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United States General Accounting Office  
Washington, DC 20548

April 2, 2004

The Honorable Donald H. Rumsfeld  
The Secretary of Defense

Subject: *Defense Management: Continuing Questionable Reliance on Commercial Contracts to Demilitarize Excess Ammunition When Unused, Environmentally Friendly Capacity Exists at Government Facilities*

Dear Mr. Secretary:

In April 2001, we reported that the Army Materiel Command's guidance required that 50 percent of the excess conventional ammunition demilitarization budget—a figure for which we did not find any analytical basis—be set aside for commercial firms that use environmentally friendly demilitarization processes. This resulted in the retention and underutilization of environmentally friendly demilitarization capabilities at government facilities and in additional program costs.<sup>1</sup> We thus recommended that the Department of Defense (DOD) develop a plan in consultation with Congress that included procedures for assessing the appropriate mix of government and commercial sector capacity needed to demilitarize excess ammunition. Our intent was to have DOD reexamine the cost-effectiveness of using commercial versus government facilities to demilitarize excess ammunition. Over the past several months we have conducted work to determine the specific actions taken to implement our recommendation. We made extensive use of our prior work as a baseline to compare the changes in demilitarization capacity and utilization at government-owned facilities since our prior report. We conducted our analysis of DOD's demilitarization program in accordance with generally accepted government auditing standards. The purpose of this letter is to bring to your attention that (1) the Army has taken only limited steps in response to our recommendation and (2) additional actions are needed to address our recommendation.

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<sup>1</sup> U.S. General Accounting Office, *Defense Inventory: Steps the Army Can Take to Improve the Management and Oversight of Excess Ammunition*, GAO-01-372 (Washington, D.C.: Apr. 12, 2001). As described in the report, the Army defines demilitarization as the act of removing the military offensive or defensive characteristics from munitions or otherwise rendering munitions innocuous or ineffectual for military use. Demilitarization includes, but is not limited to, processes involving resource recovery, recycling, reutilization, disassembly, conversion, melt out/steam out/wash out, incineration, open burning, and open detonation, to name a few.

## Results in Brief

The Army continues to set aside 50 percent of the demilitarization budget to commercial firms, resulting in program inefficiencies and additional costs. In commenting on our recommendation in the April 2001 report, DOD stated that the Army was preparing a study for Congress, due September 30, 2001, that could be used to address the mix of government and commercial sector capacity needed to demilitarize excess ammunition.<sup>2</sup> The Army study concluded that, based upon its analysis of different commercial/government facility mixes, more ammunition could be demilitarized through greater reliance on existing environmentally friendly processes available at government-owned facilities. Nonetheless, the excess ammunition demilitarization program is still operated on Army Materiel Command guidance that requires a 50/50 split of funding between government and commercial demilitarization projects. This predetermined funding allocation, combined with increased government facility capacity to demilitarize excess ammunition and paying a commercial firm to have ammunition demilitarized by government employees, exacerbates the costs and related inefficiencies to operate the program.

Based on our follow-up efforts and analysis, this letter includes recommendations for executive action to enable the Army to operate a more efficient program and be better able to assess the demilitarization capacity needed at its government facilities. In commenting on a draft of the letter, DOD concurred with our recommendations and identified steps that it is taking to implement them.

## Background

The Secretary of the Army is the designated single manager of conventional ammunition for the Department of Defense. Under that umbrella, the Product Manager for Demilitarization is responsible for managing the demilitarization of conventional munitions for all of the military services.<sup>3</sup> Demilitarization of conventional munitions takes place at government ammunition depots, plants, and centers—operated by the Joint Munitions Command, a subordinate command of the Army Materiel Command—and at contracted commercial firms.<sup>4</sup> With the end of the Cold War, the services' need for conventional ammunition was significantly reduced, and by 1993 the Army reported a backlog of excess ammunition awaiting demilitarization that amounted to 354,000 tons, an amount that has since increased to about 381,000 tons at the end of fiscal year 2003. To address this backlog, the Product Manager for Demilitarization's strategic plan includes a goal to reduce,

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<sup>2</sup> *Joint Ordnance Commanders Group Munitions Demil/Disposal Subgroup Closed Disposal Technology Study* (McAlester, Okla.: Sept. 2001). The study was in response to H.R. 106-754, directing the Army to prepare a report on the feasibility of replacing open burning and detontating processes with closed disposal technologies.

<sup>3</sup> The Product Manager for Demilitarization is a management office of the Army Acquisition Corps and chartered by the Army Acquisition Executive (the Assistant Secretary of the Army for Acquisition, Logistics & Technology). The Product Manager for Demilitarization is under the Office of the Project Manager for Joint Services reporting to the Program Executive Officer for Ammunition. The Secretary of the Army is the DOD-designated Single Manager for Conventional Ammunition and the Program Executive Officer for Ammunition, as designated by the Secretary of the Army, acts as the single manager for conventional ammunition executor.

<sup>4</sup> Until December 2002, the Commander, U.S. Army Materiel Command, as designated by the Secretary of the Army, acted as the single manager for conventional ammunition for DOD.

through reasonable measures, the stockpile of excess conventional ammunition to 100,000 tons and 30,000 missiles in future years—considered a manageable level because higher quantities of excess ammunition are believed to impede access to needed ammunition and hinder the Army’s ability to effectively support contingency operations.

In April 2001, we reported that the Army Materiel Command had previously issued guidance requiring that at least 50 percent of the excess conventional ammunition demilitarization budget be set aside for commercial firms that use resource, recovery, and recycling processes.<sup>5</sup> While this guidance came about as a result of a request by the Chairman of the Senate Appropriations Subcommittee on Defense for DOD to look to commercial firms for environmentally friendly processes that could be used to help demilitarize excess ammunition, the Army Materiel Command initiated and expanded this effort without considering the impact on government facilities that have similar environmentally friendly demilitarization processes. Our report showed that the increased use of commercial firms to perform demilitarization resulted in the retention and underutilization of the more environmentally friendly resource, recovery, and recycling capabilities at government facilities. In fiscal year 2001, the government facilities were projected to operate at only 20 percent of their overall resource, recovery, and recycling demilitarization capacity. We also reported that additional costs were being incurred when a commercial firm undertook ammunition demilitarization for the Army, then contracted a portion of the work to three government facilities. The Army could have demilitarized the ammunition for less had it overseen the work itself.

Our report stressed the need for a greater emphasis on cost-effectiveness and efficiency in deciding the appropriate mix of government and commercial demilitarization capacities instead of setting aside a predetermined 50 percent of the demilitarization budget for commercial firms—a percentage for which we did not find any analytical basis. In response to our concern, DOD stated that the Army was already preparing a study for Congress that addressed the feasibility of replacing open burning and open detonation with closed disposal technologies, and that this report, due September 30, 2001, could also be used to address the mix of government/commercial sector capacity needed to demilitarize excess ammunition.<sup>6</sup>

The Army’s *Closed Disposal Technology Study* used a computer-modeling input-output tool that integrates operating costs, capacity, and other variables in the demilitarization program to produce an optimal long-range demilitarization plan to help determine the government/contractor mix for its demilitarization program.<sup>7</sup> The

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<sup>5</sup> GAO-01-372.

<sup>6</sup> Joint Ordnance Commanders Group Munitions Demil/Disposal Subgroup, *Closed Disposal Technology Study* (McAlester, Okla.: Sept. 2001). HouseReport106-754 directed the study. H.R. Conf. Rep. No. 106-754, at 99 (2000). On September 27, 2001, the study was sent to the Chairman and Ranking Member of the Senate Appropriations Subcommittee on Defense; the Chairman and Ranking Member of the Senate Committee on Armed Services; the Chairman and Ranking Member of the House Appropriations Subcommittee on Defense; and the Chairman and Ranking Member of the House Committee on Armed Services.

<sup>7</sup> We did not assess the reliability of the model or validate the results; however, we did interview agency officials knowledgeable about the model and its data and we did take steps to confirm that the model results appeared to be consistent. Additional details are provided in the scope and methodology section.

study considered three options. Option 1 represented the current practice of allocating a predetermined 50 percent of the demilitarization funding to commercial firms; option 2 eliminated commercial firms from consideration; and option 3 had no predetermined funding allocation between commercial firms and government facilities. All three options required a minimum 65 percent utilization of environmentally friendly resource, recovery, and recycling processes.

According to the Army study, option 1 resulted in the greatest overall cost per ton over the 10-year period. Option 2 resulted in the lowest overall cost per ton; however, this was not considered a viable option because government facilities do not have resource, recovery, and recycling processes to demilitarize some types of ammunition. Under option 3, which was not constrained by a predetermined funding percentage assigned to commercial firms and government facilities, the study analysis identified a more cost-effective option than currently being pursued. The Army's model projected that the Army could more effectively use about \$70.8 million in planned funding and demilitarize an additional 4,001 tons of ammunition during fiscal years 2002 through 2011 compared to the current practice of allocating 50 percent of the demilitarization funding to commercial firms (see table 1). Under this option, over a 10-year period 29 percent of the demilitarization budget would go to commercial firms and 71 percent would go to government facilities, including use of the government's own environmentally friendly processes.

**Table 1: Army Study Results Comparing Costs and Tons of Excess Ammunition Demilitarized by Devoting 50 Percent and 29 Percent of the Demilitarization Budget to Commercial Firms, Aggregate for Fiscal Years 2002-11**

<b>Study results</b>	<b>50 percent commercial firms</b>	<b>29 percent commercial firms</b>	<b>Potential cost savings and additional tons demilitarized</b>
Costs	\$890.7M	\$819.9M	\$70.8M
Total tons demilitarized	752,993	756,994	4,001
Average cost per ton	\$1,182.87	\$1,083.08	\$99.79

Source: GAO analysis of *Closed Disposal Technology Study*.

The Army study concluded that, based upon its analysis, the demilitarization program should not assign a predetermined funding percentage to commercial firms and government facilities.

Army Practice Remains Unchanged, Resulting in Inefficiencies and Additional Costs

Despite the results of the *Closed Disposal Technology Study*, the Army continues to set aside 50 percent of the demilitarization budget to commercial firms, resulting in program inefficiencies and additional costs. According to the Product Manager for

Demilitarization, the demilitarization program is still operated on guidance received from the Army Materiel Command that requires a 50/50 split of funding between government and commercial demilitarization projects. Moreover, since 2001, government facilities have increased their capacity to demilitarize excess ammunition using resource, recovery, and recycling processes from about 81,100 tons per year to about 156,600 tons per year, which has further exacerbated the inefficiencies associated with the existence of excess capacities in government facilities. This excess is further compounded by the realization that the maximum amount of excess ammunition that the Army can demilitarize using the resource, recovery, and recycling methods is limited to 170,946 tons out of the 381,000 tons in the stockpile.

The increased government capacity and continued use of commercial firms to demilitarize excess ammunition at the same time the government facilities have existing excess capacity continues to raise questions about the appropriate mix of government and commercial sector capacity needed to demilitarize excess ammunition and the cost efficiency of the demilitarization program. Specifically, based on the current practice of setting aside 50 percent of the demilitarization budget for commercial demilitarization, we estimate that government facilities will operate at only 6 percent of their overall environmentally friendly demilitarization capacity to recover and reuse 156,600 tons of excess ammunition in fiscal year 2004 (see table 2).

**Table 2: Government Facility Recovery and Reuse Demilitarization Capacity and Planned Use in Fiscal Year 2004**

<b>Location</b>	<b>Recovery and reuse capacity (tons)</b>	<b>Recovery and reuse demilitarization planned (tons)</b>	<b>Percent of capacity to be used</b>
Anniston	1,000	0	0
Blue Grass	14,000	0	0
Crane	13,300	1,584	12
Hawthorne	49,000	4,599	9
Iowa	14,000	1,517	11
Letterkenny	1,000	0	0
Lone Star	2,000	0	0
Milan	1,800	0	0
McAlester	25,000	2,010	8
Pine Bluff	3,500	0	0
Red River	1,000	0	0
Sierra	24,000	0	0
Tooele	7,000	0	0
<b>Total</b>	<b>156,600</b>	<b>9,710</b>	<b>6</b>

Source: GAO analysis of data provided by the Defense Ammunition Center and the Product Manager for Demilitarization.

In addition, the Army continues to incur additional and unnecessary costs to the demilitarization program through its practice of contracting with a commercial firm to undertake ammunition demilitarization, which in turn contracted a portion of the work to three government facilities.<sup>8</sup> In essence, the Army paid a commercial firm to have the ammunition demilitarized by government employees and incurred higher than necessary costs. More specifically, in one instance the commercial firm undertook ammunition demilitarization of 1,848 items for the Army for about \$563 per item, and then contracted some of the work to a government facility for about \$141 per item. If the Army had placed greater emphasis on cost-effectiveness and cost-efficiency, the Army could have demilitarized the ammunition for about \$780,000 less had it overseen the work itself.

### Conclusion

As we have previously noted, while it may be appropriate to rely on the private sector to enhance demilitarization capabilities, the continued use of the private sector to demilitarize excess ammunition at the same time the government facilities have excess capacity raises the question of whether the government is sponsoring too much capacity. Likewise, such limitations in use of government facilities continues to result in less demilitarization than would otherwise be possible even under existing funding levels. We do not believe that the Army has taken sufficient action to address the recommendation we made in our April 2001 report, which called for the department to develop a plan in consultation with Congress that includes procedures for assessing the appropriate mix of government and commercial sector capacity needed to demilitarize excess ammunition and the cost-effectiveness of using contractors versus government facilities to demilitarize excess ammunition, with specific actions identified for addressing the capacity issue. We also do not believe that the Army has taken sufficient action to address the results of its *Closed Disposal Technology Study*, which concluded that the demilitarization program should not assign a predetermined funding percentage to commercial firms and government facilities, thus validating our findings and recommendation. Further, by paying a commercial firm to have excess ammunition demilitarized by government employees, the Army incurs higher than necessary costs. Until the Army discontinues its practice of setting aside 50 percent of the demilitarization budget to commercial firms and implements a more analytically based approach to workload allocations—such as set forth in the *Closed Disposal Technology Study*—that eliminates any predetermined funding allocation and discontinues the practice of paying a commercial firm to oversee the work of government employees, the Army will continue to underutilize demilitarization capacity at government facilities and risk incurring additional program costs.

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<sup>8</sup> The commercial firm entered into agreements for demilitarization services with government facilities at McAlester, Oklahoma; Crane, Indiana; and Tooele, Utah.

## Recommendations for Executive Action

To enable the Army to operate a more efficient program and be better able to assess the demilitarization capacity needed at its government facilities, we recommend that you direct the Secretary of the Army to take the following three steps:

- discontinue the practice of setting aside an arbitrary 50 percent of the demilitarization budget to commercial firms;
- implement a more analytically based approach to demilitarization workload allocations such as demonstrated in the *Closed Disposal Technology Study* analysis in which no arbitrary, predetermined funding allocation is made to commercial firms and government facilities; and
- discontinue the practice of paying a commercial firm to have ammunition demilitarized by government employees when the work can be overseen by the Army for less cost.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement of the actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform not later than 60 calendar days after the date of this letter. A written statement must also be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 calendar days after the date of this letter.

## Agency Comments and Our Evaluation

The Director of Defense Systems in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics provided written comments on a draft of this letter. DOD's comments are reprinted in the enclosure. DOD agreed with our recommendations and identified steps that it is taking to implement them. In commenting on our recommendation to discontinue the practice of setting aside an arbitrary 50 percent of the demilitarization budget to commercial firms, DOD stated that the U.S. Army Materiel Command has rescinded this policy and that the fiscal year 2005 demilitarization program will not be constrained by a predetermined percentage set aside for the private sector.

In commenting on our recommendation to implement a more analytically based approach to demilitarization workload allocations, DOD stated that it will establish a team to perform a study to determine an analytical based approach for allocating demilitarization workload for the private sector and government and for enhancing its computer-modeling program to be more robust as a decision making tool, including performing planning and analysis of government and commercial demilitarization workload. DOD stated that it plans to complete the study during fiscal year 2004 and to implement the results early in fiscal year 2005.

In commenting on our recommendation to discontinue the practice of paying a commercial firm to have ammunition demilitarized by government employees when the work can be overseen by the Army for less cost, DOD stated that it will add language to the follow-on commercial contract, anticipated for award in early fiscal

year 2005, addressing the involvement between industry and government that considers an economic-cost benefit analysis and awards demilitarization workload without regard to location of execution when an effort is in the best interests of the government.

### Scope and Methodology

To identify any limitations in the actions that the Army has taken in response to a recommendation contained in our prior report on the Army's management and oversight of excess ammunition, we reviewed applicable policies, procedures, and documents governing the demilitarization program. We made extensive use of our prior work as a baseline to compare the changes in demilitarization capacity and utilization at government-owned facilities since our prior report.<sup>9</sup> We reviewed the Army's *Closed Disposal Technology Study* and analyzed the report's scope and methodology, findings, and conclusions related to the appropriate mix of government and commercial sector utilization needed to demilitarize excess ammunition. The Army's study used a computer-modeling tool that integrates operating cost, capacity, and other variables in the demilitarization program to produce an optimal long-range demilitarization plan. Additionally, various forms of constraints can be placed on the model, such as requiring the model to execute a certain percentage of demilitarization operations using resource, recovery, and recycling processes; allocating a certain minimum funding to commercial firms; or providing a specified level of workload to selected locations, either commercial firms or government facilities. For the study, the model used the following input data:

- demilitarization capabilities and capacities available at government and commercial facilities;
- existing and forecasted inventory levels of excess ammunition;
- funding levels for each year's forecasted demilitarization program;
- transportation costs between demilitarization locations, to include packing, crating, and handling;
- percentages of resource, recovery, and recycling processes and open burning and open detonation/incineration processes, by weight, for various types of ammunition; and
- costs to perform demilitarization at government and commercial facilities.

While we did not assess the reliability of the model or validate the results, we did interview agency officials knowledgeable about the model and its data and we reviewed the types of input data and the constraints placed on the model to assure ourselves that the results appeared to be consistent. This allowed us to understand whether DOD's current practice is the most cost-effective program, considering capability, capacity, and cost data for both government and commercial facilities. Based on our analyses, we determined that the data were sufficiently reliable for the purposes of this letter.

To obtain current demilitarization program information and action taken since our report was published in April 2001, we met with officials and performed work at the

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<sup>9</sup> GAO-01-372.

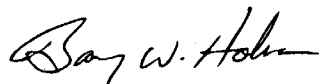


Office of the Product Manager for Demilitarization, Picatinney Arsenal, New Jersey; McAlester Army Ammunition Plant, McAlester, Oklahoma; Army Materiel Command, Fort Belvoir, Virginia; and U.S. Army Defense Ammunition Center, McAlester, Oklahoma. For example, to assess the extent that the Army used commercial firms to demilitarize excess ammunition and its impact on the utilization of environmentally friendly demilitarization processes at government facilities, we obtained Army data on the government facilities' capabilities to demilitarize excess ammunition and compared the Army's demilitarization plans to these capabilities. This allowed us to identify and calculate excess capacity situations and compare this data with our prior work done on excess capacity at government facilities. We also obtained and reviewed contractor agreements with government facilities to perform the demilitarization work and evaluated contract information provided by the Army and by one government facility to determine if the government facility could have demilitarized the ammunition for less cost than was incurred by the Army's contract with this firm. We interviewed Army officials about the cost-effectiveness of relying on commercial firms to demilitarize excess ammunition at the same time that government facilities have similar demilitarization capabilities.

We conducted our analysis of DOD's demilitarization program from June 2003 through January 2004 in accordance with generally accepted government auditing standards.

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We are sending copies of this letter to the appropriate congressional committees and interested congressional committees and members. The letter is also available on GAO's homepage at <http://www.gao.gov>. If you or your staff have any questions on the matters discussed in this letter, please contact me at (202) 512-5581. Key contributors to this letter were Ron Berteotti, Roger Tomlinson, Chad Factor, and Robert Wild.



Sincerely yours,  
Barry Holman, Director  
Defense Capabilities and Management

Enclosure



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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MAR 31 2004

Mr. Barry Holman  
Director, Defense Capabilities and Management  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Holman:

This is the Department of Defense (DoD) response to the GAO draft report GAO-04-427R, "DEFENSE MANAGEMENT: Continuing Questionable Reliance on Commercial Contracts to Demilitarize Excess Ammunition When Unused, Environmentally Friendly Capacity Exists at Government Facilities," dated February 26, 2004 (GAO Code 350394).

The report recommends that the Army take the following three steps in order to operate a more efficient program and be better able to assess the demilitarization capacity needed at its government facilities:

- discontinue the practice of setting aside an arbitrary 50 percent of the demilitarization budget to commercial firms;
- implement a more analytically based approach to demilitarization workload allocations such as demonstrated in the Closed Disposal Technology Study analysis in which no arbitrary, predetermined funding allocation is made to commercial firms and government facilities; and
- discontinue the practice of paying a commercial firm to have ammunition demilitarized by government employees when the work can be overseen by the Army for less cost.

The Department concurs with the recommendation. A detailed response is enclosed.

The Department appreciates the opportunity to comment on the draft report. For further questions concerning this report, please contact Edward McManus, (703) 695-1453.

Glenn F. Lapartin  
Director  
Defense Systems

Enclosure:  
As stated



**GAO DRAFT REPORT – DATED February 26, 2004  
GAO CODE 350394/GAO-04-427R**

**“DEFENSE MANAGEMENT: Continuing Questionable Reliance on Commercial Contracts to Demilitarize Excess Ammunition When Unused, Environmentally Friendly Capacity Exists at Government Facilities”**

**DEPARTMENT OF DEFENSE COMMENTS  
TO THE RECOMMENDATIONS**

**RECOMMENDATION 1:** To enable the Army to operate a more efficient program and to be better able to assess the demilitarization capacity needed at its government facilities, GAO recommends the Secretary of Defense direct the Secretary of the Army to take the following three steps:

- discontinue the practice of setting aside an arbitrary 50 percent of the demilitarization budget to commercial firms;
- implement a more analytically based approach to demilitarization workload allocations such as demonstrated in the Closed Disposal Technology Study analysis in which no arbitrary, predetermined funding allocation is made to commercial firms and government facilities; and
- discontinue the practice of paying a commercial firm to have ammunition demilitarized by government employees when the work can be overseen by the Army for less cost. (p. 7/GAO Draft Report)

**DOD RESPONSE:** CONCUR. The Under Secretary of Defense, Acquisition, Logistics, and Technology (USD[AT&L]) will direct the Secretary of the Army to take the three steps, as follows:

- **STEP 1:** Discontinue the practice of setting aside an arbitrary 50 percent of the demilitarization budget to commercial firms.

The U.S. Army Materiel Command has rescinded this policy. The U.S. Army Office of the Product Manager for Demilitarization (OPM Demil) together with the Strategic Planning IPT and the Field Operating Agencies will work to improve the existing analytical approach to allocating demil workload, which will determine the funding for organic and commercial demil efforts. The OPM Demil with the U.S. Army Joint Munitions Command (JMC) plans to run the Demil Chain Optimizer Model (Optimizer) unconstrained in planning the FY 2005 demil program. The Optimizer results will be assessed on an annual basis in the context of policy and other constraints that may impact the efficiency and effectiveness of the demil program, such as direction of high visibility demil programs and warm basing to support contingency operations.

- **STEP 2:** Implement a more analytically based approach to demilitarization workload allocations such as demonstrated in the *Closed Disposal Technology Study* analysis in which no arbitrary, predetermined funding allocation is made to commercial firms and government facilities.

The OPM Demil through the Strategic Plan IPT, JMC and the Defense Ammunition Center will establish a team to perform a study to determine an analytical based approach to allocating demilitarization workload for the private sector and government. The study will also investigate enhancing the Optimizer to be more robust as a decision making tool and in performing planning and analysis of organic and commercial demil workload. The OPM Demil plans to complete the study in FY 2004 and implement in early FY 2005.

- **STEP 3:** Discontinue the practice of paying a commercial firm to have ammunition demilitarized by government employees when the work can be overseen by the Army for less cost.

When the work can be overseen by the Army for less cost, a commercial firm normally should not be paid to have ammunition demilitarized by government employees. Although the practice of a commercial firm to have ammunition demilitarized by government does not violate DoD policy or U.S. law, OSD recognizes the Army may incur additional cost to the government. However, the result of this type contracting arrangement does increase workload for the government that might otherwise be invested in the private sector, which assists in developing and solidifying partnerships in an industry with limited sources for demil of conventional ammunition by closed disposal processes. Other considerations: (1) commercial partners can use the recovered materials from demil operations to offset the demil cost per ton; (2) the government performing third party work can charge lower rates compared to charging fully burdened rates for mission execution workload; (3) use of government facilities reduces a portion (those at the execution facility) of the transportation costs to ship to a commercial facility; and (4) the government performing third party work results in contractor savings in labor and transportation costs and materials recovery value, which reduces the commercial contractors cost to the government. The OPM Demil will add language to the follow-on commercial contract, anticipated for award early FY 2005, addressing the involvement between industry and government that considers an economic-cost benefit analysis. If an evaluation discloses the effort is in the best interests of the government, then the award should be made without regard to location of execution (commercial or government operation).

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