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Recent Large Service Acquisitions in the Department of Defense

Lessons for the Office of the Secretary of Defense

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Summary

In August 2001, the Directorate of Acquisition Resources and Analysis in the Office of the Secretary of Defense (OSD) asked the RAND Corporation to identify policy issues relevant to large service acquisitions that deserved closer attention in OSD. RAND agreed to examine six new large acquisitions of various kinds of services in different parts of the Department of Defense (DoD) and to extract policy implications relevant to OSD. This report documents our findings from this effort.

Table S.1 provides high-level information about the six cases we examined. We chose these cases, with OSD's concurrence, because they represent as broad a range of new approaches to services acquisition as possible within a limited number of cases. They include

- Each of the armed services and a defense agency.
- Single providers, teams of providers, and even multiple teams of providers, each with its own contract. One provider has two separate prime contracts in one case.
- Large and small providers. Most small providers serve as subcontractors on one of the teams in the sample, but some act as prime contractors that integrate and oversee the services of large and small subcontractors.
- Sole-source providers and providers selected by competition for a continuing program and within a continuing program.
- Purely commercial activities, such as food service in the continental United States, and services with no immediate commer-

Table S.1
Service Acquisitions Examined

Acquisition	Buyer/Seller	Services	Size/Date
Balkans Support Contract (BSC)	Army/Kellogg Brown and Root	Mainly commercial-type support services for deployed forces	$2.1 billion over 1999–2004/ 5 years
Food Service	Marine Corps/ Sodexho	Food service in all continental U.S. mess halls	$881 million over 2002–2010/ 8 years
Groundbreaker	National Security Agency/ team of Computer Sciences Corp. and Logicon	Non-core information technology, services at agency headquarters	$2.0 billion over 2001–2011/ 10 years
F/A-18-E/F Integrated Readiness Support Teaming (FIRST)	Navy/Boeing	Parts, maintenance, reliability, and maintain- ability improvements	$770 million over 2001–2006/ 5 years
Rapid Response to Critical Systems Requirements (R2CSR)	Army/3 teams	Parts, maintenance, engineering services, etc.	$5.4 billion over 1998–2003/ 5 years
Flexible Acquisition and Sustainment Tool (FAST)	Air Force/6 teams	Parts, maintenance, engineering services, etc.	$7.4 billion over 2001–2008/ 7 years

cial analog, such as full support, in peacetime and wartime, of parts unique to a weapon system that has just entered the operational force. Most are in between.

- A variety of methods for achieving flexibility and responsiveness.
- Large acquisitions of varying size and duration.
- Acquisitions just starting, with fresh information, and older acquisitions, with some history to observe.

Because the services acquisitions studied are fairly new, it will take time to determine how well they work in practice. The case studies offer the best insight into the execution of the two oldest acquisitions, the Army BSC and R2CSR programs. For the other four acquisitions,

we focused on what can be known up through contract award. The insights reported here are based on observations current as of summer 2002. We strongly endorse ongoing efforts to monitor these acquisitions to determine what portion of their promise they realize and to gather useful lessons learned for future DoD service acquisitions from the experience offered by their execution.

Table S.2 summarizes the kinds of services acquisition policy issues addressed in the six acquisitions. Looking across these acquisitions, one sees several general findings emerge.

Table S.2
Major Policy Issues Arising in Cases Studied

Policy Issue	Cases in Study					
	BSC	Food Service	Ground-breaker	FIRST	R2CSR	FAST
Involvement of OSD, Congress	✓	✓	✓	✓	✓	✓
Lower acquisition costs, times					✓	✓
Needs of small, disadvantaged businesses		✓	✓		✓	✓
New forms of competition			✓		✓	✓
New forms of public-private coordination	✓	✓	✓	✓	✓	✓
Innovative contract terms	✓	✓	✓	✓	✓	✓
Delegation of authority to contractor	✓	✓	✓	✓	✓	✓
Dynamic military demands	✓	✓		✓		✓
Managing different types of funds	✓	✓		✓	✓	✓
DoD acquisition skills, processes	✓	✓	✓	✓	✓	✓

Effects of Acquisition Reform in Services Acquisition

Perhaps the most important of the general findings is that many ideas discussed during the 1990s and tested initially in larger system acquisitions are finding their way into services acquisition. Each of the cases highlights different new ideas, but three broad shifts occur almost everywhere:[1]

1. **Importance of program management.** The advent of large service acquisitions has increased the importance of program management. This change calls for different skills among relevant DoD acquisition professionals and a different kind of interaction between them and personnel in other DoD organizations.[2]
2. **Delegation of day-to-day management to contractor.** The trend toward performance-based services acquisition (PBSA) shifts responsibility for day-to-day management from DoD to the contractor. DoD then has an opportunity to think more strategically about how to link contract services to users' needs or to simplify the process users face to get access to contract services.[3]
3. **Alternatives to arms-length relationships.** Traditionally structured, arms-length relationships between DoD and its providers are giving way to a variety of alternatives, some of which rely more heavily on public-private partnership and joint provision of services, while others allow greater use of competition by simplifying its application. This variety reflects an ability to use discretion to tailor Federal Acquisition Regulation (FAR) arrangements to users' needs rather than having to comply with a few tried and true standard operating procedures.[4]

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[1] The row in Table S.2 labeled "Innovative contract terms" reflects more-specific changes in individual contracts.

[2] The row in Table S.2 labeled "DoD acquisition skills, processes" reflects this trend.

[3] The row in Table S.2 labeled "Delegation of authority to contractor" reflects this trend.

[4] The row in Table S.2 labeled "New forms of public-private coordination" reflects this trend.

OSD's Role in Services Acquisition

Some OSD policies clearly influence these patterns of change, but each of our cases represents an example of a bottom-up effort to take advantage of new opportunities made available by acquisition reform. OSD efforts to promote acquisition reform made these changes possible, but none of the changes is best understood as primarily a deliberate effort to comply with an OSD directive to pursue acquisition reform. Two resulted from OSD initiatives to improve management in DoD, but even these proceeded with limited direction or oversight from OSD.

In several cases, it might be argued that the acquisitions were a creative response to OSD, administration, or congressional efforts to drive policies only tangentially related to the service activities addressed here. For example, high-level priorities favoring competitive sourcing or outsourcing probably helped promote interest in using contract sources. But no one had to develop the creative approaches to using contractors displayed here to comply with those priorities. Similarly, high-level support for applying manpower ceilings in theater increased attention to using contractors to support deployed forces; creative acquisition strategies made it much easier to use contractors in theater.

Future Roles for OSD in Services Acquisition Policy

The six cases suggest that OSD can effectively address continuing change in DoD services acquisition by focusing on three roles:

Linking services acquisition goals to DoD's strategic goals. As acquisition reform continues to transform the acquisition of services in DoD, traditional notions of what is appropriate or even acceptable to do in service acquisitions will inevitably come into question. Ambiguity will continue as long as reform continues, and OSD can help facilitate and coordinate the debate about what DoD really wants in services acquisition. What priorities applied to specific service acquisitions are most compatible with DoD's high-level, strategic goals? The

metrics that OSD uses to monitor service acquisitions should evolve as this debate continues to evolve.

Managing congressional concerns about services acquisition. Congress has been and will continue to be drawn into the design and management of service acquisitions in DoD. To the extent that OSD can anticipate events or decisions in DoD service acquisitions likely to interest Congress, OSD can shape those acquisitions to address Congress's concerns more effectively. Congress appears most likely to get involved if a DoD service acquisition injures or appears to injure a member of a politically powerful constituency. Acquisition issues that have drawn particular interest in recent years include the bundling of work previously performed by small business prime contractors, the outsourcing of work previously performed by government civilians, and the use of a source selection that appears to exclude potential providers unfairly. Congress is more likely to notice large service acquisitions, but our sample was too small to provide insight into how large a service acquisition should be before OSD takes an interest.

Developing and disseminating lessons learned. DoD services acquisition has just begun to reflect insights from best commercial practice, and experimentation and learning can be expected to continue for the foreseeable future. As evidence accumulates on the positive and negative effects of new practices applied in a defense setting, OSD is the natural place to collect this evidence, assess it, and shape it into lessons relevant to practices for future service acquisitions in DoD. Lessons learned are highly likely to include implications for skills relevant to the DoD acquisition force. OSD has an integral role to play in pushing new information into DoD training and personnel management programs for relevant personnel and adjusting these programs as appropriate over time.

Specific Substantive Policy Issues for OSD to Consider

As OSD pursues the broad oversight roles described above, services acquisition is likely to raise a series of more specific challenges. OSD can expect these challenges to arise repeatedly as it clarifies links be-

tween DoD's strategic goals and its goals for services acquisition, manages the components' relationships with Congress with regard to services acquisition, and seeks to develop and disseminate lessons learned from ongoing experiments in services acquisition.

Criteria other than cost. The acquisitions reviewed all rely heavily on criteria other than cost to define the contractual terms relevant to executing their contracts. Those that used competitive source selections all relied heavily on non-cost criteria in those source selections. Criteria other than cost are essential to efforts (like those reviewed here) to build longer-term relationships that give providers enough discretion for DoD to benefit from their various commercial capabilities. Such criteria will likely prove critical to the success of DoD's efforts to expand the use of performance-based service contracting (PBSC), since successful PBSC arrangements rely heavily on the quality of a provider. Despite the growing importance of non-cost criteria in services acquisition, however, Congress continues to prevent their effective use in public-private competitions and, in its most recent action on services acquisition in DoD, the National Defense Authorization Act (NDAA) for Fiscal Year (FY) 2002, still emphasized the importance of cost savings as a measure of success. DoD's 5000-series acquisition documents recognize the importance of non-cost criteria to services acquisition. DoD must ensure that specific service acquisitions benefit as much as possible from the use of such criteria in source selections and performance agreements.

Support of contingencies. Recent events associated with 9/11[5] and the wars in Afghanistan and Iraq illustrate how volatile the global political-military environment is today. As DoD continues to outsource and bring contract services closer to the warfighter, it will need to give more and more attention to building contractual relationships flexible and responsive enough to succeed in the global environment. The acquisitions we examined illustrate how to build broadly flexible arrangements (BSC, FAST, R2CSR) and arrangements with specific terms that allow goals and incentives to change during contingencies

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[5] The Al Qaeda attack on the United States on 11 September 2001.

(FIRST, Marine Corps food service). They also caution that flexible arrangements pose control issues. DoD must decide how much it is willing to pay, in dollars and in performance, for flexibility and responsiveness in service acquisitions.

Treatment of small and disadvantaged businesses. The most persistent issue identified in the acquisitions we reviewed is probably the treatment of small and disadvantaged businesses. Such businesses have traditionally provided much of the contract service support DoD receives, especially for less complex activities. But commercial practice is increasingly demonstrating the economies of scale and scope and the improvements in contractor alignment and accountability that come from bundling contracts. DoD will continue to increase its use of bundled services. The acquisitions reviewed (especially FAST, Marine Corps food service, R2CSR) illustrate that the success of this trend depends on Congress and the advocates for small and disadvantaged businesses being fully engaged and satisfied with the bundling plans devised. The cases illustrate techniques for providing attractive opportunities for small and disadvantaged businesses within bundled activities—for example, set-asides for small businesses acting as prime contractors for bundled services, subcontracting set-asides within bundles, mentoring relationships between large primes and small and disadvantaged subcontractors to help the subcontractors grow, and improved methods for ensuring timely payment of subcontractors. They also illustrate the importance of screening small and disadvantaged businesses carefully to ensure they can operate effectively within a bundled service agreement and of integrating them effectively into the bundle.

Public-private partnering. New ways for DoD to partner with contractors during execution of contract services came up repeatedly in the acquisitions we reviewed. Examples include

- Participating in ongoing operational support planning activities (BSC, FIRST).
- Integrating DoD and contractor portions of an end-to-end value chain under a contractor's control (FIRST).

- Providing on-the-job training to government personnel in contractor-operated settings (Marine Corps food service).
- Auditing contract performance (Groundbreaker).
- Marketing a government service to other government organizations (FAST, R2CSR).

These are just some of the many opportunities likely to be available, each of which will depend on the particular circumstances of the service acquisition. Because these push the envelope of accepted federal acquisition practice, however, they are likely to draw particular attention and to benefit from careful review.

Treatment of displaced government civilians. Growing outsourcing of services will increasingly displace government civilians. When DoD outsourced in the past, it could typically give its displaced employees the opportunity to take a position elsewhere in DoD, because the number of displaced billets was small relative to total DoD billets or even turnover in personnel filling those billets. If competitive sourcing and other initiatives continue to outsource billets at current rates, DoD will no longer be able to provide the same protection. OSD will need to pay increasing attention to how DoD protects displaced civilians. This was an important issue in only one of the cases reviewed here (Groundbreaker), but this one offers a useful object lesson on what is involved.

Barriers to innovation in services acquisition. As acquisition reform exploits new opportunities, new barriers come to light. Congressional requirements to maintain different kinds of funds—different "colors of money"—limit DoD's ability to hold contractors accountable for cost-effective trade-offs (FIRST, Marine Corps food service, R2CSR). Current DoD interpretations of commercial pricing force the use of firm-fixed prices for acquisitions of services that real commercial firms would use cost-based pricing for (BSC). This practice is likely to raise long-term costs to DoD by forcing contractors to bear risks they cannot control effectively. The mechanics of Office of Management and Budget Circular A-76 make it difficult or impossi-

ble to structure acquisitions that dramatically change how work scope is specified (Groundbreaker).[6] These policies, and others like them, will continue to inhibit the gains of acquisition reform unless OSD can find ways to adjust their application in DoD.

Comparison with Recent Services Acquisition Policy Initiatives

The policy implications of the large service acquisitions we reviewed are broadly compatible with those of two recent initiatives relevant to DoD services acquisition: the "Acquisition of Services" Review Process that Under Secretary of Defense (Acquisition, Technology, and Logistics) (AT&L) devised in 2002 to implement Sec. 801 of the NDAA for FY 2002;[7] and the Services Acquisition Reform Act, H.R. 1837, that Congressman Tom Davis introduced into the House of Representatives Government Reform Committee in April 2003 (SARA II).[8] To summarize:

- Both favor efforts to tailor arrangements in large acquisitions so that provider capabilities are as closely aligned as possible with DoD's strategic goals.
- Both favor efforts that encourage the DoD components to innovate in ways that advance this alignment. H.R. 1837 offers a variety of specific adjustments in the application of the FAR that are designed to do this, even though doing so alters the federal government's traditional views on integrity, equity, and effi-

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[6] Office of Management and Budget, 1999. A-76 governs competitive sourcing in the federal government, one of the five priorities on President Bush's management agenda (Office of Management and Budget, 2001).

[7] DoD Instruction 5000.2 (U.S. Department of Defense, 2003c, Enclosure E8); Aldridge, 2002; and Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics), 2002. This last document, "Review of Department of Defense (DoD) Acquisition of Services," implements Sec. 801(d) of the NDAA for FY 2002 (P.L. 107-107).

[8] Full text available at http://capwiz.com/govexec/webreturn/?url=http://thomas.loc.gov/cgi-bin/query/z?c108:H.R.1837 (as of 12 May 2003).

ciency. The acquisitions we reviewed suggest that the adjust-
ments will succeed only if the new training envisioned in H.R.
1837 is properly framed.

- The AT&L process highlights the importance of giving OSD
  better oversight on a short list of special-interest issues very
  similar to those identified here.
- A potential source of future difficulty is that the definition
  both initiatives use for performance-based services contracting
  (PBSC) differs from the standard definition in FAR Part 37.6.
  Their definition could give the government far more control
  than either initiative intends over how a contractor provides a
  service, and more control than the acquisitions we reviewed
  might conclude was compatible with the best alignment be-
  tween DoD's strategic goals and provider capabilities.