

RECORD VERSION

STATEMENT BY

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BEFORE THE

READINESS SUBCOMMITTEE

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ON SERVICES CONTRACTING PRACTICES AND POLICIES

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Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to come before you and discuss the Army's use of services contracts. The Army uses service contracts to support our Soldiers and allow our military to focus on defending this nation while allowing the private sector to provide supporting services. The Army uses contract services as a business solution when it makes sense to do so, given cost, schedule, and performance risks and anticipated benefits. The Army leverages such modern business techniques to create the best trained and equipped Army in the world.

Over the past decade, the Congress also has passed legislation that permits the Federal government to emulate what world-class companies and ordinary citizens have done within the US marketplace—to hire a contractor to produce a desired result instead of buying the supplies and acting as one's own general contractor by hiring the various separate labor categories needed to produce the result on our own. Examining the variety of solutions within the marketplace and selecting the offer that best meets the need at a reasonable price is the optimal acquisition process. We believe that the use of contracted services is absolutely critical for our support to the Warfighter. Whether it is logistical support or intelligence support services, Continental US (CONUS) Guard Services, or world-wide Information Technology (IT) support services, these contracted services are essential to the Army's on-going mission. The Army acquires these services by contract in order to provide needed, essential

support services to the Warfighters, when such services provide the best business solution for the necessary support, given risk assessments, and cost, performance and schedule requirements.

In January 1955, President Eisenhower declared that the Federal government should rely on the private sector to provide the goods and services necessary for the operation of Federal agencies. This policy has been upheld by every succeeding administration of both parties. It makes even more sense with the rise of a services-based economy in the United States.

The economy has shifted from a manufacturing-based economy to a service-based economy over the past decade. At its peak in 1945, manufacturing represented 40% of the economy. Today that sector employs less than 11% of US workers. In contrast, today, 55% of the US economy is service-based. In 2001, the service sector produced 80% of the gross domestic product. In contrast, the industrial/manufacturing sector produced only 18% of the Gross Domestic Product. We are truly living in a service-based economy. That is the reason that the United States is one of the most productive nations on earth.

Given the current service-based economy within the United States, the Congress has passed legislation that supports more efficient and effective use of service contracts. In every case, the Army has adapted to take advantage of those new flexibilities as they were granted by statute.

In 1994's Federal Acquisition Streamlining Act, Public Law 103-355, Section 1004 of the Act recognized the need for a more flexible approach to task and delivery order contracts by authorizing the use of multiple award arrangements. The Army used that authority to establish multiple award portfolios of contracts that provide services we need to support deployment of troops from our power projection installations. These contracts augment and support mob/demob efforts at our installations that were previously performed by soldiers.

The National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107, included two provisions related to services contracting. Section 801, Management of Procurement of Services, required the Department of Defense to establish a management structure for the procurement of services, collect and analyze data on services purchases, and establish a service acquisition review process similar to that used for major weapons systems. The Army has implemented a rigorous review process for the acquisition of services which reflects our internal structure and processes. We instituted the Army Management and Oversight of the Acquisition of Services (AMOAS) process and included the associated Army Federal Acquisition Regulation Supplement (AFARS) coverage at Subpart 5137.5.

This provides the rigorous management and oversight envisioned by the statute as well as appropriate consideration of critical issues by senior management. Our process is fully compliant with the requirements of the statute. Over the past 3 years we have reviewed approximately 20 acquisition strategies with a combined total estimated value of \$60 Billion at the Headquarters, Department of the Army level. Our review process also requires that smaller dollar acquisitions be reviewed at appropriate lower levels, using much of the same criteria that are used to review the large dollar acquisitions. In addition, novel or complex requirements are subject to greater scrutiny, as any approval authority can request that a special interest acquisition be reviewed, even if it does not meet the dollar threshold requirements. As a result of this oversight there has been an increase in the use of performance based service approaches; more broad-based, multiple awards designed to minimize the risk of a single point of failure in delivery of service; and increased consideration of the impacts to small and other economically disadvantaged businesses at both the prime and subcontract levels.

The second provision was Section 803, regarding the procedures for placing orders for services over \$100,000 under multiple award task order contracts. Section 803 requires that contracting officers contact many more sources than previous Federal Supply Schedule policies required. Since its implementation , Contracting Officers must contact as many schedule holders that are capable of performing the work as practicable AND ensure that at least

three responses are received, or, alternatively, contact ALL the schedule holders. Army contracting officers do thorough market research to verify which of the schedule holders are capable of performing the required work and how many must be contacted to yield three viable proposals. The schedule holder determines whether it will provide a response. Schedule holders want to get the best result from scarce bid and proposal dollars. Often times they will change their mind before responses are due, if a more attractive project is announced, for instance. This means the contracting officer cannot determine how many will ultimately respond, even when schedule holders have stated their intent to submit a proposal. Therefore, the rule requires the contracting officer to contact as many as research reveals will likely result in three proposals from schedule holders that are capable of performing the work. If a contracting officer fails to receive three responses, he/she must determine in writing that no additional qualified contractors were able to be identified despite reasonable efforts to do so. This determination will, naturally, be subject to review by auditors. If the order is placed against multiple award contracts that are not part of the Federal supply schedules program, the contracting officer must contact all awardees that are capable of performing the work and provide them an opportunity to submit a proposal that must be fairly considered for award.

Because the rule effects how GSA's largest customer places orders under schedules for services, DOD teamed with GSA to implement the rule and to

develop training on the new processes. The training was provided across the DOD and to civilian agencies that support the DOD through interagency buys.

Section 812, Management Structure for Procurement of Contract Services, of the National Defense Authorization Act for Fiscal Year 2006 requires that the Under Secretary of Defense (Acquisition, Technology & Logistics) develop and maintain policies, procedures, and best practices guidelines for the procurement of contract services, covering a variety of subjects, including acquisition planning, contract placement, requirements development, oversight, evaluating contractor performance, and risk management. The Department of Defense has begun to create new policies and procedures in the short time since this statute was passed. The Army will likely lower review thresholds and increase significantly the number of service acquisitions that are reviewed by senior leadership as a result of the new DOD policies.

The Army has not only responded to external demands for change. We also have looked within to determine how to best transform to meet our changing environment and take advantage of new business tools. We believe this will make us more responsive and able to devote a greater percentage of our resources to the execution of our mission to defend this nation.

We are in the process of refining our internal business practices, applying modern management principles (such as Lean Six Sigma) to transform into a

leaner, more effective structure with a more disciplined approach to acquisition of services. Within the last year, we have initiated actions to provide better visibility over proposed new service contract actions, the process by which we place orders for services against non-DOD agency contract vehicles, and the size of the contractor service workforce that supports the Army.

We have also adopted a more strategic sourcing focus. Building on our process of centralized management of information technology procurements, we recently added a consolidated buy capability which leverages the current infrastructure, aggregates volume and establishes more consistent configurations. Potential sourcing candidates exist for support at both installation and depot levels. By developing enterprise wide solutions we anticipate leveraging our spending, maximizing resources and providing more robust capability to support the Warfighting effort.

The Army strives to get good value for taxpayer dollars as we buy services. Our buyers do research to see what similar services cost on the open market in the local area. They examine the package of services that is being offered to the Government and validate that the Army really needs each of the component services. They partner with the Defense Contract Audit Agency and the Defense Contract Management Agency to validate labor rates, and overheads and to verify that the contractors have good management controls

and accounting systems. The negotiated contracts therefore reflect good value for our money.

What have been the net results of using service contracts to replace other acquisition approaches? Let us examine the Flight School XXI (FSXXI) Simulation Services acquisition program at Fort Rucker, Alabama. FSXXI Simulation is a long-term services contract for flight school pilot simulation training. All flight school simulators are built, owned, operated, maintained, and upgraded by the contractor. Shortcomings in the previous model for training pilots led to an innovative business solution modeled on practices found in the commercial marketplace.

In that one program, the Army saves \$30M a year by training student helicopter pilots on simulators instead of using “blade time.” That is a cost savings to the taxpayer of \$525M over the life of the contract. In addition, our pilots are better trained under this approach. Flight student training in go-to-war aircraft simulators increases by an average of 78%, and overall simulator flight time increases by an average of 95%. Therefore, the Army gets much better trained pilots at a lower cost to the taxpayer. This is good for the student, good for the Army, and good for America.

In closing, I would like to affirm my commitment to provide appropriate oversight to the services contracting process, and to wisely select among various

acquisition approaches to balance risk, cost, and desired outcomes. It is incumbent upon the Army to leverage all parts of the US economy, including the services sector, to organize, train and equip the best Armed Forces in the world and to protect our families and loved ones from harm as we defend this great nation.

Thank you. I would be glad to take any questions you might have.