Strategic Sourcing programs as fundamentally "good government" programs. It is the intention of the Department to become as cost-efficient as possible. Currently, the Department is working with the Services and OMB to establish future year goals, perhaps related to the inventories annually updated to meet the FAIR Act requirements.

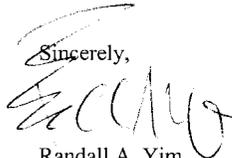


Appendix IV
Comments From the Department of Defense

The extent to which the Department will allow the Services and Defense Agencies to use Strategic Sourcing to help meet current and any future goals previously associated with the A-76 program is uncertain. Several key factors that will affect the extent of approval include: the reliability of savings projections; the level of detail provided as to which functional areas would be reviewed and the specific changes proposed in such area; the schedule for implementation; the availability of funding to implement the proposed changes; and the presence of an ongoing program for future years.

I appreciate the opportunity to comment on the draft report. If you have any questions about the technical corrections that have been provided directly to your office or our response to your recommendations, please contact my point of contact for this report, Mr. Paul Solomon at 703/602-3666.

Sincerely,



Randall A. Yim
Deputy Under Secretary
(Installations)

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