



April 2018

CIVILIAN AND CONTRACTOR WORKFORCES

DOD's Cost
Comparisons
Addressed Most
Report Elements but
Excluded Some Costs

GAO Highlights

Highlights of [GAO-18-399](#), a report to congressional committees

Why GAO Did This Study

In addition to more than 2.2 million active duty and reserve personnel, DOD employs about 760,000 federal civilians and more than 560,000 contractors. In the Senate Report 114-49 accompanying a bill for the National Defense Authorization Act for Fiscal Year 2016 included a provision for DOD to issue a report (1) assessing functions performed by federal civilian and service contractor personnel, (2) accounting for the full costs of federal civilian and service contractor personnel performing these functions, (3) comparing these costs, and (4) assessing available hiring and retention authorities for federal civilians.

The Senate report also included a provision for GAO to assess DOD's report, which DOD submitted to Congress in April 2017. This report examines the extent to which DOD's report addressed the prescribed congressional elements.

GAO reviewed DOD's report and compared it to the prescribed elements, examined documents relevant to DOD's cost estimating and comparison methodology, and interviewed DOD officials, including those in its Office of Cost Assessment and Program Evaluation responsible for the calculations in DOD's report.

What GAO Recommends

GAO is not making any recommendations; however, DOD non-concurred with GAO's assessment that DOD partially addressed the element to account for the full cost of personnel. GAO believes the assessment is correct as discussed in the report.

View [GAO-18-399](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov.

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DOD's Cost Comparisons Addressed Most Report Elements but Excluded Some Costs

What GAO Found

In response to Congressional direction, the Department of Defense (DOD) issued a report in April 2017 comparing the costs of federal civilian and service contractor personnel at select installations. The report addressed three out of four provision elements and partially addressed one, as discussed below. DOD concluded that neither federal civilians nor service contractors were predominately more or less expensive, with costs being dependent on position, location, and level of seniority. DOD noted that it used a non-probability based sample of personnel for its report, and the results are not generalizable.

- *An assessment of performance of functions being performed by federal civilian and service contractor personnel at six military installations, with four being in the continental United States and two being outside the continental United States.* GAO believes that DOD **addressed** this requirement because it developed a methodology to assess performance of functions performed by federal civilians and service contractors at 17 organizations within nine geographic regions including two locations outside the continental United States. DOD used data from the Defense Civilian Personnel Data System to identify military installations with large reported numbers of federal civilians. DOD determined that personnel need to perform at least 80 percent common tasks to be able to make a comparison.
- *An accounting of the fully-burdened, or full, cost of federal civilian and service contractor personnel performing functions at the selected installations including training, benefits, reimbursable costs, and facility overhead.* GAO believes that DOD **partially addressed** this requirement because while it calculated the labor costs of selected federal civilian and service contractor full-time equivalents performing similar functions for organizations at government-owned facilities, it excluded certain non-labor costs from its calculations.
- *A comparison of the costs of performance of these functions by federal civilians and service contractor personnel at the selected installations.* GAO believes that DOD **addressed** this requirement because it compared calculated costs for selected federal civilians and service contractors performing similar functions at selected installations and included those comparisons in its report.
- *An assessment of the flexible employment authorities for the employment and retention of federal civilian employees.* GAO believes that DOD **addressed** this requirement because it sent questionnaires to DOD hiring officials and human resource professionals to collect information on flexible employment authorities and conducted interviews with these and human resource professionals at the same 17 organizations used for the cost comparison. Based on an analysis of the information collected, DOD's report included several conclusions regarding flexible hiring authorities and made one recommendation.

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Abbreviations

CAPE	Office of Cost Assessment and Program Evaluation
DOD	Department of Defense
FTE	Full-Time Equivalent

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April 17, 2018

The Honorable John McCain
Chairman
The Honorable Jack Reed
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Mac Thornberry
Chairman
The Honorable Adam Smith
Ranking Member
Committee on Armed Services
House of Representatives

The Department of Defense (DOD) is one of the largest employers in the federal government with approximately 1.4 million active-duty servicemembers, 813,000 reserve component servicemembers, 762,000 federal civilian full-time equivalent employees,¹ and approximately 561,000 contractor full-time equivalent personnel.² In cases where federal civilians or service contractors can perform similar functions, determining whether federal civilians or service contractors are less expensive to employ is a complicated task, particularly for an organization with a complex mission and a workforce as large and diverse as DOD.

Since January 2001, we have identified Strategic Human Capital Management as a high-risk area because skills gaps within individual federal agencies—as well as across the federal workforce—can lead to

¹The term “full-time equivalent” reflects the total number of regular straight-time hours (i.e., not including overtime or holiday hours) worked by employees divided by the number of compensable hours applicable to each fiscal year. Annual leave, sick leave, and compensatory time off and other approved leave categories are considered to be “hours worked” for purposes of defining full-time equivalent employment.

²We have previously reported on challenges related to identifying the number of contractor full-time equivalents within DOD. See GAO, *DOD Inventory of Contracted Services: Timely Decisions and Further Actions Needed to Address Long-Standing Issues*, [GAO-17-17](#) (Washington, D.C.: Oct 31, 2016); *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD’s Inventory of Contracted Services*, [GAO-12-357](#) (Washington, D.C.: Apr 6, 2012).

costly, less-efficient government.³ In addition, the federal government's fiscal challenges, which we reported on in January 2017 and in other products, underscore the importance of DOD employing a strategic approach to determining the appropriate mix of its military, civilian, and contracted services to perform its mission, and determining the functions that are critical for the department to achieve its missions.⁴ However, workforce cost is one of several factors such as timing, durations of tasks, productivity, economic conditions in the local labor market, and whether a function is considered inherently governmental, that influence workforce decisions.⁵

Senate Report 114-49, accompanying a bill for the National Defense Authorization Act for Fiscal Year 2016, included a provision for DOD to report a comparison of the costs of functions performed by federal civilians and service contractor personnel at selected installations, among other things. Specifically, the provision included four elements for DOD to report: (1) an assessment of performance of functions being performed by federal civilians and service contractor personnel at six selected installations, (2) an accounting of the full cost of federal civilian and service contractor personnel at the selected installations, (3) a

³GAO, *High-Risk Series: Progress on Many High-Risk Areas, While Substantial Efforts Needed on Others*, [GAO-17-317](#) (Washington, D.C.: Feb 15, 2017).

⁴In January 2017, we reported on the nation's health and demonstrated that the federal government is highly leveraged in debt by historical norms and is on an unsustainable long-term fiscal path caused by a structural imbalance between revenue and spending. We concluded that addressing this imbalance would require significant changes in fiscal policy that will place budgetary strains on the federal government, including DOD, which accounts for approximately half of the federal government's discretionary spending. Discretionary spending refers to outlays from budget authority that are provided in and controlled by appropriation acts, in contrast to mandatory spending, such as that for Social Security, Medicare, or other entitlement programs, which is provided for in law other than appropriation acts. See GAO, *DOD: Actions Needed to Address Five Key Mission Challenges*, [GAO-17-369](#) (Washington, D.C.: June 2017) (citing to GAO, *The Nation's Fiscal Health: Action Is Needed to Address the Federal Government's Fiscal Future*, [GAO-17-237SP](#) (Washington, D.C.: Jan. 17, 2017) and GAO, *Department of Defense: Actions Needed to Address Five Key Mission Challenges*, [GAO-17-369](#) (Washington, D.C.: June 13, 2017).

⁵An inherently governmental activity is a function so intimately related to the public interest as to require performance by federal government personnel. For example, operational control of combat, combat support and combat service support units; armed fighting or use of force deemed necessary for national defense; some aspects of security provided to protect resource and operations in hostile or volatile areas; and intelligence and counterintelligence operations performed in operational environments are inherently governmental activities.

comparison of the costs of performance of these functions by federal civilians and service contractor personnel at the selected installations, and (4) an assessment of the flexible employment authorities for the employment and retention of federal civilian employees. DOD submitted its report (referred to hereafter as DOD's Cost-Comparison Report) to Congress in April 2017.⁶

Senate Report 114-49 also includes a provision for us to review the sufficiency of DOD's Cost-Comparison Report. This report assesses the extent to which DOD's Cost-Comparison Report addressed the four elements of the provision in Senate Report 114-49.

To assess the extent to which DOD's Cost-Comparison Report addressed the four elements of the provision in Senate Report 114-49, we reviewed and compared DOD's Cost-Comparison Report with the four elements in Senate Report 114-49. DOD's Cost-Comparison Report was expected to be issued in February 2017 according to DOD officials. However, its issuance was delayed until April 2017. We conducted interviews with DOD's Office of Cost Assessment and Program Evaluation (CAPE) officials responsible for designing and conducting DOD's Cost-Comparison Report. These interviews included discussions regarding how CAPE officials designed their methodology and gathered and analyzed data. We discussed steps taken to ensure data reliability, but did not assess the reliability of CAPE's data. We also obtained and reviewed documents relevant to DOD's cost-comparison approach. In addition, we interviewed officials with the Office of the Under Secretary of Defense for Personnel and Readiness to discuss efforts related to identifying federal civilians and support contractors performing similar functions. We also interviewed officials within the Office of the Under Secretary of Defense-Comptroller to gain perspective on cost elements related to cost comparisons. We reviewed DOD's policies and guidance on workforce management and estimating costs. These documents include DOD Instruction 1100.22, *Policy and Procedures for Determining Workforce Mix* (April 12, 2010) (Change 1, Dec. 1, 2017); DOD 7000.14-R, *Financial Management Regulation*; and DOD Instruction 7041.04, *Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support* (July 3, 2013). We also reviewed

⁶ DOD's final Cost-Comparison Report was marked FOUO//Proprietary Information and is not publically available.

Office of Management and Budget Circular A-11 to determine relevant federal civilian personnel costs.⁷

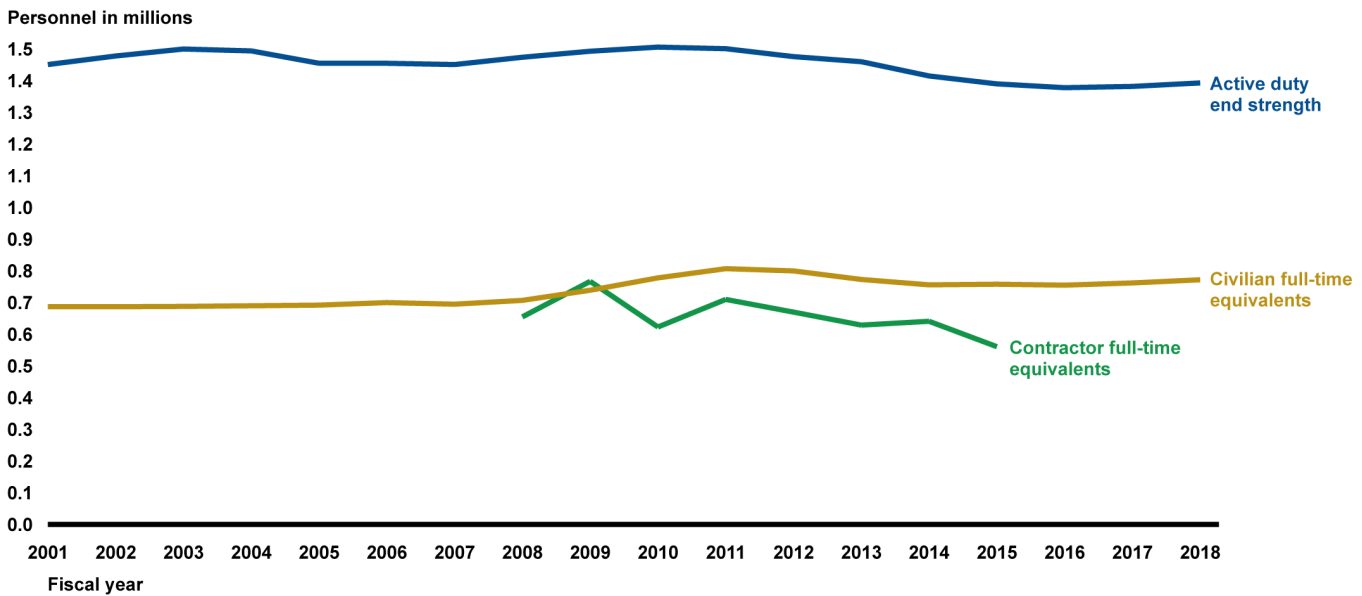
We conducted this performance audit from January 2017 to April 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Since 2001, DOD's total workforce has changed in size and composition. DOD's military, civilian, and contractor workforces peaked around 2011 and have since decreased in size, as shown in figure 1. Several factors have contributed to changes in the size of the workforces including varying levels of U.S. involvement in the conflicts in Iraq and Afghanistan, military to civilian and contractor conversions, contractor insourcing, and the growth in certain workforces such as acquisition and cyber.

⁷Office of Management and Budget Circular A-11, *Preparing, Submitting, and Executing the Budget* August 1, 2017.

Figure 1: Historical Department of Defense Workforces Numbers



Source: GAO analysis. | GAO-18-399

Note: Contractor full-time equivalent data is estimated and is not available prior to 2008.

DOD’s management of its workforce is governed by several workforce management statutes, including sections 129, 129a, and 2463 of Title 10 of the United States Code.⁸ Section 129 directs that DOD civilian personnel be managed each fiscal year on the basis of, and consistent with, total-force management policies and procedures established under section 129a, the workload required to carry out the functions and activities of the department, and the funds made available to the department each fiscal year. Section 129a directs the Secretary of Defense to establish policies and procedures for determining the most appropriate and cost-efficient mix of military, civilian, and contracted

⁸In addition, sections 2330a and 2461 of Title 10 of the United States Code address the purchase of services by DOD. Section 2330a directs the Secretary of Defense to prepare an annual inventory of activities performed during the preceding fiscal year pursuant to staff augmentation contracts. Inventory entries concerning contractors include, among other information, the number of contractor employees, expressed as full-time equivalents (FTE). The inventory is required to be submitted to Congress annually. Section 2461 directs that no DOD function performed by civilian employees may be converted, in whole or in part, to performance by a contractor unless the conversion is based on the results of a public-private competition that formally compares the cost of performance by civilian employees with the cost of contractors, among other considerations. There is currently a government-wide moratorium on performing such public-private competitions.

services to perform the mission of the department. Finally, Section 2463 directs the Under Secretary of Defense for Personnel and Readiness to devise and implement guidelines and procedures to ensure that consideration is given to using, on a regular basis, DOD civilian employees to perform new functions and functions performed by contractors that could be performed by DOD civilian employees.

DOD Instruction 1100.22, Policy and Procedures for Determining Workforce Mix (April 12, 2010) (Change 1, Dec. 1, 2017) establishes policy, assigns responsibilities, and prescribes procedures for determining the appropriate workforce mix of the military, civilian, and contracted services. The instruction provides criteria for workforce-mix decisions and directs DOD components to conduct a cost comparison to determine the low-cost provider for all new or expanding mission requirements and for functions that have been contracted but could be performed by DOD civilian employees.

In addition, over the past 10 years DOD has taken steps to better understand the costs associated with its workforces. For example, we found in September 2013 that DOD had improved its methodology for estimating and comparing the full cost of work performed by military and civilian personnel and contractor support, but the methodology continued to have certain limitations, such as the lack of guidance for certain cost elements related to overhead.⁹ We made five recommendations, including for DOD to assess the advantages and disadvantages of allowing the continued use of different cost-estimation tools across the department or directing department-wide application of one tool, and revise its guidance in accordance with the findings of its assessment. DOD implemented this recommendation but has not yet implemented the

⁹GAO, *Human Capital: Opportunities Exist to Further Improve DOD's Methodology for Estimating the Costs of Its Workforces*, [GAO-13-792](#) (Washington, D.C.: Sept 25, 2013).

other four recommendations although it concurred or generally concurred with them.¹⁰

DOD's Cost-Comparison Report Addressed Most Elements in Senate Report 114-49

DOD's Cost-Comparison Report addressed three elements and partially addressed one element concerning the accounting for the fully-burdened, or full, cost of federal civilian and service contractor personnel performing functions at the selected installations, as shown in table 1.¹¹ DOD concluded that for the 21,000 federal civilians and service contractors compared, neither federal civilians nor service contractors were predominately more or less expensive, with the costs being dependent upon the function being performed, location, and level of expertise. DOD noted that the results were not generalizable across the department.¹²

Table 1: GAO's Assessment of the Department of Defense's (DOD) Cost-Comparison Report in Addressing Elements of Senate Report 114-49

Reporting elements	GAO assessment of DOD's Cost-Comparison Report
(1) An assessment of performance of functions being performed by federal civilian and service contractor personnel at six military installations, with four being in the continental United States and two being outside the continental United States.	Addressed

¹⁰DOD concurred with our recommendation to research the data sources it is currently using and reassess its contractor-support data sources for use when determining contractor-support costs, but has not yet implemented the recommendation. DOD partially concurred with our recommendations to: a) further develop guidance for the cost elements that users have identified as challenging to calculate, such as general and administrative, overhead, advertising and recruiting, and training; b) develop business rules for estimating the full cost of National Guard and Reserve personnel; c) In coordination with the department's Office of the Actuary and appropriate federal actuarial offices, reevaluate the inclusion and quantification of pension, retiree health-care costs, and other relevant costs of an actuarial nature and make revisions as appropriate; and d) research the data sources it is currently using and reassess its contractor-support data sources for use when determining contractor-support costs. DOD has not yet implemented these four recommendations.

¹¹For purposes of this report we refer to the fully-burdened costs as full cost.

¹²For the sample to be generalizable, DOD would have to select a representative sample of functions across the entire military, which would have been an enormous and costly task. DOD limited its sample to those federal civilians and contractors at 17 locations who, upon consultation with local management, were determined to be performing functions with 80 percent commonality.

Reporting elements	GAO assessment of DOD's Cost-Comparison Report
(2) An accounting of the fully-burdened, or full, cost of federal civilian and service contractor personnel performing functions at the selected installations including training, benefits, reimbursable costs, and facility overhead.	Partially addressed
(3) A comparison of the costs of performance of these functions by federal civilians and service contractor personnel at the selected installations.	Addressed
(4) An assessment of the flexible employment authorities for the employment and retention of federal civilian employees.	Addressed

Source: GAO analysis of Senate Report 114-49 and DOD's Cost-Comparison Report. | GAO-18-399

Note: The full cost of federal civilians includes labor and other cost elements, such as general and administrative and overhead, among other costs. For more information, see DOD Instruction 7041.04, *Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support* (July 3, 2013).

Each of the elements and our assessment are discussed below.

DOD Developed a Methodology to Assess Performance of Functions Being Performed by Federal Civilian and Service Contractor Personnel on Military Installations

We believe that DOD addressed the reporting element to assess performance of functions performed by civilian and contractor personnel by developing a methodology to assess performance of functions performed by federal civilians and service contractors at organizations within nine geographic regions including two locations outside the continental United States.

Organizations included in DOD's methodology include the following:

- Fort Belvoir Community Hospital
- Defense Logistics Agency
- Defense Threat Reduction Agency
- US Army Intelligence and Security Command
- Army Research Laboratory
- Missile Defense Agency
- Aviation and Missile Research, Development, and Engineering Center
- Anniston Army Depot
- Naval Medical Center San Diego
- Space and Naval Warfare Systems Command

-
- Fleet Readiness Center Southwest
 - Ogden Air Logistics Complex
 - 75th Air Base Wing
 - Naval Facilities Engineering Command
 - Navy Installations Command
 - Tripler Army Medical Center

DOD's methodology included the following:

- **Selecting installations and organizations:** DOD used data from the Defense Civilian Personnel Data System to identify military installations with large reported numbers of federal civilians. According to DOD officials, they eliminated from consideration those installations that had no reported contractors. From this subset of installations, DOD selected organizations to represent all three military departments and diverse geographical locations, to include two locations outside the continental United States.
- **Assessing the functions performed by civilians and contractors to identify federal civilians and service contractors performing similar functions:** DOD assessed the performance of functions at these selected locations to identify federal civilians and service contractors performing similar functions as there is no direct mapping or perfect match between existing taxonomies used to quantify federal civilian positions and contracted services. Further, DOD reported that the day-to-day functions performed by federal civilian employees do not always directly correlate to the designated occupational series or the job title for their position. For example, an individual with an occupational series assigned as an accountant may actually perform work more consistent with that of a financial analyst. According to DOD's Cost-Comparison Report, DOD did not rely on occupational series names or job titles alone to determine the actual work being performed by federal civilians. Specifically, DOD conducted site visits with each organization and relied on local managers' direct knowledge of the actual tasks that their federal civilians and service contractor personnel performed. According to DOD's Cost-Comparison Report, DOD determined that personnel need to perform at least 80 percent common tasks to be able to make a comparison. For the organizations selected, DOD compared the costs of all federal civilians and service contractors identified as performing similar functions.

The challenges DOD identified in DOD's Cost-Comparison Report on determining the functions performed by contractor personnel are similar to those we encountered in our prior work on DOD's efforts to compile and review of an inventory of contracted services.¹³ Section 2330a of Title 10 of the U.S. Code directs the Secretary of Defense to annually prepare an inventory of activities performed during the preceding fiscal year pursuant to staff augmentation contracts. Section 2330a also directs the secretary of each military department and head of each defense agency responsible for activities in the inventory to, within 90 days after the Secretary of Defense submits the inventory, review the contracts and activities in the inventory for which that secretary or agency head is responsible, in part to identify activities that should be considered for conversion. Our prior work has identified, among other issues, that the absence of a complete and accurate inventory of contracted services hinders DOD's management of these services. According to DOD officials, the Office of the Under Secretary of Defense (Personnel and Readiness) has also recognized the challenges associated with the various taxonomies and lexicons associated with articulating the size and composition of federal civilian, military, and contracted services workforces, and has efforts underway with the goal of better aligning those to enable more holistic total force management of all sources of labor. According to DOD officials, by improving available workforce data, DOD can support better-informed leadership decisions, improve accuracy of analyses, and provide consistent explanations of the department's workforce resources. DOD officials told us that this effort has an estimated completion of December 2018.

DOD Accounted for Labor Costs but Excluded Some Costs That Encompass Full Costs of Personnel

We believe that DOD partially addressed the reporting element to account for the full cost of civilian and contractor personnel by providing an accounting of the labor costs of selected federal civilian and service contractor full-time equivalents for personnel performing similar functions at government-owned facilities during calendar year 2015, but excluding certain non-labor costs from its cost calculations. According to DOD officials, 2015 was the last year for which complete data were available.

DOD Accounted for Federal Civilian and Contractor Labor Costs

DOD developed a methodology for identifying labor costs associated with federal civilian and service contractor full-time equivalents during calendar year 2015 at government-owned facilities for its cost

¹³GAO, *DOD Inventory of Contracted Services: Timely Decisions and Further Actions Needed to Address Long-Standing Issues*, [GAO-17-17](#) (Washington, D.C.: Oct. 31, 2016).

comparisons. Based on reviews of applicable guidance and consultations with the Office of the Under Secretary of Defense – Comptroller, DOD included numerous federal civilian costs collected from several sources in DOD’s Cost Comparison Report, as shown in table 2.

Table 2: Federal Civilian Labor Costs Included in the Department of Defense’s (DOD) Cost-Comparison Report for Congress

Federal civilian costs	Source
Regular salaries and wages	Defense Financial and Accounting Service
Other personnel compensation ^a	Defense Financial and Accounting Service
Benefits for currently employed personnel ^b	Defense Financial and Accounting Service
Federal Employees’ Compensation Act payments	Office of the Under Secretary of Defense (Comptroller)
Permanent change of station	Organization
Student loan repayment	Organization
Training	Organization
Transit subsidy	Washington Headquarters Services or organization
Voluntary separation incentive payments	Major command

Source: DOD | GAO-18-399

Note: The full cost of federal civilians includes other cost elements, such as general and administrative and overhead, among other costs. For more information see DOD Instruction 7041.04, *Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support* (July 3, 2013).

^aOther personnel compensation is compensation above the basic rates paid directly to employees and includes holiday pay, night work differential, cash incentive awards, and overtime pay. DOD excluded overtime pay from the cost comparisons in order to compare the costs of a full-time equivalent, which does not include overtime in its calculation. DOD included overtime pay in its report separately for context and noted that overtime pay is a significant part of civilian compensation for some organizations, especially those funded via working capital fund arrangements such as depots, which use overtime to handle surges in demand throughout the year.

^bBenefits for currently employed personnel include payments to other funds for the benefit of federal civilian employees or direct payments to these employees such as the employer’s share of payments for life insurance, health insurance, employee retirement, work injury disabilities or death and professional liability insurance.

In addition, to assure data quality, DOD officials told us that they took steps to identify data errors in the data collected including identifying missing data fields and data entries that might indicate data errors.¹⁴ For

¹⁴We did not assess the reliability of DOD’s data used in its assessment and DOD’s Cost-Comparison Report, but rather, discussed with DOD officials the steps taken to assess the reliability of the data.

example, DOD officials told us that they verified that they had pay records for every pay period in calendar year 2015 by identifying potential errors and outliers and sharing these with the Defense Finance and Accounting Service and the selected DOD organizations for review. Officials also stated that DOD sent its complete calculated data sets to each organization for review against their own pay records and that all errors were corrected or outliers were explained. Additionally, according to our analysis, DOD excluded overtime from its costs related to federal civilians in accordance with Office of Management and Budget Circular A-11. However, DOD included overtime pay in its report separately for context and noted that overtime pay is a significant part of civilian compensation for some organizations. Officials noted that those funded via a working capital fund arrangements, such as depots, use overtime to handle surges in demand throughout the year. DOD noted in its report that selected service contracts at government facilities and developed three methodologies to identify labor costs associated with service contractor full-time equivalents during calendar year 2015, as shown in table 3.

Table 3: Department of Defense (DOD) Methodologies to Compute Service Contractor Full-Time Equivalents

Method	Cost per service contractor full-time equivalent
1	Non-excludable contract costs ÷ service contractor full-time equivalents
2	(Non-excludable contract costs ÷ billable hours) x Standard annual billable hours
3	Labor rate x Standard annual billable hours

Source: DOD. | GAO-18-399

Note: For the purposes of DOD's cost-per-service contractor full-time equivalents, non-excludable contract costs are labor costs to DOD and include pay, benefits, profit to the contractor, and overhead charged by the service contractor. The full cost of service contractors includes other costs elements, such as the cost associated with managing the contract, among other costs. For more information see DOD Instruction 7041.04, *Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support* (July 3, 2013).

DOD stated in its report that identifying service contractor full-time equivalents is a significant challenge because the level of detail available in each contract varied such that DOD could not employ a single methodology, and unlike federal civilian pay data, there is no centralized database on service-contractor pay. DOD reported that contracts are rarely written to address the cost-per-contractor as a full-time equivalent, and some contracts do not differentiate between labor and non-labor costs. DOD noted in its report that the negotiated price of the contract includes direct costs, including labor and non-labor costs, and indirect

costs such as overhead. Further, the contract costs include service contractor profit.

Based on our review of DOD's Cost-Comparison Report, DOD used non-excludable contract costs as a basis in two of its methodologies. These costs to DOD are associated with labor, and include pay and benefits provided to service contractor personnel, contractor profit, and overhead the contractor included in the cost of the contract. When the number of service contractor full-time equivalents and full costs for a contract was known, DOD used the first method, dividing contract costs by the number of service contractor full-time equivalents to arrive at the cost per service contractor full-time equivalent. When the number of billable hours was known, DOD used the second method, multiplying the ratio of contract costs divided by billable hours by a standard number of annual billable hours. For contracts in which the labor rate was known but costs could not be disaggregated, DOD multiplied the labor rate by a standard 1,880 annual billable hours unless a contract specified the labor rate as a number of annual billable hours. For example, Defense Logistics Agency contractor-labor rates for wage grade equivalent contractor full-time equivalents are based on 2,080 annual labor hours.

DOD Excluded Certain Costs that Comprise Full Costs

We assessed DOD's report as partially addressing the reporting element to account for the full cost of federal civilian and contractor personnel because DOD excluded certain non-labor costs from its costs calculations—(1) direct non-labor costs for government owned facilities and government provided supplies, (2) indirect costs for general and administrative and overhead for civilians, and (3) costs to manage contracts—from its costs calculations. Senate Report 114-49 stated that DOD is to include an accounting of the full cost of DOD federal civilian and service contractors performing similar functions, including facility overhead. DOD stated in its report that the methodology utilized to compare the costs of federal civilian and service contractor full-time equivalents was consistent with DOD Instruction (DODI) 7041.04, *Estimating and Comparing the Full Costs of Civilian and Active Duty Military Manpower and Contract Support* (July 3, 2013), hereafter referred to DODI 7041.04. However, DODI 7041.04 states that the full cost of personnel should include direct and indirect non-labor costs, such as those referenced previously. DOD officials stated that they considered including non-labor costs in their calculations but did not because they believe these costs would add approximately the same to both federal civilian and service contractor costs. DODI 7041.04 instructs that if a function is performed on government property, the costs of goods, services, and benefits that are common costs may be excluded provided

the number of government and contractor personnel is equivalent. DODI 7041.04 further instructs that when the number of government and contractor personnel differs, adjustments must be made to the cost estimates to account for the difference in number of government and contractor personnel. While there were some instances where it was the case that DOD's cost estimates involved an equal number of civilian and contractor personnel performing functions on government property, there were many instances in where the personnel numbers differed and common costs should not have been excluded. For example, in DOD's comparisons of federal civilians and service contractors at Fort Belvoir Community Hospital, DOD conducted comparisons of 19 functions where 2 functions had equal numbers of federal civilian and service contractors and 17 functions had differing numbers of federal civilian and service contractors. In one comparison, the number of contractors was over three times the number of civilians. DOD officials also stated that they believe their methodology is in accordance with DODI 7041.04 because DODI 7041.04 states that the cost elements in the instruction can be modified or augmented in each specific case as necessary, but DOD components should be prepared to support such decisions with sufficient justification. We acknowledge that DODI 7041.04 states that the cost elements can be modified, but by excluding non-labor costs in its cost comparisons, DOD did not account for the full cost of federal civilians and service contractors as requested in the mandate.

DOD Compared Its Calculated Costs of Performance of Selected Functions by Federal Civilians and Service Contractor Personnel at Selected Installations

We believe that DOD addressed the reporting element to compare costs by comparing its calculated costs of selected federal civilians and service contractors performing similar functions at selected installations. DOD reported that its results represent selected personnel performing functions within selected organizations and are not generalizable across the department. DOD concluded that for the federal civilian and contractor full-time equivalents included in the study, the costs varied by organization, location, and function being performed. DOD presented comparisons of federal civilian and service contractor full-time equivalents costs and expressed these results as a cost ratio. However, it is not clear how the results would be different if all costs that encompass full costs of personnel would have been included in DOD's comparisons. See tables 4 and 5 below for examples of greater costs for the performance of functions by federal civilians or service contractors at Fort Belvoir Community Hospital in Fort Belvoir, Virginia.

Table 4: Examples of Department of Defense (DOD) Comparisons of Functions at Fort Belvoir Community Hospital Where Average Federal Civilian Costs are Greater Than Average Service Contractor Costs

Position title	Number of civilians	Number of contractors	Cost ratio (civilian/contractor)
Health technician	2	4	1.05
Physician (psychiatry)	6	2	1.12
Medical records technician	10	33	1.13
Health technician (paramedic)	9	10	1.17
Social worker	20	14	1.19

Source: DOD. | GAO-18-399

Note: The above represents specific personnel performing the functions included in DOD's Cost-Comparison Report and are not generalizable. The cost ratio summarizes the relationship between the cost of federal civilian and service contractor full-time equivalents. For example, in a case where the ratio is 1.05, a federal civilian full-time equivalent costs 5 percent more than a service contractor full-time equivalent.

Table 5: Examples of Department of Defense (DOD) Comparisons of Functions at Fort Belvoir Community Hospital Where Average Service Contractor Costs Are Greater Than Average Federal Civilian Costs

Position title	Number of civilians	Number of contractors	Cost ratio (contractor/civilian)
Clinical nurse	63	55	1.03
Practical nurse	54	21	1.09
Medical support assistant	61	58	1.19
Psychologist	8	7	1.22
Physician (emergency medicine)	3	8	1.34

Source: DOD. | GAO-18-399

Note: The above represents specific personnel performing the functions included in DOD's Cost-Comparison Report and are not generalizable. The cost ratio summarizes the relationship between the cost-of-service contractor and federal civilian full-time equivalents. In a case where the ratio is 1.03, a service contractor full-time equivalent costs 3 percent more than a federal civilian full-time equivalent.

DOD Assessed Flexible Hiring Authorities Available for Employment and Retention of DOD Civilian Employees

We believe that DOD addressed the reporting element by assessing the flexible employment authorities for the employment and retention of federal civilian employees at the same 17 organizations used for the cost comparison. Specifically, DOD sent questionnaires to DOD hiring officials and human resource professionals to collect information on flexible employment authorities. DOD included a broad spectrum of organizational missions in its query of management and human resource officials regarding the use and availability of flexible hiring authorities. Noting that this assessment is more subjective than the others in DOD's Cost-Comparison Report, DOD queried senior leaders, middle managers, front-line supervisors and human resource professionals regarding which authorities are being used and the effectiveness of each. According to DOD's report, in this way, DOD was able to gauge the extent to which each type of authority was used as well as the satisfaction with and effectiveness of each. DOD's Cost-Comparison Report made several conclusions regarding flexible hiring authorities and made one recommendation. The findings included that there was a variance in the authorities used between organizations, management unfamiliarity with all available authorities, and a belief among managers that expanded use of some authorities is needed to produce more quality hires. DOD's Cost-Comparison Report recommended DOD and OPM should explore opportunities to refine, consolidate, or reduce unused, inefficient, or cumbersome hiring authorities.

Agency Comments and Our Evaluation

We provided a draft of this report to DOD for review and comment. In written comments, DOD non-concurred with our assessment that DOD partially addressed the mandated reporting element to provide an accounting of the fully-burdened cost of federal civilian and service contractor personnel performing functions at the selected installations to include training, benefits, reimbursable costs, and facility overhead. DOD's comments are reproduced in their entirety in appendix I. DOD also provided technical comments, which we incorporated as appropriate.

DOD stated that we presented the three reporting elements identified in the congressional mandate absent the full context and congressional intent. Specifically, DOD stated that in the congressional mandate, the list of elements to be included in the report is not a stand-alone list and DOD stated that we present the elements as a stand-alone list. DOD further stated that the list of elements in the mandate is preceded by a paragraph that we did not reproduce in our report, but which provides context and congressional intent for the reporting elements.

We do not believe that the language omitted from our report changes the meaning of the reporting elements to be included in DOD's cost comparison report because the paragraph omitted clearly states that the purpose of the report is to provide the results of a study that includes a comparison of the fully-burdened cost of the performance of functions by DOD civilian personnel with the fully-burdened cost of the performance by DOD contractors. The paragraph preceding the reporting elements and the elements reads as follows:

The committee directs the Secretary of Defense to submit to the Committees on Armed Services of the Senate and the House of Representatives, and to the Comptroller General of the United States, a report setting forth the results of a study, conducted by the Secretary for the purposes of the report, of a comparison of the fully-burdened cost of performance of functions by Department of Defense (DOD) civilian personnel with the fully-burdened cost of the performance of functions by DOD contractors by no later than February 1, 2016. The study shall include:

(1) An assessment of performance of such functions at six DOD installations selected by the Secretary for purposes of the study from among DOD installations at which functions are performed by an appropriate mix of civilian personnel and contractors, with four such installations to be located in the continental United States and two such installations to be located outside the continental United States;

(2) An accounting of the fully-burdened cost of DOD civilian personnel and contractors performing functions for DOD (including costs associated with training, benefits, reimbursable costs under chapter 43 of title 41, United States Code, and facility overhead) in order to permit a direct comparison between the cost of performance of functions by DOD civilian personnel and the cost of the performance of functions by contractors;

(3) A comparison of the cost of performance of the full range of functions, required expertise, and managerial qualities required to adequately perform the function to be compared, including:

-
-
- a. Secretarial, clerical, or administrative duties, including data entry;
 - b. Mid-level managers and other personnel possessing special expertise or professional qualifications;
 - c. Managers and other leadership; and
 - d. Personnel responsible for producing congressionally-directed reports.

The committee recommends that, in conducting the study, the Secretary should take into account the policy that inherently governmental functions vital to the national security of the United States may not be performed by contractor personnel. The report required shall include an assessment of the flexible employment authorities available to the Secretary for the employment and retention of civilian employees of the DOD, including an identification of such additional flexible employment authorities as the Secretary considers appropriate to shape the civilian personnel workforce of the DOD. Not later than 120 days after receipt of such report, the Comptroller General shall submit to Congress a report that includes an assessment of the adequacy and sufficiency of the report submitted by the Secretary, including any recommendations for policy or statutory change as the Comptroller deems appropriate.

As we reported, DOD noted in its cost comparison report that it identified labor costs used in its comparisons. However, DOD did not include direct and indirect non-labor costs and DODI 7041.04 states that the full cost of personnel should include these non-labor costs as we discussed earlier in the report. Therefore, DOD only partially addressed the reporting provision.

In addition, DOD stated that we omit relevant language related to congressional intent for the second reporting element (i.e., an accounting of the fully-burdened cost of DOD civilian personnel and contractors). DOD stated that the text, “. . . in order to permit a direct comparison between the cost of performance of functions by DOD civilian personnel and the cost of the performance of the function by contractors,” conveys the congressional intent that the study is for comparison and our exclusion of the text in our restatement of the element omitted language

indicating relevant Congressional intent. We do not believe that the language omitted in our report changed the meaning of the reporting element, which is that DOD was to include an accounting of the fully-burdened costs of federal civilians and service contractors in its cost comparisons.

DOD further stated that we did not assess the second reporting element (i.e., an accounting of the fully-burdened cost of DOD civilian personnel and contractors) as it is directly stated but rather that we assessed the element by redefining it and then asserting that DOD partially addressed it. DOD noted that the direct language of the second reporting element is for DOD to include an “accounting” of the fully burdened cost of DOD civilian personnel and contractors. DOD asserted that we misinterpreted the meaning of “accounting” when we determined that DOD partially addressed the mandate because it did not “calculate” certain non-labor costs. We disagree. As we discuss in our report, DOD did account for the labor costs associated with federal civilian and service contractors by gathering labor cost data from several sources, but it did not include non-labor costs in its cost calculations. In order to account for the fully burdened costs of federal civilians and service contractors, as directed to do so by the preamble to the reporting elements, as well as the second reporting element, DOD should have included all labor and non-labor costs in the cost calculations.

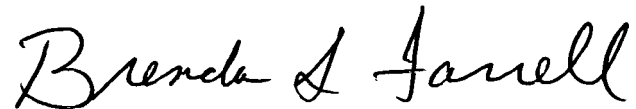
DOD also stated that our assessment incorrectly implies that to “account” for costs is equivalent to “calculating” costs as evidenced by the following quote from our draft report, “We acknowledge that DODI 7041.04 states that the cost elements can be modified, but by excluding non-labor costs in its cost comparisons, DOD did not account for the full cost of federal civilians and service contractors as requested in the mandate.” DOD stated that although DOD did not “calculate” some non-labor costs, they did “account” for them in accordance with DODI 7041.04 and as directed in the congressional mandate. DOD asserted that in multiple places, DODI 7041.04 states that common costs “are excluded” and “may be excluded” from cost comparisons. DOD provided facility costs as an example of non-labor costs accounted for but not calculated in its cost comparisons. DOD stated that in its report, all of the civilian positions and contractor functions are performed at government-owned facilities. Thus, facility costs are common costs and may be excluded. DOD stated that their report accounted for facility costs by recognizing that such costs exist and are common costs, thus, DOD properly excluded such costs in accordance with DODI 7041.04, and their report satisfied the Congressional mandate.

We disagree. As mentioned above, the preamble to the mandated reporting elements and the second reporting element specifically directed that DOD account for the fully-burdened cost of DOD civilian and contractor personnel. Because there are multiple costs associated with civilian and contractor personnel, calculations are necessary in order to account for the full cost of these workforces. DODI 7041.04 instructs that if a function is performed on government property, the costs of goods, services, and benefits that are common costs may be excluded provided the number of government and contractor personnel is equivalent. While there were some instances where it was the case that DOD's cost estimates involved an equal number of civilian and contractor personnel performing functions on government property, there were many instances where the personnel numbers differed and common costs should not have been excluded. For example, in DOD's comparisons of federal civilians and service contractors at Fort Belvoir Community Hospital, DOD conducted comparisons of 19 functions where 2 functions had equal numbers of federal civilian and service contractors and 17 functions had differing numbers of federal civilian and service contractors. In one comparison, the number of contractors was over three times the number of civilians. DODI 7041.04 further instructs that when the number of government and contractor personnel differs, adjustments must be made to the cost estimates to account for the difference in number of government and contractor personnel. DOD did not make these adjustments in its calculations and as a result non-labor costs should not have been excluded; therefore, DOD did not account for the fully-burdened costs, as directed by Congress.

We are sending copies of this report to the appropriate congressional committees. We are also sending copies to the Secretary of Defense, the Director of the Office of Cost Assessment and Program Evaluation and other interested parties. This report will also be available at no charge on our Web site at <http://www.gao.gov>.

Should you or your staff have any questions concerning this report, please contact Brenda S. Farrell at (202) 512-3604 or farrellb@gao.gov. Contact points for our Offices of Congressional Relations and Public

Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Brenda S. Farrell". The signature is written in a cursive style with a large initial 'B' and 'F'.

Brenda S. Farrell
Director
Defense Capabilities and Management

Appendix I: Comments from the Department of Defense



COST ASSESSMENT AND
PROGRAM EVALUATION

OFFICE OF THE SECRETARY OF DEFENSE
1800 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-1800

MAR 13 2018

Ms. Brenda Farrell
Director, Defense Capabilities Management
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Ms. Farrell,

This is the Department of Defense (DoD) response to the GAO Draft Report, GAO-18-399SU, 'CIVILIAN AND CONTRACTOR WORKFORCES: DoD's Cost Comparisons Addressed Most Report Elements But Excluded Some Costs,' dated February 20, 2018 (GAO Code 101175).

Attached is DoD's proposed response to the subject report. My point of contact is LTC Michael Kuzara who can be reached at michael.j.kuzara.mil@mail.mil and phone (703) 695-5941.

Sincerely,

A handwritten signature in blue ink, appearing to read "B. Daigle", is written over a faint, larger signature.

Bob Daigle
Director

Nonconcur

DoD nonconcur with the GAO's assertion that DoD partially addressed, rather than addressed, one of the reporting elements, for several reasons:

1) *The GAO report presents the reporting element in the absence of its full context and Congressional intent.*

- a) *In its report, the GAO lists the reporting elements in a stand-alone list. In the legislative mandate, however, the list of elements is not a stand-alone list. It is preceded by a paragraph with a colon as a preamble to the list. That preamble, which GAO does not reproduce in its report and which provides context and Congressional intent, directs the Secretary of Defense to submit, "... a report setting forth the results of a study ... of a comparison of the fully burdened cost of performance of functions by the Department of Defense (DOD) civilian personnel with the fully burdened cost of the performance of functions by DOD contractors ..."* Likewise, in its restatement of the second reporting element, the GAO omits relevant language from the Congressional mandate concerning Congressional intent. Specifically, the GAO's restatement of the second reporting mandate excludes, "... in order to permit a direct comparison between the cost of performance of functions by DOD civilian personnel and the cost of the performance of function by contractors." In both cases, it is clear that the intent of the study is for comparison.

- b) *The GAO did not assess the second reporting element as it is directly stated. Rather, the GAO assessed the element by redefining it then asserting that DoD partially addressed it. The second element states that DoD's report shall include, "an accounting of the fully burdened cost of DOD civilian personnel and contractors performing functions for DOD (including costs associated with training, benefits, reimbursable costs ... and facility overhead) ..."* The direct language in the mandate is for DoD to include an *accounting* of the fully burdened cost of DoD civilian personnel and contractors. In its assessment, the Government Accountability Office appears to misinterpret the mandate's direct language, *accounting*, by stating that DoD did not meet this mandate because it did not *calculate* certain costs, "... [DoD] excluded certain non-labor costs from its calculations."

Thus, Congressional intent is to account for costs for the purpose of comparison. The Government Accountability Office's assessment incorrectly implies that to account for costs is equivalent to calculating costs, "We acknowledge that DODI 7041.04 states that the cost elements can be modified, but by excluding non-labor costs in its cost comparisons, DOD did not account for the full cost of federal civilians and service contractors as requested in the mandate." Although DoD did not *calculate* some non-labor costs, DoD did indeed *account* for them in accordance with DoDI 7041.04 and as directed in the Congressional mandate. In multiple

places, DoDI 7041.04 states that common costs “are excluded” and “may be excluded” from cost comparisons. One example of non-labor costs is facility costs. In DoD’s study and report, all of the civilian positions and contractor functions are performed at government-owned facilities. Thus, facility costs are common costs and may be excluded. In its study, DoD accounted for facility costs by recognizing that they exist and that they are common costs. Although DoD did not *calculate* common costs its comparisons of government civilians and contractors, DoD did *account for* them in compliance with the Congressional mandate by properly excluding such costs in accordance with DoDI 7041.04.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

Brenda S. Farrell, (202) 512 -3604, farrellb@gao.gov

Staff Acknowledgments

In addition to the contact named above, Vincent Balloon, Assistant Director; Timothy Carr, Felicia Lopez, Clarice Ransom, Michael Silver, and Norris "Traye" Smith made key contributions to this report.

Related GAO Products

Department of Defense: Actions Needed to Address Five Key Mission Challenges, [GAO-17-369](#) (Washington, D.C.: June 13, 2017)

DOD Civilian and Contractor Workforces: Additional Cost Savings Data and Efficiencies Plan Are Needed, [GAO-17-128](#) (Washington, D.C.: October 12, 2016)

Federal Hiring: OPM Needs to Improve Management and Oversight of Hiring Authorities, [GAO-16-521](#) (Washington, D.C.: August 2, 2016)

DOD Service Acquisition: Improved Use of Available Data Needed to Better Manage and Forecast Service Contract Requirements, [GAO-16-119](#) (Washington, D.C.: February 18, 2016)

Civilian and Contractor Workforces: Complete Information Needed to Assess DOD's Progress for Reductions and Associated Savings, [GAO-16-172](#) (Washington, D.C.: December 23, 2015)

DOD Inventory of Contracted Services: Actions Needed to Help Ensure Inventory Data Are Complete and Accurate, [GAO-16-46](#) (Washington, D.C.: November 18, 2015)

Sequestration: Comprehensive and Updated Cost Savings Would Better Inform DOD Decision Makers if Future Civilian Furloughs Occur, [GAO-14-529](#) (Washington, D.C.: June 17, 2014)

Human Capital: Opportunities Exist to Further Improve DOD's Methodology for Estimating the Costs of Its Workforces, [GAO-13-792](#) (Washington, D.C.: September 25, 2013)

Human Capital: Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce, [GAO-13-470](#) (Washington, D.C.: May 29, 2013)

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