
April 1998

DEFENSE OUTSOURCING

Impact on Navy Sea-Shore Rotations



**National Security and
International Affairs Division**

B-279332

April 27, 1998

The Honorable Steve Buyer
The Honorable Owen Pickett
House of Representatives

This report responds to your request that we determine whether the Department of Defense's (DOD) outsourcing (contracting out) of commercial activities reduces the availability of rotational billets for active duty military personnel. Based on our initial inquiries, we found that problems regarding the impact of outsourcing on rotational assignments were principally occurring within the Navy. As a result of that information and as agreed with your offices, we focused our review on the Navy. This report addresses (1) how the Navy's current outsourcing efforts have affected rotational billets and (2) whether the Navy has policies and procedures in place to minimize the impact of outsourcing on rotational billets in the future.

Background

Outsourcing for commercial services is a growing practice within the government in an attempt to achieve cost savings, management efficiencies, and operating flexibility. Various studies in recent years have highlighted the potential for DOD to achieve significant savings from outsourcing competitions, especially those that involve commercial activities that are currently being performed by military personnel. Most of DOD's outsourcing competitions, like those of other government agencies, are to be conducted in accordance with policy guidance and implementation procedures provided in the Office of Management and Budget's (OMB) Circular A-76 and its supplemental handbook.

In August 1995, the Deputy Secretary of Defense directed the services to make outsourcing of support activities a priority. The Navy's initial outsourcing plans for fiscal years 1997 and 1998 indicated that it would conduct A-76 outsourcing competitions involving about 25,500 positions, including about 3,400 military billets. As of February 1998, however, the actual number of military billets announced for A-76 competitions in fiscal years 1997 and 1998 was changed to 2,100. Navy officials told us that when the Navy announces its intention to begin an A-76 study that includes military billets, the funding for those billets is eliminated from the military personnel budget beginning with the year the study is expected to be completed. The Navy's rationale for eliminating these billets from the budget is that it expects the functions to be either outsourced to the

private sector or retained in-house and performed by government civilians. Either way, the functions will be funded through the service's operations and maintenance budget and not the military personnel budget.

According to OMB's Circular A-76, certain functions should not be outsourced to the private sector. These functions include activities that are closely related to the exercise of national defense and DOD's war-fighting capability and must be performed by government personnel. DOD guidance designates that one such protected area is billets that are required to support rotational requirements for active duty enlisted military personnel returning from overseas assignments or sea duty. Rotational billets are generally defined as those positions that must remain available to military service members to (1) ensure that those returning from overseas assignments or sea duty have adequate rotation opportunities and (2) provide opportunities for the service members to continue to function within their areas of specialty for purposes of maintaining readiness, training, and required skills.

The Navy has identified the minimum number of such rotational billets required for enlisted personnel for each specific skill specialty and grade. Its sea-shore rotation goal is that sufficient shore billets be available for each skill specialty and grade level to provide an equal mix of sea duty and shore duty, that is, 3 years at sea for every 3 years on shore, for its enlisted personnel in grades E-5 through E-9. Because sea billets exceed shore billets, the Vice Chief of Naval Operations established a sea-shore rotation policy in December 1997 directing that the aggregate sea-shore rotation for enlisted personnel in grades E-5 through E-9 be no more than 4 years at sea for every 3 years on shore. Actual sea-shore rotations, however, depending on the skill specialty and grade level, have ranged from 3 to 5 years at sea for every 3 years on shore. As of February 1998, the total number of sea billets exceeded shore billets by more than 40,000. Consequently, with fewer shore billets available for rotation purposes, less time is being spent ashore than at sea.

For years, the Navy has been unable to attain its sea-shore rotation goal because of shortages of shore billets for some skills and the difficulty of duplicating some of the specific skill specialties on shore. Moreover, about 66 percent of the total enlisted billets for specific skill specialties (called ratings) for grades E-5 through E-9 required at sea aboard ships do not easily lend themselves to comparable shore duty, according to Navy officials. These types of billets, called sea ratings, include ratings such as

electronic technicians, machinist mates, and various aviation-related specialties.

To overcome the difficulty of providing comparable shore billets for all sea ratings, the Navy has had to use general duty shore billets for enlisted personnel that cannot be assigned to their specific rating on shore. General duty billets include such functions as security positions, recruiters, and other duties. Navy officials believe that using personnel in these billets is productive, but such positions should be limited because they can impact training, skill retention, and morale. According to these officials, personnel assigned to general duty billets are not receiving specific training and experience related to their sea-duty rating. Historically, the Navy has attempted to minimize the number of sailors in general duty billets. As of January 1998, the Navy had about 12,500 enlisted personnel working in general duty shore positions.

Results in Brief

Several Navy A-76 competitions announced for study in fiscal years 1997 and 1998 have the potential to eliminate military billets in areas where rotational shortages exist for personnel returning from sea duty. As a result, the Navy has decided not to begin some of these A-76 studies and plans to reinstate funding authorization for the military positions eliminated when the studies were announced. Other studies that will exacerbate rotational shortages are still scheduled to be implemented.

Until recently, the Navy had not developed specific policies and coordination procedures to protect rotational billets from outsourcing considerations. According to Navy officials, such policies and procedures were not needed prior to fiscal year 1997 because the Navy's outsourcing initiatives were limited and not centrally managed. In May 1997, Navy officials signed a memorandum of agreement specifying a coordination process between the Navy's headquarters infrastructure officials and military personnel representatives to ensure that consideration is given to rotation requirements when determining potential functions for outsourcing. This memorandum of agreement was further strengthened in September 1997 by a more detailed Navy-wide memorandum of agreement that applied to all major commands, which the Navy refers to as major claimants, for all infrastructure reductions, including outsourcing.

This coordination policy should prove important since the Navy's goal is to have completed A-76 competitions for 80,500 positions by the year 2002, including about 10,000 military billets. The Navy expects that its

outsourcing efforts will produce savings and accordingly has programmed expected savings of \$2.5 billion into its future years defense plan for fiscal years 2000 through 2003. The Navy has not identified the specific activities and locations that will be studied to achieve projected savings, but has tasked its major commands with recommending specific activities and locations for A-76 competitions to meet this savings goal. The Navy recently began a series of planning conferences involving appropriate officials from headquarters and major commands focusing on strategies for attaining its future years' outsourcing goals. However, given the Navy's plans for outsourcing competitions, ongoing coordination and improved planning between headquarters and major commands is needed to reach agreement on realistic goals and time frames. Improved planning and coordination could also identify areas most conducive to outsourcing, least likely to eliminate needed shore billets, and likely to yield the greatest savings. In addition, improved planning and coordination could minimize the elimination of required military shore billets, as well as avoid prematurely programming savings into future years' budgets.

Some Navy Outsourcing Studies Would Eliminate Military Billets Where Rotation Shortages Exist

As of August 1997, outsourcing studies announced by the Navy in fiscal years 1997 and 1998 included some military positions for which rotational shortages¹ existed based on the sea-shore rotation policy effective at that time. Of the total 740 Navy-wide military billets announced for study in 1998, 306 billets are for tug operations and maintenance functions that include ratings that have rotational shortages. These included 201 military billets in Norfolk, Virginia, 51 military billets in Pearl Harbor, Hawaii, and 54 military billets in Guam for tug operations and maintenance functions. (See table 1.)

¹The Navy's sea-shore rotation policy approved by the Vice Chief of Naval Operations in December 1997 designates a specific rating as having a rotational shortage only when the aggregate sea-shore rotation is more than 4 years at sea for every 3 years on shore. Our use of the term shortages in this report is intended to reflect what the Navy previously considered as an insufficient number of shore billets available within a specific rating based on the Navy's sea-shore rotation analysis prepared in August 1997. We recognize that under the Navy's recent policy guidance the shortage is not viewed negatively by the Navy unless it causes rotations to exceed 5 years at sea for every 3 years on shore.

Table 1: Tug Operations and Maintenance Functions Announced for A-76 Competitions That Have Rotational Shortages

Function	Location	Number of military billets	Affected ratings that have rotational shortages
Tug operations and maintenance	Norfolk	201	Boatswain's mate, ^a hull maintenance technician, and machinery repairman
Tug operations and maintenance	Pearl Harbor	51	Boatswain's mate, engineman, and electrician's mate
Tug operations and maintenance	Guam	54	Boatswain's mate, damage controlman, electrician's mate, engineman, and interior communications electrician
Total		306	

^aBoatswain's mates are responsible for maintaining machinery and equipment on ships' decks, handling cargo, operating small boats, and maintaining the exterior surfaces of ships.

We also identified other shore functions that have been announced for potential outsourcing that some Navy officials expect will create or contribute to existing shortages of rotational billets. In fiscal year 1997, the Navy announced plans to study 216 military billets for base operations support functions in Guam for ratings that have rotational shortages. In January 1998, the Navy announced plans to perform A-76 studies for bachelor officer quarters (BOQ) and bachelor enlisted quarters (BEQ) functions of military billets that have rotational shortages. (See table 2.)

Table 2: Other Navy Functions Announced for A-76 Studies That Have Rotational Shortages

Function	Location	Number of military billets	Affected ratings that have rotational shortages
Base operations support	Guam	216	Aviation ordnance, boatswain's mate, builder, damage controlman, gas turbine system technician, and mess specialist
BOQ/BEQ	Lemoore	10	Mess specialist
Total		226	

As of August 1997, data showed that these outsourcing initiatives would further reduce the rotation base for specific ratings and would add to existing rotational shortages. Navy officials told us that the decisions to study these functions for potential outsourcing were made before the Navy had developed servicewide and regional data needed to identify the impact on sea-shore rotations and, as a result, they were unaware of the potential impact. In commenting on a draft of this report, DOD added that, even though the Navy's decision to study these functions was made before today's stringent procedures were in place, the Navy concluded after the

decision was made that the impact on sea-shore rotation and career progression would be acceptable.

Navy officials at the affected installations stated that the Navy's decision to study these functions for potential outsourcing will seriously affect sea-shore rotation, resulting in the elimination of military billets and fewer opportunities available on shore for enlisted personnel grades E-5 through E-9. Other Navy officials expressed similar concerns and the view that these outsourcing initiatives could result in less flexibility for the Navy and impair career progression and morale for its enlisted servicemembers.

Plans for Some Navy Studies Canceled Due to the Impact on Sea-Shore Rotation

In fiscal year 1997, the Commander in Chief, Atlantic Fleet, canceled outsourcing study plans for about 240 military billets in the BOQ and BEQ functions because of Navy-wide rotational shortages for mess specialists and the related impact on sea-shore rotation. Similarly, in fiscal year 1998, the Commander in Chief, Pacific Fleet, canceled plans to begin A-76 studies involving about 63 military billets in these functions for the same reason. Although the funding for these billets had been deleted from the 1999 budget, both commands are planning to reinstate funding authorization by reprogramming existing resources. The Navy also canceled an A-76 study of the BOQ and BEQ functions at the Naval Security Station, Washington, because Navy officials had determined that outsourcing these functions would have further degraded sea-shore rotation.

The Navy does not intend to cancel its plans to begin the A-76 studies announced for tug operations and maintenance involving 306 military billets or the base operations support at Guam even though the shore billets that will be eliminated will further impact the sea-shore rotation base. According to Navy officials, the decision to study for outsourcing the tug operations and maintenance function was initially based on the fact that the Navy's tug boats were old and costly to maintain and would eventually have to be replaced if the tug operations and maintenance were not outsourced. Navy officials stated that several options will be considered to accommodate the impact on sea-shore rotation, such as reclassifying the shore billets to a related billet, general duty billet, or increasing the number of shore billets for those ratings in other locations.

New Outsourcing Coordination Efforts Will Be Instrumental in Making Decisions on Future Studies

Until May 1997, the Navy did not have procedures in place to ensure that rotational requirements were adequately considered when it determined potential functions for outsourcing study. At that time, the Navy adopted policies and procedures to examine Navy-wide and regional effects of its outsourcing plans on the sea-shore rotation base. Specifically, a memorandum of agreement was established specifying the coordination process between the Navy's headquarters infrastructure officials and the military personnel officials regarding the procedures for studying military functions for potential outsourcing. This memorandum of agreement was further strengthened in September 1997 by a more detailed Navy-wide memorandum of agreement that applied to all major commands for all infrastructure reductions, including outsourcing. Also, in August 1997, the Navy's Bureau of Personnel provided major commands and other officials with Navy-wide and regional manpower data tools specifying the rotational requirements for each specific rating. Outsourcing officials are expected to use this information to assess rotational requirements of specific ratings for grades E-5 through E-9 when identifying potential candidates for outsourcing. If a rotational shortage is identified, the specific rating is not recommended for outsourcing to avoid further degradation of the sea-shore rotation base.

In December 1997, the Vice Chief of Naval Operations approved a set of business rules to further strengthen the policies and procedures for protecting military billets with rotational shortages from potential outsourcing. These business rules require that the overall sea-shore rotation for sea ratings will not exceed 4 years at sea for every 3 years on shore and that the sea-shore rotation for individual ratings will not exceed 5 years at sea for every 3 years on shore. The Vice Chief of Naval Operations directed that these business rules be followed for all infrastructure reductions, including outsourcing. Moreover, Navy infrastructure officials and military manpower officials told us that they are continuing to work closely regarding outsourcing goals and sea-shore rotation requirements as the Navy moves to identify potential outsourcing candidates and meet its outsourcing study and savings goals.

Future Outsourcing Goals Reinforce Need for Strategic Planning

Between fiscal years 1997 and 2002, the Navy plans to study 80,500 civilian and military positions for potential outsourcing at an estimated savings of \$2.5 billion. The Navy estimates that about 10,000 of these positions will be military billets and the remaining 70,500 will be positions currently occupied by civilians. (See table 3.)

Table 3: Navy Outsourcing Study Goals by Fiscal Year

(Numbers reflect positions)						
	1997	1998	1999	2000	2001	Total
Military	1,400	2,000	2,300	2,200	2,100	10,000
Civilian	9,100	13,000	17,700	17,800	12,900	70,500
Total	10,500	15,000	20,000	20,000	15,000	80,500

Because the funding for the Navy's military billets is eliminated from the personnel budget when the billets are announced for study, the funding for all military billets approved for competition will be deleted from the Navy's personnel budget by the year 2003. To eliminate the 10,000 military billets from the military personnel budget by the year 2003, the Navy's objective has been to announce about 2,000 military billets for study each year for 5 years beginning in fiscal year 1997. In fiscal year 1997, the Navy announced plans to study about 1,400 military billets for potential outsourcing. It appears likely, however, that the Navy will fall short of its goal for fiscal year 1998.

As of January 1998, the Navy had announced plans to study 740 military billets and 6,678 civilian positions for fiscal year 1998. Navy officials told us in February 1998 they will announce additional A-76 studies in fiscal year 1998, but did not know the specific activities that would be studied or the number of billets that would be affected. As of February 1998, the Navy was attempting to identify potential functions and billets for outsourcing in subsequent fiscal years, but it had not determined the specific number of military billets or civilian positions that will be announced for study in those years. Some Navy officials have expressed concern over whether they will be able to attain the overall goal of studying 10,000 military billets by the year 2003. In addition, some Navy base commanders are concerned that outsourcing decisions affecting their installations may be made without their input.

Despite these concerns, the Navy has programmed estimated savings of \$2.5 billion from outsourcing into its future years defense plan, increasing the pressure to identify candidates for outsourcing studies. The Navy has established an ambitious goal for itself in terms of number of positions it plans to study for potential outsourcing under A-76. At the same time, the Navy is relying on its major commands to identify the functions to study to meet these programmed budget savings. Navy officials stated that they began a series of planning conferences in September 1997 involving appropriate officials from Navy headquarters and major commands. According to these officials, one of the primary objectives of the planning

conferences is to begin discussing a strategic plan for accomplishing the outsourcing goals for fiscal years 1999 through 2001. While we believe that a strategic plan is necessary to achieve the Navy's outsourcing goals, ongoing coordination and improved planning between headquarters and the major commands will be required to reach agreement on realistic goals and time frames and to identify areas most conducive to outsourcing and likely to yield the greatest savings. In addition, improved planning and coordination could minimize the elimination of required military shore billets, as well as avoid prematurely programming savings into future years' budgets. Navy officials stated that, in addition to the recent planning conferences, it plans to address the larger issue of how the Navy conducts its business and possible alternatives for meeting Navy-wide personnel levels and requirements.

Conclusions

The Navy established ambitious goals for studying military and civilian personnel positions for potential outsourcing under A-76 competitions. Only as it began initiating the plans for some of these studies involving military personnel positions did it find that outsourcing some of these positions could affect positions reserved for sea-shore rotational requirements—a situation that caused the Navy to withdraw some of its planned outsourcing initiatives. The Navy has recently established policies and procedures to ensure that sea-shore rotation requirements are reviewed and considered when identifying potential functions for outsourcing. While the Navy has recently begun to focus on strategies for attaining its outsourcing goals for future years, improved planning and coordination between headquarters and major commands are needed to reach agreement on realistic goals and time frames. Improved planning and coordination could also identify areas most conducive to outsourcing, least likely to eliminate needed shore billets, and likely to yield the greatest savings. In addition, improved planning and coordination could minimize the elimination of required military shore billets, as well as avoid prematurely programming savings into future years' budgets.

Recommendation

To enhance the likelihood that plans for outsourcing are reasonable and achievable, we recommend that the Secretary of Defense take steps to ensure that the Secretary of the Navy, as it develops its strategic plan, involves the major commands to reach agreement on realistic goals and time frames, and identify areas most conducive to outsourcing. Likewise, we recommend that the Secretary of Defense periodically reassess

whether outsourcing savings targets that are used in planning for future years budgets are achievable in the time frames planned.

Agency Comments and Our Evaluation

In commenting on a draft of this report, DOD concurred with our conclusions and recommendation (see app. II). DOD provided a number of comments addressing how the Navy has taken significant steps to implement policies and coordination procedures to protect rotational billets from outsourcing considerations and to involve the major commands in the strategic planning process for attaining its future years' outsourcing goals. DOD noted, and we concur, that a number of studies included in the Navy's initial outsourcing announcement were canceled because a subsequent review revealed that they were not appropriate competition candidates. Since then, DOD notes that the Navy has made progress to widen the scope of its outsourcing program and to involve all claimants (major commands) in the planning process. DOD indicated that the canceled outsourcing studies cited in our report were not representative of the Navy's competitive outsourcing program as it exists today. The Navy is currently implementing a number of initiatives to improve strategic planning that should enable them to identify areas most conducive to outsourcing, without exacerbating shortages of rotational billets.

DOD also stated that the Navy's current outsourcing policies and procedures require that no function employing military personnel will be announced for potential outsourcing until the Navy's Manpower Office determines that outsourcing the function will not have an adverse affect. DOD stated that these activities demonstrate the Navy's commitment to work with its major commands, and therefore, additional direction from the Secretary of Defense is unnecessary.

We agree that the Navy has begun some important actions toward developing a strategic plan and including its major commands in that process. However, the Navy has not completed its plan as of April 1998. At the same time, our report points out that it appears likely the Navy will fall short of its goal for new outsourcing studies in fiscal year 1998, and some Navy officials expressed concern to us over whether they will be able to attain the optimistic goal of studying 10,000 military billets by the year 2003 and save \$2.5 billion from outsourcing in its future years defense plan. This goal adds pressure on the claimants to emphasize outsourcing, and accordingly, we believe it will remain critical for the Navy to continue to work with its major commands to complete the development of its

plans for accomplishing these objectives. Likewise, we believe it is important to periodically reassess the extent to which savings goals and objectives are achievable and whether savings targets established for out-year budget purposes might need to be revised. In view of this, we have revised our recommendation to recommend that the Secretary of Defense ensure that the Secretary of the Navy, as it develops its strategic plan involves the major commands to reach agreement on realistic goals and time frames, and identify areas most conducive to outsourcing. We have also added a recommendation that the Secretary of Defense periodically reassess whether outsourcing savings targets that are used in planning for future years budgets are achievable in the time frames planned.

Our scope and methodology are discussed in appendix I. DOD's comments are reprinted in appendix II.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committees on Armed Services and on Appropriations and the House Committees on National Security and on Appropriations; the Director, Office of Management and Budget; and the Secretaries of the Army, the Navy, and the Air Force. Copies will also be made available to others upon request.

Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix III.



David R. Warren, Director
Defense Management Issues

Contents

Letter	1
Appendix I Scope and Methodology	14
Appendix II Comments From the Department of Defense	16
Appendix II Major Contributors to This Report	20
Tables	
Table 1: Tug Operations and Maintenance Functions Announced for A-76 Competitions That Have Rotational Shortages	5
Table 2: Other Navy Functions Announced for A-76 Studies That Have Rotational Shortages	5
Table 3: Navy Outsourcing Study Goals by Fiscal Year	8

Abbreviations

BEQ	bachelor enlisted quarters
BOQ	bachelor officers quarters
DOD	Department of Defense
OMB	Office of Management and Budget

Scope and Methodology

Neither the Army nor the Air Force have experienced problems similar to the Navy in making outsourcing decisions, primarily because of mission differences. The Army's and Air Force's policies for protecting rotational billets are designed to ensure a proper balance between the numbers and types of billets located overseas and in the continental United States. The types of rotational billets that the Army and Air Force need to protect from outsourcing are generally in highly technical areas that would not normally be appropriate for outsourcing. Moreover, both services rely, to varying extent, on contractor personnel to perform base support type functions. The Navy, on the other hand, operates forward-deployed forces from its ships and requires military personnel to perform virtually all of its support services that might be done by civilians were the Navy operating from land bases. Therefore, the focus of the review was on the Navy.

We met with officials from the Office of the Secretary of Defense, the Army, the Air Force, and the Navy regarding their policies for considering rotational and career development requirements in outsourcing decisions. We obtained policies related to outsourcing and rotational billets, memorandums of agreements, and procedures for identifying A-76 study candidates. We also met with officials from the Army Training and Doctrine Command at Fort Monroe, Virginia; the Air Force Air Combat Command at Langley Air Force Base, Virginia; and the Navy Commander in Chief, Atlantic Fleet in Norfolk, Virginia; to discuss their policies and procedures for identifying and protecting rotational billets from outsourcing considerations. We obtained documentation regarding current and planned A-76 studies, and A-76 study plans that were eliminated because of the impact on rotational requirements. We obtained information pertaining to outsourcing and rotational billets from the Navy Commander in Chief, Pacific Fleet at Pearl Harbor, Hawaii, and met with various Navy Base commanders in the Norfolk, Virginia, area to obtain their perspective on contracting out of functions historically performed by enlisted personnel.

We reviewed the outsourcing initiatives and the impact of these initiatives on rotational billets in the Army, Air Force, and Navy. However, we focused the majority of our work on the Navy's outsourcing initiatives and the potential impact of those initiatives on sea-shore rotation.

We compared the database of Navy-wide and regional data on the rotational requirements for each specific rating for grades E-5 through E-9 to the Navy's outsourcing initiatives. We did not independently validate the

Appendix I
Scope and Methodology

mathematical models the services used to identify rotational requirements or the criteria they used in building these models.

We conducted our review from September 1997 to April 1998 in accordance with generally accepted government auditing standards.

Comments From the Department of Defense



PERSONNEL AND
READINESS

OFFICE OF THE UNDER SECRETARY OF DEFENSE
4000 DEFENSE PENTAGON
WASHINGTON, D. C. 20301-4000

6 APR 1998



Mr. David R. Warren
Director, Defense Management Issues
National Security and International Affairs Division
Washington, DC 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) draft report, "Defense Outsourcing: Impact on the Navy Sea-Shore Rotations," dated March 4, 1998 (GAO Code 709291/OSD Case 1559). The Department *concurrs with comment* to the recommendation.

As stated in the GAO report, various studies in recent years have highlighted the potential for DoD to achieve significant savings from outsourcing competitions, especially those that involve commercial activities that are currently being performed by military personnel. The Department recognizes that the Navy's ongoing efforts to develop a strategic plan for accomplishing outsourcing goals and identifying areas most conducive to outsourcing should be worked in conjunction with the major commands. Our comments address how the Navy has taken significant steps to implement policies and coordination procedures to protect rotational billets from outsourcing considerations and to involve the major commands in the strategic planning process for attaining its future years' outsourcing goals.

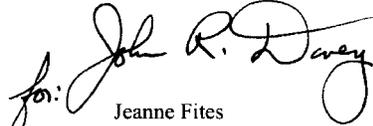
Our comments also address the draft GAO findings concerning the early outsourcing studies that were cancelled and the two examples of outsourcing studies cited in the report. In general, the Department believes that the examples cited in the report do not represent the Navy's competitive sourcing program as it exists today. With regard to the cancelled studies, significant progress has been made by the Navy to strengthen their outsourcing program and to involve all claimants (major commands) in the planning and the decision process. Presently, no functions involving military personnel are announced as candidates until the Navy's OPNAV Manpower Staff determines that outsourcing the function will not have an adverse affect on manpower.



Appendix II
Comments From the Department of Defense

Detailed Departmental comments on the draft report recommendations are enclosed. Our technical corrections were provided directly to the GAO for consideration. The Department appreciates the opportunity to comment on the GAO draft report.

Sincerely,


for: Jeanne Fites
Deputy Under Secretary of Defense
Program Integration

Enclosure:
As stated

GAO DRAFT REPORT – DATED MARCH 4, 1998
(CODE 709291/OSD CASE 1559)

DEFENSE OUTSOURCING: IMPACT ON NAVY SEA-SHORE ROTATIONS

DEPARTMENT OF DEFENSE COMMENTS

RECOMMENDATION: To enhance the likelihood that plans for outsourcing are reasonable and achievable, the GAO recommended that the Secretary of Defense direct the Secretary of the Navy, that as it develops a strategic plan, it should work in conjunction with the major commands to reach agreement on realistic goals and time frames, and identify areas most conducive to outsourcing, without exacerbating shortages of rotational billets. (P. 13/GAO Draft Report)

DoD RESPONSE: Concur with comment.

The DoD agrees that the Navy's ongoing efforts to develop a strategic plan for accomplishing outsourcing goals and identifying areas most conducive to outsourcing should be worked in conjunction with the major commands.

While it is true that, until recently, the Navy had not developed specific policies and coordination procedures to protect rotational billets, the draft GAO report recognized that such policies and procedures were not needed prior to FY1997 because the Navy's outsourcing initiatives were limited. By December 1996, the Navy established the Outsourcing and Privatization Programs Office; and, by May 1997, the Navy adopted policies and procedures to examine Navy-wide and regional effects of its outsourcing plans on the sea-shore rotation base. Specifically, the May 1997 Memorandum of Agreement (MOA) coordinated procedures between the Navy's manpower and Outsourcing/Privatization staffs for outsourcing military functions.

As indicated in the draft GAO report, the May 1997 MOA was further strengthened in September 1997 by a more detailed Navy-wide MOA that fully coordinated Navy outsourcing efforts with the Operations and Resources OPNAV Staff, Chief of Naval Education and Training, and the Fleet CINCs. Also, in September 1997, the Navy's Bureau of Personnel provided the major commands and other officials with Navy-wide and regional manpower data tools specifying the rotational requirements for each specific rating. As a result, the Navy's major commands are able to actively participate in the planning process.

Most recently, the Navy has been involved in a DoD Reform Initiative Directive (DRID) which requires the DoD Components to conduct an inventory of positions and functions that are inherently governmental in nature, exempt from competition, and eligible for competition. The procedures for conducting this inventory have been expanded from those required for previous inventories to include new functions and reason codes. One of the codes specifically identifies "Military Rotation" requirements (to include overseas and sea-shore rotation). Once properly identified and coded, military rotation billets can be properly protected from outsourcing actions.

Also, as stated in the GAO report, the Navy began a series of planning conferences in September 1997 to develop a strategic plan that included appropriate officials from Navy headquarters and major commands. These meetings are still underway and continue to involve the major commands as well as Navy headquarters and CNA representatives. This effort, coupled with the DRID, should enable the Navy to identify areas most conducive to outsourcing, without exacerbating shortages of rotational billets. Furthermore, these activities demonstrate the Navy's

Now on pp. 9 and 10.

Appendix II
Comments From the Department of Defense

commitment to work with their major commands. As a result, the Department believes that additional direction from the Secretary of Defense is not necessary.

With respect to the draft GAO findings concerning early outsourcing studies, the Department would like to offer the following comments. It is true that a number of studies included in the initial (January 1997) outsourcing announcement were canceled because a subsequent review revealed they were not appropriate competition candidates. However, these studies were canceled shortly after the announcement went out and neither money nor time was committed or wasted on any of the canceled studies. As indicated above, significant progress has been made to widen the scope of the outsourcing program and to involve all claimants (major commands) in the planning and the decision process. Current Navy policy requires that lower echelon activities within the major commands initiate the process for selecting activities to competitively source by offering candidates for competition. Additionally, no functions involving military personnel are announced as candidates until the Navy's OPNAV Manpower Office determines that outsourcing the function will not have an adverse effect on the manpower.

The Department believes that the two examples cited by GAO in their study do not accurately represent the competitive sourcing program as it exists today. The Yard Tugboat Services was a competition started before the Outsourcing and Privatization Program existed. Although not congressionally mandated, the Navy was strongly encouraged to evaluate the potential for privatization and seek long-term contracts for yard tugboat services with private firms based on the language included in the report accompanying the National Defense Authorization Act for Fiscal Year 1996 by the House National Security Committee. Both CINCLANTFLT and CINCPACFLT conducted the study and their recommendation was analyzed for Navy-wide macro level impact by the OPNAV Manpower Staff. Although their review did not follow the more stringent procedures in place today, the Navy concluded that the impact on sea-shore rotation and career progression are acceptable.

The A-76 study to competitively source the military base operations support (BOS) functions in Guam was a product of the initial (January 1997) outsourcing announcement. As explained earlier, this was the Navy's first major attempt to competitively source commercial functions. As pointed out in the GAO report, even though the decisions to competitively source these functions did not follow the procedures in place today, the impact on sea-shore rotation did not exceed the Vice Chief of Naval Operations (VCNO) sea-shore rotation limit. Furthermore, the Guam BOS billets were shore overseas billets that are always more expensive than shore billets on the United States mainland and that entail more disruptions for military personnel to fill. For these reasons, the Navy has made reducing nonessential overseas billets such as those identified in Guam as one of its manpower management goals.

Finally, the Department has concern with the misuse of the term "rotational shortages." In their report, the GAO implies that the elimination of certain shore billets would result in a situation where a sufficient number of shore billets would not be available for those military rotating from sea to go to shore. The GAO correctly states that the Navy's rotation policy directs that the *aggregate* sea-shore rotation for enlisted personnel in grades E-5 through E-9 not exceed 4/3 (four years at sea for every three years on shore). However, the OPNAV Manpower Staff does not designate a particular rating as having a "shortage" unless its sea-shore rotation exceeds the 5/3 limits (five years at sea per three years ashore) set by the VCNO "Business Rules."

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Barry W. Holman, Associate Director
Nomi R. Taslitt, Assistant Director
Thomas J. Howard, Assistant Director

Norfolk Field Office

David A. Schmitt, Evaluator-in-Charge
Sandra D. Epps, Site Senior
Tracy Whitaker Banks, Evaluator

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