



May 2013

# HUMAN CAPITAL

## Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce

# GAO Highlights

Highlights of [GAO-13-470](#), a report to congressional committees

## HUMAN CAPITAL

### Additional Steps Needed to Help Determine the Right Size and Composition of DOD's Total Workforce

#### Why GAO Did This Study

The federal government's growing fiscal challenges underscore the importance of DOD employing a strategic approach to determining the appropriate mix of its military, civilian, and contractor personnel to perform its mission, and determining the functions that are critical for the department to achieve its missions. A committee report accompanying the National Defense Authorization Act for Fiscal Year 2013 directed GAO to assess the measures DOD is taking to balance its workforce against its requirements. GAO examined (1) historical and projected workforce trends, (2) the actions DOD has taken to determine an appropriate workforce mix, (3) the analysis DOD performs to identify core or critical functions, and (4) how DOD used its inventory of contracted services to inform budget submissions. GAO performed trend analysis to determine historical and future workforce levels. GAO also reviewed relevant statutes, DOD and military department guidance, and budgetary submissions, and interviewed officials from DOD and the Office of Management and Budget (OMB).

#### What GAO Recommends

GAO recommends that DOD revise its policies and procedures to incorporate (1) legislative requirements for workforce planning and (2) federal requirements for the identification of critical functions. GAO also recommends that DOD provide better information regarding contractor FTEs used in budget submissions. DOD noted actions that it has underway or planned to respond to these recommendations.

View [GAO-13-470](#). For more information, contact Brenda S. Farrell at (202) 512-3604 or [farrellb@gao.gov](mailto:farrellb@gao.gov) or Timothy J. DiNapoli at (202) 512-4841 or [dinapolit@gao.gov](mailto:dinapolit@gao.gov)

#### What GAO Found

Since fiscal year 2001, the Department of Defense's (DOD) military and civilian workforces peaked in fiscal year 2011 at 3.1 million personnel combined, and is projected to decrease over the next five years to below the fiscal year 2001 level of 2.9 million. Comparable historical data on DOD's contractor workforce are not available. In fiscal year 2011, DOD reported that it contracted for services performed by an estimated 710,000 contractor full time equivalents (FTEs)—a workforce equal to about 90 percent of the size of DOD's civilian workforce of 807,000 FTEs. Using fiscal year 2013 constant dollars, GAO's analysis of DOD spending on contracted services shows obligations peaked in fiscal year 2010 at about \$195 billion, more than twice the amount spent in fiscal year 2001. This spending decreased to about \$174 billion in fiscal year 2012.

DOD has taken some steps to improve its understanding and management of its total workforce; however, several shortcomings remain. Specifically, DOD has yet to assess the appropriate mix of its military, civilian, and contractor personnel capabilities in its strategic workforce plan as required by law. Further, DOD has not updated its policies and procedures to reflect current statutory requirements to use its civilian strategic workforce plan and the inventory of contracted services to determine the appropriate mix of personnel to perform DOD's mission. Moreover, DOD's strategic human capital plan does not contain certain required elements and information and several factors limit the accuracy of its inventory of contracted services. As a result, the department is hampered in making more informed strategic workforce mix decisions, which is crucial to meeting DOD's congressional mandate to manage its total workforce.

Although DOD is not required to perform analysis to identify a list of core or critical functions across the department as a whole, DOD has identified broad core mission areas of the department. However, its current policies do not fully reflect federal policy concerning the identification of critical functions. Office of Federal Procurement Policy Policy Letter 11-01 requires agencies to identify and ensure that they retain control over critical functions that are core to the agency's mission, but may be contracted out to the private sector. DOD's policies and procedures predate the publication of this requirement, and consequently contain no reference to it. Absent specific policies and procedures on this process, DOD may lack assurance that it retains enough government employees to maintain control over these important functions.

DOD components used various methods and data sources, including their inventories of contracted services, to estimate contractor FTEs for budget submissions, but GAO's analysis found that the contractor FTE estimates have significant limitations and do not accurately reflect the number of contractors providing services to DOD. Components encountered challenges, to include the use of estimating techniques based on inventory data that may not be accurate and the lack of a crosswalk between the inventory and specific budget codes. While the Army has a process that addresses these challenges, it may be several years before the remaining DOD components are able to do the same. DOD is taking steps to help the remaining components address these challenges, but, in the meantime, the budget does not provide an explanation of how the contractor FTE estimates are derived and what limitations apply.



May 29, 2013

The Honorable Carl Levin  
Chairman  
The Honorable James M. Inhofe  
Ranking Member  
Committee on Armed Services  
United States Senate

The Honorable Howard P. “Buck” McKeon  
Chairman  
The Honorable Adam Smith  
Ranking Member  
Committee on Armed Services  
House of Representatives

The Department of Defense (DOD) is one of the largest and most complex organizations in the federal government, and it is consequently one of the nation’s largest employers. DOD’s total workforce consists of three main components: military personnel (including the active military and the reserve and guard forces<sup>1</sup>), civilians, and contractors providing support to the department. For fiscal year 2012, DOD budgeted for a military workforce of about 2.3 million active and reserve servicemembers and a civilian workforce of about 800,000 full time equivalents (FTEs),<sup>2</sup> including foreign nationals and indirect hires. The active military and reserve and guard forces are charged with implementing the National Military Strategy and performing military essential functions in support of DOD’s various missions. DOD’s civilian workforce performs a wide variety of responsibilities, including providing care for active duty personnel, their dependents, and wounded servicemembers; managing financial accounting systems; and providing mission-essential combat-support functions that traditionally have been performed by the uniformed military, such as logistics support, maintenance, and carrying out cyber and

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<sup>1</sup>Within DOD’s military personnel component of its total workforce, the reserve and guard forces are comprised of the Army, the Navy, the Marine Corps, and the Air Force reserves and the Army and Air Force National Guards.

<sup>2</sup>An FTE is a standard measure of labor that equates to one year of full-time work (labor hours as defined by the Office of Management and Budget Circular A-11 each year).

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intelligence efforts. In addition, a key component of this workforce also provides deployable civilian experts to Afghanistan and other theaters of operation. Augmenting the military and civilian workforces, DOD has increasingly relied on contractors both overseas and in the United States to perform many of the same functions as civilian employees, including management support, communication services, interpreters who accompany military patrols, base operations support (e.g., food and housing), weapon systems maintenance, and intelligence. In its inventory of contracted services, DOD reported that it spent about \$145 billion for contracted services in fiscal year 2011, provided by an estimated 710,000 contractor FTEs.<sup>3</sup> DOD's workforce management is governed by a complex statutory and regulatory framework, and each component of DOD's total workforce is governed by different rules that direct how the department manages its total workforce.

Presently, at the end of a decade that has seen two wars and growth in DOD's costs for military and civilian personnel as well as contracted services, DOD faces increasing competition for resources as the federal government confronts growing fiscal challenges. For example, we previously reported that in fiscal year 2012, DOD budgeted approximately \$72 billion for its civilian personnel<sup>4</sup>, an increase of approximately \$12.6 billion, or 21 percent, since fiscal year 2002.<sup>5</sup> In 2011, we reported that the active duty total compensation costs increased 32 percent from about \$143.8 billion in fiscal year 2000 to about \$189.4 billion in fiscal year 2008, and that the federal government's total estimated compensation for reserve and national guard members grew over 31 percent from about

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<sup>3</sup>DOD is required to annually compile an inventory of contracted services, pursuant to 10 U.S.C § 2330a, to include, among other data, the functions performed, the number of contractor FTEs performing the function, and the total dollar amount of the services purchased. For fiscal year 2011, we note that obligations reported for contracted services in budget justification materials and obligations reported in the inventory of contracted services differ. We have previously reported that a number of factors limit the accuracy and completeness of the inventory data, see, for example, GAO, *Defense Acquisitions: Further Actions Needed to Improve Accountability for DOD's Inventory of Contracted Services*, [GAO-12-357](#) (Washington, D.C.: Apr. 6, 2012).

<sup>4</sup>Civilian personnel include foreign nationals, which can be hired directly by DOD or indirectly hired under agreement or contract with foreign governments to provide personal services to the United States government

<sup>5</sup>GAO, *Human Capital: Critical Skills and Competency Assessments Should Help Guide DOD Civilian Workforce Decisions*, [GAO-13-188](#) (Washington, D.C.: Jan. 17, 2013).

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\$17.8 billion in fiscal year 2001 to nearly \$23.5 billion in fiscal year 2008.<sup>6</sup> Further, DOD's obligations for contracted services more than doubled from fiscal years 2001 to 2009.<sup>7</sup> The sequestration as a result of the Budget Control Act of 2011<sup>8</sup> requires spending cuts in fiscal year 2013 totaling about \$40 billion through across-the-board, proportional reductions in funding provided in the appropriations acts for most defense accounts, including accounts related to DOD's civilian workforce and contracted services. To prepare for the sequestration, the Secretaries of the Military Departments issued guidance in January 2013 to their respective departments to direct actions intended to reduce costs. Further, section 955 of the National Defense Authorization Act for Fiscal Year 2013<sup>9</sup> calls for the Secretary of Defense to develop an efficiencies plan to achieve savings in funding for contractor and civilian workforces commensurate with the savings in military pay due to currently planned reductions to active duty end strength.

The current and long-term future fiscal pressures facing DOD underscore the importance of a strategic approach to recruit, develop, and retain the right number of individuals with the necessary skills and competencies for DOD to meet its mission and contract for services where appropriate. While progress has been made since we first placed strategic human capital management on our high risk list in 2001<sup>10</sup>—for example, through the various authorities and flexibilities provided to agencies for managing the federal workforce—this area remains one of significant concern. As we noted in February 2013, strategic human capital management in DOD and across the federal government continues to be a GAO high-risk area because critical skill and competency gaps could undermine agencies' abilities to accomplish their missions.<sup>11</sup> Current budget and long-term

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<sup>6</sup>GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011). Both estimates used fiscal year 2008 constant dollars.

<sup>7</sup>GAO, *Defense Acquisitions: Further Action Needed to Better Implement Requirements for Conducting Inventory of Service Contract Activities*, [GAO-11-192](#) (Washington, D.C.: Jan. 14, 2011).

<sup>8</sup>Pub. L. No. 112-25 (2011) as amended.

<sup>9</sup>Pub. L. No. 112-239, § 955 (2013).

<sup>10</sup>GAO, *High-Risk Series: An Update*, [GAO-01-263](#) (Washington, D.C.: January 2001).

<sup>11</sup>GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: February 2013).

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future fiscal pressures coupled with a potential wave of employee retirements could produce gaps in leadership and institutional knowledge that may threaten the government's capacity to effectively address complex challenges. Strategic human capital planning that is integrated with broader organizational strategic planning is essential for ensuring that agencies have the talent, skills, and experience they need to cost-effectively execute their current and future mission and program goals. Specifically, with regard to DOD, our work has emphasized that effective planning can enable the department to have the right people, with the right skills, doing the right jobs, in the right places, at the right time by making flexible use of its military and civilian workforces and appropriate use of contractors.<sup>12</sup>

Two key aspects of DOD's implementation of total force management are determining the appropriate mix of its military, civilian, and contractor workforces and determining the functions that are critical for the department to achieve its missions. Congress has taken many steps to help ensure DOD appropriately manages its total workforce, and has passed legislation requiring DOD to conduct human-capital planning efforts for its civilian workforce. Specifically, since 2006, legislation has required DOD to periodically develop and submit to congressional defense committees a strategic workforce plan to shape and better manage the department's civilian workforce.<sup>13</sup> Further, legislation encouraged DOD to take a more holistic approach to its workforce requirements to achieve the appropriate balance, using all three components—military, civilian, and contractor—of its total workforce, and prioritize the achievement of a workforce sufficiently sized and of the appropriate mix to carry out DOD's mission over cost.<sup>14</sup> Congress has also enacted new requirements and amended existing DOD workforce planning legislation to require inclusion of contracted services information in DOD's total force planning efforts. The background section of this report provides an overview of these requirements, as well as other

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<sup>12</sup>GAO, *DOD Civilian Workforce: Observations on DOD's Efforts to Plan for Civilian Workforce Requirements*, [GAO-12-962T](#) (Washington, D.C.: July 26, 2012).

<sup>13</sup>The National Defense Authorization Act for Fiscal Year 2010, Pub. L. No. 111-84, § 1108 (2009) (codified as amended at 10 U.S.C. §115b) codified a previous strategic workforce plan requirement that was originally enacted by section 1122 of the National Defense Authorization Act for Fiscal Year 2006, Pub. L. No. 109-163 (2006).

<sup>14</sup>10 U.S.C. §129a.

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relevant legislation, requirements, and guidance that directs DOD to take steps regarding its strategic workforce management. Additionally, we have made a series of recommendations to DOD to better manage its total workforce and improve its strategic workforce plan. Appendix I lists our recent relevant recommendations made to DOD.

A committee report accompanying a bill for the National Defense Authorization Act for Fiscal Year 2013 directed GAO to assess DOD's efforts to appropriately balance its current and future workforce structure against its requirements.<sup>15</sup> In this report, we examine: (1) the historical trends of the levels of military, civilian, and contractor personnel and the future projected trends for DOD's workforce in light of shifts in departmental priorities; (2) the extent to which DOD has taken action to determine the appropriate workforce mix necessary to accomplish its mission; (3) the extent to which DOD conducts analysis to identify core or critical functions of the department; and (4) how the military departments and defense agencies used the inventory of contracted services to inform their fiscal year 2013 and 2014 budget submissions.

To examine the historical and projected trends of the levels of military, civilian and contractor personnel in light of shifts in departmental priorities, we obtained data on active component end strength; the selected reserve within the reserve component end strength;<sup>16</sup> and civilian personnel FTEs, including foreign nationals and indirect hires;<sup>17</sup> and performed trend analysis on this data from fiscal year 2001 to fiscal year 2017. We relied on data from DOD's fiscal year 2013 Future Years Defense Program (FYDP), the Comptroller Information System (CIS) from the Office of the Under Secretary of Defense, Comptroller, and other DOD budget documents. We determined that these data, collectively, were sufficiently reliable for use in discussing historical and future trends

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<sup>15</sup>H.R. Rep. No. 112-479 (2012).

<sup>16</sup>For the reserve component, we included servicemembers from the Selected Reserve and excluded certain categories such as the Individual Ready Reserve and Inactive National Guard.

<sup>17</sup>According to DOD's glossary of workforce terms, foreign national employees are local citizens of the host country or citizens of a third country. Foreign nationals can be direct or indirect hires. Direct hired employees are hired directly by an agency of DOD. Indirect hire civilians are foreign nationals assigned to support U.S. forces through contracts or agreements with foreign governments (or agencies thereof). These personnel are employees of the foreign governments involved.

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of the military and civilian workforces. We assessed the reliability of the data by comparing the data against other available data sources, conducting electronic testing of the data, and discussing any limitations of the data with appropriate DOD officials. DOD does not have comparable information on DOD's contractor workforce, but to determine the size of the contractor workforce, we obtained estimates of contractor FTEs from DOD's inventory of contracted services from fiscal year 2008 to fiscal year 2011. To report on obligated dollars for contracted services, we reviewed the obligated dollars for contracted services from fiscal year 2001 to fiscal year 2012 and the projected obligations for contracted services from fiscal year 2013 to fiscal year 2014. We relied on budget data on obligations for contracted services. Based on discussions with appropriate DOD officials and our comparison of the trends in the budget data against other data sources, we believe the contracted service obligation data are sufficiently reliable to serve as context of overall trends for contracted services. In addition, we interviewed officials from the Office of the Secretary of Defense (OSD) and military services regarding how shifts in departmental priorities are expected to impact workforce requirements.

To determine the extent to which DOD has taken action to determine the appropriate workforce mix to accomplish its mission, we reviewed relevant legislation that governs DOD total workforce management and departmental guidance concerning requirements for DOD to carry out such an assessment.<sup>18</sup> We also interviewed OSD and military service officials to assess the actions DOD has taken to ensure it is employing the appropriate workforce mix. Specifically, we discussed the process DOD uses to determine which sector of the workforce should perform a given task based on the nature of the work involved, DOD's process for identifying mission critical occupations as part of its strategic workforce planning process, and efforts by the services to improve their total workforce management in the future. We reviewed selected statutory requirements concerning the processes by which DOD is to determine its appropriate workforce mix. We then compared these requirements to the department's efforts to date, and noted any differences.

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<sup>18</sup>10 U.S.C. §115b.



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To determine the extent to which DOD conducts analysis to identify core and critical functions, we reviewed relevant legislation<sup>19</sup> and federal policy and other guidance that requires the identification of inherently governmental and critical functions, including the Office of Federal Procurement Policy Policy Letter 11-01.<sup>20</sup> Further, we reviewed departmental guidance concerning the need and process for identifying critical functions. We interviewed OSD and military service officials to determine the actions DOD has taken to define core or critical functions and respond to these requirements. Additionally, we met with officials from the Office of Federal Procurement Policy within the Office of Management and Budget to discuss their views on DOD's implementation of those requirements contained in the 2011 policy letter regarding critical functions. We compared federal policy concerning the identification of critical functions to DOD's efforts to date, and noted any differences.

To determine how the military departments and defense agencies used the inventory of contracted services to inform their fiscal year 2013 and 2014 budget submissions, we focused our efforts on five DOD components—the departments of the Army, the Navy, and the Air Force, the Defense Logistics Agency (DLA), and the Defense Information Systems Agency (DISA). We selected these components based on the amount of their obligations for contracted services and the large number of contractor FTEs they identified in their fiscal year 2011 inventory of contracted services, the most current inventory available at the time of our review. We reviewed relevant guidance that directed the DOD components on how to use the inventory of contracted services to provide contractor FTE information in their budget submissions for fiscal years 2013 and 2014. We also interviewed DOD officials regarding the guidance and ongoing initiatives intended to improve the accuracy of the inventory data to inform future budget submissions. In addition, we interviewed relevant budget and manpower officials from the five components we included in our review regarding the use of their inventories in the development of their fiscal year 2013 and 2014 budget submissions, and we obtained corroborating documentation from the three components that could provide it to determine the processes used

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<sup>19</sup>10 U.S.C. §129a.

<sup>20</sup>Office of Federal Procurement Policy Policy Letter 11-01, *Performance of Inherently Governmental and Critical Functions* (Sept. 12, 2011).

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to develop contractor FTE information included in these budget submissions.

We conducted this performance audit from October 2012 to May 2013 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. A more in depth discussion of our scope and methodology appears in appendix II of this report.

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## Background

DOD's total workforce is made up of three main components: military personnel (including the active military and the reserve and guard forces), DOD civilian employees<sup>21</sup>, and contractor support. Figure 1 shows the number of the active and reserve components of the military, civilians, and estimated contractor FTEs that comprised DOD's total workforce in fiscal year 2011.

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<sup>21</sup>Civilian personnel include foreign nationals, which can be hired directly by DOD or indirectly hired under agreement or contract with foreign governments to provide personal services to the United States government.

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component, (2) ensuring manpower levels are programmed to optimize readiness, (3) developing annual manpower requests for Congress, including the consideration of converting from one form of manpower to another, (4) conducting continuous review of manpower utilization plans and programs, and (5) establishing and maintaining manpower data systems that account for all manpower resources.

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### DOD Projects Its Military and Civilian Workforce to Decrease, but Comparable Data on DOD's Contractor Workforce Are Not Available

DOD's data shows that since fiscal year 2001, its combined active, reserve, and civilian workforce peaked in fiscal year 2011 at 3.1 million personnel, and is projected by DOD to gradually decrease over the next five years to below its fiscal year 2001 level.<sup>30</sup> Comparable historical data on the contractor component of DOD's total workforce are not available, in part because DOD was not required to compile an annual inventory of activities performed pursuant to contracts for services until 2008. In its inventory for fiscal year 2011, DOD reported that about 710,000 contractor FTEs were performing various functions under contracts for services—which is equal to about 90 percent of the size of DOD's civilian workforce of 807,000 FTEs for that same fiscal year. Our analysis of DOD's obligations for contracted services using fiscal year 2013 constant dollars shows DOD's spending peaked in fiscal year 2010 at about \$195 billion, more than twice the amount spent in fiscal year 2001. Such spending decreased to about \$174 billion in fiscal year 2012.

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### DOD's Military and Civilian Workforce Peaked in Fiscal Year 2011, but Is Projected by DOD to Decrease

Our analysis of DOD's military and civilian workforce data indicates that the collective growth in DOD's military and civilian workforce peaked in fiscal year 2011 and is projected by DOD to gradually decrease over the next five years to below its fiscal year 2001 level, which was about 2.9 million servicemembers and DOD civilians combined. In fiscal year 2011, DOD's military and civilian workforce totaled about 3.1 million servicemembers and civilians, or about 139,000 more than fiscal year 2001, with the most growth occurring within the civilian workforce. Specifically, in fiscal year 2011, DOD's civilian workforce numbered about 807,000 FTEs, an increase of 17 percent or 120,000 FTEs over fiscal

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<sup>30</sup>For purposes of this report, military workforce represents the end strength of the active components and the selected reserve in the reserve components. Civilian workforce is represented by civilian FTEs and includes full time direct hires, indirect hires, and foreign nationals. Dual-status technicians are included in both the selected reserve part-time end strength and the civilian FTEs.

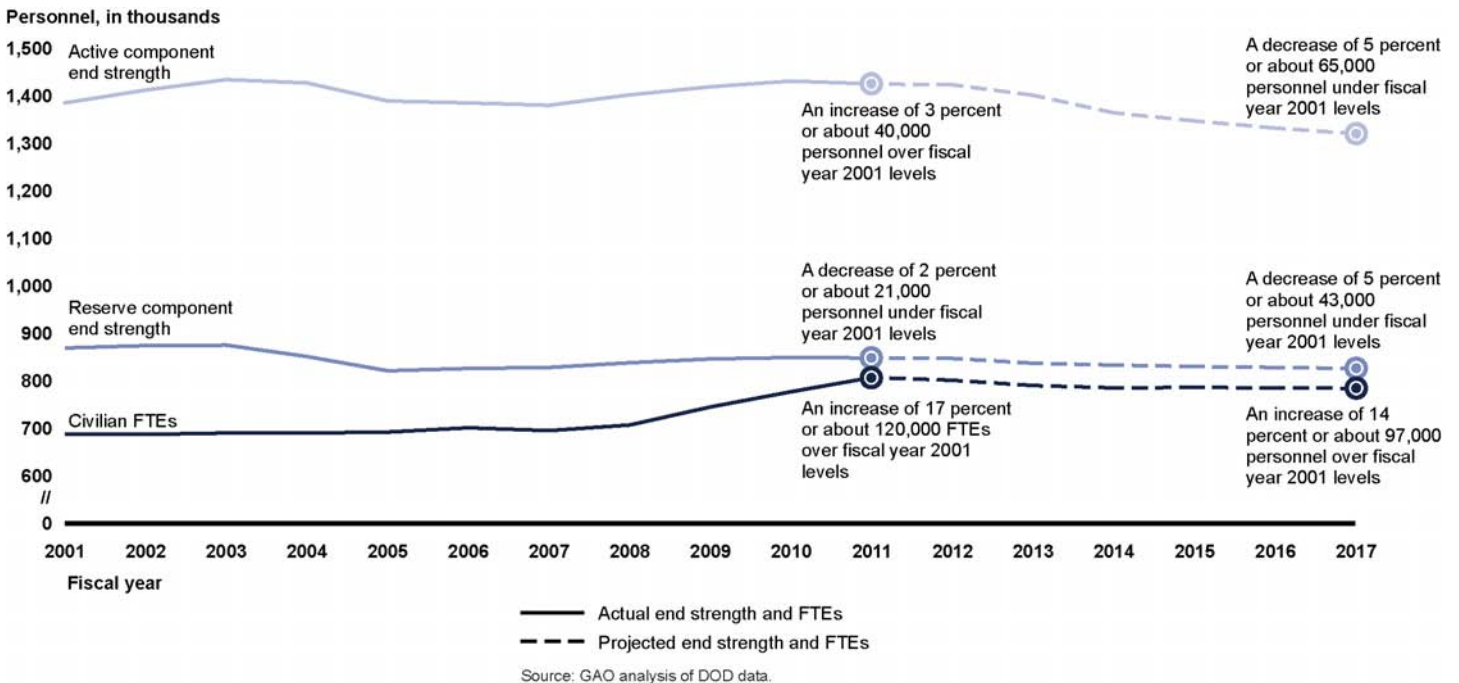
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year 2001 levels. The active component of the military workforce increased by 3 percent, or about 40,000 personnel, to about 1.425 million, and the reserve component of the military workforce decreased by 2 percent, or about 21,000 personnel, to about 848,000 during this same time period. By fiscal year 2017, DOD projects that its active component end strength will fall below its fiscal year 2001 level to about 1.32 million, and its reserve component end strength will continue to be below its fiscal year 2001 level. DOD projects that the civilian workforce will also decrease by fiscal year 2017 to about 784,000 FTEs—about 14 percent above its fiscal year 2001 level. Historically, the size of the civilian workforce has represented about a quarter of DOD’s combined military and civilian workforce.<sup>31</sup> This ratio has remained relatively constant, ranging from 23 to 27 percent since the 1960s and reflects substitution between these workforces. Figure 2 shows the active component and reserve component end strength and civilian FTEs from fiscal year 2001 through 2017.

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<sup>31</sup>We note that the size of a workforce does not equate to costs; an analysis of total compensation of pay and benefits associated with a workforce would be necessary to compare the costs of each workforce.

**Figure 2: Active and Reserve Components End Strength and Civilian Full Time Equivalents (FTE), Fiscal Years 2001 through 2017**



Note: Data used for fiscal years 2001 through 2011 are actuals; those for fiscal years 2012 through 2017 are DOD projections, as presented in the fiscal year 2013 Future Years Defense Program, the fiscal year 2013 President’s Budget, and certain data from the Comptroller Information System. Active component end strength includes the Army, the Navy, the Marine Corps, and the Air Force servicemembers as of the end of each fiscal year. The reserve component end strength represents the selected reserve and includes the part-time and the full-time Army Reserve, the Navy Reserve, the Marine Corps Reserve, the Air Force Reserve, the Army National Guard and the Air National Guard servicemembers as of the end of each fiscal year. Civilian FTEs is an estimate of full time direct hires, indirect hires, and foreign nationals for each fiscal year. Dual status technicians are included in both reserve component end strength and civilian FTEs.

Among each of the military services, military and civilian workforce growth differed over the course of the conflicts in Iraq and Afghanistan; however, most military services project a decrease in the military and civilian components of the workforce through fiscal year 2017. For example, from fiscal year 2001 through fiscal year 2011, the Army and the Marine Corps significantly increased the number of active component personnel to execute the warfighting effort, whereas during this same time period, the Navy and the Air Force decreased the number of active component personnel by 14 and 6 percent, respectively. During this period of time, the civilian workforce for all of the military services also increased. In light of the withdrawal from Iraq and planned withdrawal from Afghanistan, as well as changing priorities and missions, the Army, the Navy, and the

Marine Corps project decreases among both the active component and civilian workforce by 2017. The Air Force also projects a decrease in the number of active component personnel, but projects a civilian workforce increase of approximately 1 percent by fiscal year 2017. Collectively, the defense-wide organizations, which include the Office of the Secretary of Defense, the Joint Staff, and the Defense Agencies and Field Activities, project an increase of approximately 1 percent for their civilian workforce by fiscal year 2017. Table 1 shows the changes in the number and percentage of the military and civilian components of the workforce between fiscal years 2001 and 2011, with projected changes for fiscal years 2012 through 2017 by service.

**Table 1: Numbers and Percentages of Active Component, Reserve Component, and Civilian Workforce Changes from Fiscal Year 2001 to Fiscal Year 2011 and Projected Numbers and Percentages from Fiscal Year 2012 to Fiscal Year 2017 (workforce numbers in thousands)**

	Actuals				Projection			
	FY2001 FTE/end strength	FY2011 FTE/end strength	FTE/end strength change from FY2001 to FY2011	Percentage change from FY2001 to FY2011	FY2012 FTE/end strength	FY2017 FTE/end strength	FTE/end strength change from FY2012 to FY2017	Percentage change from FY2012 to FY2017
<b>Active component</b>								
Army	481	565	85	18%	562	490	(72) <sup>a</sup>	(13%) <sup>a</sup>
Navy	378	325	(53) <sup>a</sup>	(14%) <sup>a</sup>	326	320	(6) <sup>a</sup>	(2%) <sup>a</sup>
Marine Corps	173	201	28	16%	202	182	(20) <sup>a</sup>	(10%) <sup>a</sup>
Air Force	354	333	(20) <sup>a</sup>	(6%) <sup>a</sup>	333	329	(4) <sup>a</sup>	(1%) <sup>a</sup>
<b>Total active components</b>	<b>1,385</b>	<b>1,425</b>	<b>40</b>	<b>3%</b>	<b>1,423</b>	<b>1,320</b>	<b>(102)<sup>a</sup></b>	<b>(7%)<sup>a</sup></b>
<b>Reserve component<sup>d,e</sup></b>								
Army Reserve	206	205	(1) <sup>a</sup>	(0%) <sup>a</sup>	205	205	-	0%
Navy Reserve	88	65	(23) <sup>a</sup>	(26%) <sup>a</sup>	66	57	(9) <sup>a</sup>	(14%) <sup>a</sup>
Marine Corps Reserve	40	40	(0) <sup>a</sup>	(0%) <sup>a</sup>	40	40	-	0%
Air Force Reserve	75	71	(4) <sup>a</sup>	(5%) <sup>a</sup>	71	70	(2) <sup>a</sup>	(3%) <sup>a</sup>
Army National Guard	352	362	10	3%	358	353	(5) <sup>a</sup>	(1%) <sup>a</sup>
Air Force National Guard	108	106	(3) <sup>a</sup>	(3%) <sup>a</sup>	107	101	(6) <sup>a</sup>	(5%) <sup>a</sup>
<b>Total reserve components</b>	<b>869</b>	<b>848</b>	<b>(21)<sup>a</sup></b>	<b>(2%)<sup>a</sup></b>	<b>847</b>	<b>826</b>	<b>(22)<sup>a</sup></b>	<b>(3%)<sup>a</sup></b>

	Actuals				Projection			
	FY2001 FTE/end strength	FY2011 FTE/end strength	FTE/end strength change from FY2001 to FY2011	Percentage change from FY2001 to FY2011	FY2012 FTE/end strength	FY2017 FTE/end strength	FTE/end strength change from FY2012 to FY2017	Percentage change from FY2012 to FY2017
<b>Civilian<sup>be</sup></b>								
Army	220	284	64	29%	265	248	(18) <sup>a</sup>	(7%) <sup>a</sup>
Navy	177	189	12	7%	190	189	(2) <sup>a</sup>	(1%) <sup>a</sup>
Marine Corps	17	23	7	38%	24	24	(1) <sup>a</sup>	(3%) <sup>a</sup>
Air Force	160	184	24	15%	186	187	2	1%
Defense-wide organizations <sup>c</sup>	113	128	14	12%	136	137	1	1%
<b>Total civilians</b>	<b>687</b>	<b>807</b>	<b>120</b>	<b>17%</b>	<b>801</b>	<b>784</b>	<b>(17)<sup>a</sup></b>	<b>(2%)<sup>a</sup></b>
<b>Total active, reserves, and civilians</b>	<b>2,941</b>	<b>3,080</b>	<b>139</b>	<b>5%</b>	<b>3,071</b>	<b>2,930</b>	<b>(141)<sup>a</sup></b>	<b>(5%)<sup>a</sup></b>

Source: GAO analysis of DOD data.

Notes: All end strength and FTE figures are rounded to the nearest thousand. Totals might not add due to rounding.

<sup>a</sup>All figures in parentheses represent declines.

<sup>b</sup>Civilian FTEs is an estimate of full time direct hires, indirect hires, and foreign nationals for each fiscal year. Combatant command civilians are included in service totals

<sup>c</sup>Defense-wide organizations include the Office of the Secretary of Defense, the Joint Staff, the Defense Agencies and Field Activities

<sup>d</sup>The reserve end strength represents the selected reserve and excludes the Individual Ready Reserve and the Inactive National Guard

<sup>e</sup>Dual status technicians are included in both reserve end strength and civilian FTEs.

## Several Factors Affect the Size of DOD's Workforce

DOD and military service officials identified several factors that contributed to changes in the size of the military and civilian components of the workforce since fiscal year 2001. For example, DOD officials noted that the conflicts in Iraq and Afghanistan, as well as recognition of the need to rebuild the acquisition workforce, which had been significantly reduced during the 1990s, and reduce DOD's reliance on contractors contributed to the shape and size of the military and civilian sectors of the workforce over the past decade. Further, DOD cited other factors that led to growth within the civilian workforce, such as the department's new cyber mission and areas specifically designated by Congress. The following are examples that DOD officials have cited as contributing to the change in the size and mix of DOD's workforce.

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- **Military to civilian/contractor conversion:** DOD officials stated that about 50,000 military positions were converted to DOD civilian positions or contractor performance since fiscal year 2004 to devote more military positions to support of ongoing military operations. Conversion to civilian performance may not be one-for-one due to differences in military and civilian availability and productivity rates. For example, civilians who are typically hired must be qualified for their position, whereas military personnel often require on-the-job training in addition to technical training received prior to assignments. DOD's military to civilian conversions were partly due to the high pace of operations that occurred after September 11, 2001, which created significant stress on the military's operating forces. Further, in late 2003, DOD reported that studies had found thousands of military personnel were being used to accomplish work tasks that were not military essential. DOD found that civilians or contractors could perform these tasks in a more efficient and cost-effective manner than military personnel. The Navy and the Air Force reduced their military end strength when functions performed by military billets, or positions, were converted to civilian or contractor performance. Conversely, when the Army and the Marine Corps converted functions performed by military billets to DOD civilians, they retained these military billets to be used in the operating force.
  - **Contractor to civilian conversion (in-sourcing):** DOD officials noted that in-sourcing, or converting previously contracted functions to performance by civilians, has been an effective tool for the department to rebalance its workforce, realign inherently governmental and other critical and core functions to government performance, and in many cases, generate resource efficiencies for higher priority goals. In April 2009, the Secretary of Defense announced his intention to reduce the department's reliance on contractors and increase funding for new civilian authorizations. In our February 2012 report, DOD officials stated that they could not determine the number of contractor FTEs whose functions were in-sourced because DOD contracts for services, not positions,<sup>32</sup> and the number of contractor FTEs used to perform a service is determined by each private sector provider. Nonetheless, one of the data elements DOD is required to collect and include in its inventory of contracted

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<sup>32</sup>GAO, *Defense Workforce: DOD Needs to Better Oversee In-sourcing Data and Align In-sourcing Efforts with Strategic Workforce Plans*, [GAO-12-319](#) (Washington, D.C.: Feb. 9, 2012).



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services is the number of contractor FTEs performing each identified activity pursuant to a contract.

- **Growth of acquisition workforce:** DOD officials noted that rebuilding the acquisition workforce is another reason for growth. In our June 2012 report, we reported that according to DOD officials, the civilian acquisition workforce gained about 17,500 positions from fiscal year 2009 to December 2011.<sup>33</sup> As noted previously, a portion of this growth was attributed to in-sourcing. The acquisition workforce had experienced significant erosion in some areas of expertise due to a nearly 50 percent cut in its workforce during the 1990s. This reduction took place as part of DOD's larger effort to reduce its civilian workforce by nearly 20 percent overall during that time. When we evaluated DOD's approach to this force reduction in 1992, we found that it was not oriented toward shaping the makeup of the workforce, resulting in significant imbalances in terms of shape, skills, and retirement eligibility.<sup>34</sup> At that time, we found that the department's efforts were hampered by incomplete data and lacked a clear strategy for avoiding the adverse effects of downsizing and minimizing skills imbalances. The downsizing produced serious imbalances in the skills and experience of the highly talented and specialized civilian acquisition workforce, putting DOD on the verge of a retirement-driven talent drain that has had long-lasting implications. To help alleviate some of these long standing challenges and provide additional funds for the recruitment, training, and retention of acquisition personnel, in 2008, Congress established the Defense Acquisition Workforce Development Fund (DAWDF).<sup>35</sup> DOD officials stated that of the approximately 17,500 positions, about 5,850 were hired using DAWDF funds.
- **Growth of cyber security workforce:** DOD officials stated that focus on the new cyber mission increased the size of the cyber workforce. DOD's 2010 Quadrennial Defense Review designated cyberspace

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<sup>33</sup>GAO, *Defense Acquisition Workforce: Improved Processes, Guidance, and Planning Needed to Enhance Use of Workforce Funds*, [GAO-12-747R](#) (Washington, D.C.: June 20, 2012).

<sup>34</sup>GAO, *Defense Force Management: Expanded Focus in Monitoring Civilian Force Reductions Is Needed*, [GAO/T-NSIAD-92-19](#) (Washington, D.C.: Mar. 18, 1992).

<sup>35</sup>National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 852 (2008), codified at 10 U.S.C. § 1705.

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operations as a key mission area and discussed steps the department was taking to strengthen capabilities in the cyber domain, including developing a department-wide comprehensive approach to DOD operations in cyberspace that will help build an environment in which cyber security and the ability to operate effectively in cyberspace are viewed as priorities for DOD. According to the Quadrennial Defense Review, to aid its efforts in countering cyberspace threats, DOD established the U.S. Cyber Command in 2010 to lead, integrate and better coordinate the day-to-day defense, protection, and operation of DOD networks. In November 2011, we reported that DOD established a cybersecurity workforce plan but faced challenges in determining the size of its cybersecurity workforce because of variations in how work is defined and the lack of an occupational series specific to cybersecurity.<sup>36</sup> For these reasons, in February 2013, we included workforce planning for cybersecurity personnel as a factor in designating human capital management as a high risk area for the federal government.<sup>37</sup>

The withdrawal from Iraq and planned withdrawal from military operations in Afghanistan will impact both the military and, to some extent, the civilian workforce. DOD currently projects a reduction in its civilian workforce by 2 percent from fiscal year 2012 through fiscal year 2017. Several factors have prompted the department to develop plans to reshape and possibly reduce the numbers of civilians performing certain functions, while other needs may require additional civilian positions. DOD and military service officials identified the following factors as key drivers of projected future change within DOD's total workforce.

- **Shift in focus to Pacific region:** DOD is refocusing its strategy in the Asia-Pacific region in the interest of promoting regional security with its allies in the area. DOD officials stated that this restructuring could result in a reshaped force and might require changes to installations and support as forces are restructured.
- **Budget constraints and uncertainty:** DOD, as well as the entire federal government, is currently operating in a fiscally constrained environment. The Office of the Secretary of Defense, the military

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<sup>36</sup>GAO, *Cybersecurity Human Capital: Initiatives Need Better Planning and Coordination*, GAO-12-8 (Washington, D.C.: Nov. 29, 2011).

<sup>37</sup>GAO-13-283.

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departments, and other organizations within DOD have issued guidance to their commands on immediate actions that can be taken to mitigate some, but not all, of the effects of a constrained budget in the near-term. Actions include implementing a civilian hiring freeze, reducing temporary employees, and furloughing the civilian workforce.

- **Efficiency initiatives:** As the federal government confronts growing fiscal challenges and DOD faces competition for funding, DOD announced efficiency initiatives in 2010, which the Secretary of Defense stated were to reduce duplication, overhead, and excess, and instill a culture of savings and restraint across the department. Some of the efficiency initiatives focused directly on civilian workforce levels, including the goals of reducing civilian positions in offices and commands across DOD, attempting to hold the civilian workforce level constant at fiscal year 2010 levels, the elimination of some civilian senior executive positions, and the disestablishment of the Business Transformation Agency and Joint Forces Command.
- **Continued growth of cyber workforce:** According to officials we spoke to from each of the services, DOD is continuing to focus its resources on emerging threats such as cyber attacks. For example, efforts are underway to further develop and implement the cyber mission. Each service has its own part in this mission and expects a continued hiring increase in civilian personnel with skills in cybersecurity. Further, the Secretary of Defense recently stated that the cyber mission is critical for the department and will continue to be an investment priority.
- **Equipment reset:** Military service officials stated that the equipment that returns from the military operations in Afghanistan will be sent to depots for repair and maintenance. Reset work, which is performed, in part, by the civilian workforce, will take two to three years to complete.<sup>38</sup>
- **Medical assistance for returning servicemembers:** More than a decade of fighting two wars has resulted in a large number of soldiers, marines, sailors, and airmen needing medical care, including, among other things, adjusting to the use of prosthetic limbs and treatment for

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<sup>38</sup>Reset refers to the repair, recapitalization, and replacement of military equipment in order to restore units' equipment to a desired level of combat capability commensurate with mission requirements and availability of resources.

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post traumatic stress disorder and traumatic brain injuries. DOD officials stated that it will be important to retain and recruit additional medical personnel to continue to provide for the medical needs of servicemembers, who can sometimes require long-term care.

We analyzed the active component of the military and civilian workforce to provide further perspectives on areas of growth between fiscal years 2001 and 2011. Our analysis of active component end strength and civilian FTEs by force and infrastructure categories<sup>39</sup> shows that between fiscal years 2001 and 2011, the civilian workforce generally grew while the active component workforce generally declined in most force and infrastructure categories compared to fiscal year 2001. For example, from fiscal year 2001 through fiscal year 2011, the acquisition infrastructure workforce<sup>40</sup> and the defense health program civilian workforce grew by 15 percent and 57 percent respectively, while the active component declined in those categories by 16 percent and 3 percent respectively. Further, according to DOD officials, the growth from fiscal year 2001 through fiscal year 2011 of the civilian workforce in certain categories such as operating forces and command and intelligence was in large part due to military to civilian conversions. Table 2 shows the growth and decline of various force and infrastructure categories.

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<sup>39</sup>Force and infrastructure categories group forces—the warfighting tools of the Combatant Commanders—into broad operational categories according to their intended use and groups infrastructure, the set of activities needed to create and sustain forces, based upon the type of support activity it performs (such as force installations or central logistics).

<sup>40</sup>The acquisition infrastructure includes activities that develop, test, evaluate, and manage the acquisition of military equipment and supporting systems. These activities also provide technical oversight throughout a system’s useful life.

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Finally, although DOD officials do not expect these initiatives to be fully implemented for several years, one could expect to see incremental improvements in the fidelity of contractor FTE projections as DOD components compile more accurate and complete inventories and conduct the required reviews of that inventory data.

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## Conclusions

DOD manages a large and diverse workforce that is tasked with accomplishing a wide variety of missions, from shipyard maintenance to cybersecurity. Over the past decade and in the context of fighting two wars, both the military and civilian parts of this workforce have grown in number, as has spending on contracted services, but the department now faces a changing environment that includes a strategic shift and a period of fiscal constraint that will likely last for some time. As DOD decides how to face these changes, total workforce management and planning will be important elements of ensuring the department's continued ability to meet the unique requirements of its missions. To be successful, the department must carefully consider what critical skills and competencies are needed to meet these requirements, and what strategies it can use to monitor and plan for retaining those skills in its workforce. Ensuring that its guidance is up to date would aid the department in assessing an appropriate workforce mix, properly identifying critical functions as required by the Office of Federal Procurement's Policy's September 2011 memorandum, and mitigating inappropriate risks that may be posed by contractors performing certain functions.

Congress, recognizing the importance of identifying the extent to which DOD relies on contractors to help carry out its mission, has enacted new legislative requirements over the past five years requiring DOD to collect data on its contractor workforce and make determinations about the nature of the activities that contractors perform, and amended legislation to require DOD to include contractor workforce information in DOD's strategic planning and total force management efforts and budget requests. DOD's approach to including projected contractor FTE information in its fiscal year 2013 and 2014 budget requests had a number of limitations and DOD acknowledges that the FTE information does not accurately reflect the number of contractors performing work in support of DOD. The department is taking steps to improve the accuracy of the data contained in its inventory of contracted services and enable the inventory and required reviews to be used to project contractor FTEs for budgetary purposes, but it may be several years before DOD is able to do so.

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## Recommendations for Executive Action

To help ensure DOD's workforce mix guidance reflects the current statutory requirements for total force management policy set forth in 10 U.S.C. § 129a as well as the regulatory requirements set forth in the Office of Federal Procurement Policy's September 2011 policy letter, we recommend that the Secretary of Defense direct the Under Secretary of Defense for Personnel and Readiness to revise DOD's existing workforce policies and procedures to address the

- determination of the appropriate workforce mix, and
- identification of critical functions.

Until such time that DOD is able to accurately project contractor FTE estimates it presents in budget submissions using the inventories and required reviews, we recommend that the Secretary of Defense direct the Under Secretary of Defense (Comptroller) to include an explanation in annual budget exhibits of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report, DOD partially concurred with both recommendations. DOD's comments are reprinted in appendix III. Additionally, DOD provided technical comments on the draft report, which we incorporate as appropriate. We provided a draft of this report to the Office of Management and Budget, but we did not receive comments.

DOD made two overarching comments in its agency response to our draft report. First, DOD commented that it is concerned by the emphasis we placed on the strategic workforce plan as it relates to the department's total force management and resulting workforce size and structure. DOD stated that the plan is an integral tool in informing policies and procedures for retention, recruitment, and accession planning and it helps inform the demographic makeup of its civilian personnel inventory, including the talent, competencies, education, and skills of that workforce. DOD stated that it uses a capabilities-based approach to determine the size and structure of the workforce needed to implement national military and security strategies. These capabilities are based on the department's mission, function, and task hierarchy, and are informed by workload, risk mitigation, and resource availability. According to DOD, it justifies its workforce size based on mission workload, rather than competency or skill gaps. We agree that DOD's mission workload should determine the size of its total workforce. However, the type of personnel—military,

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civilian, or contractor—that performs the work is dependent on the nature of the work and circumstances of its performance. DOD is required by law to establish policies and procedures that require the use of the strategic workforce plan when making determinations of the appropriate mix of total workforce personnel necessary to perform its mission, and to include in the strategic workforce plan an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities, which it has not included to date. While the primary focus of this report is not on DOD's strategic workforce plan, we have reported in this and a body of prior work, that without knowledge of the skills and competencies that are necessary to perform its mission workload and any associated gaps in those skills and competencies, DOD may be challenged to appropriately identify its current and future civilian workforce needs. Moreover, without assurance that its civilian workforce possesses the necessary skills and competencies, DOD may not be able to readily convert the performance of a function from contractor to civilian personnel, should DOD determine that it would be more appropriate to do so. Therefore, a fully developed strategic workforce plan that addresses the statutory requirements to include an assessment of the appropriate mix of military, civilian, and contractor personnel capabilities and report on the results of competency and skill gap analysis, could serve as an important resource for the department as it makes workforce mix decisions, especially in light of current fiscal constraints and budgetary pressures.

DOD commented that it is also concerned by the apparent lack of reference in our draft report to the Planning, Programming, Budgeting, and Execution process carried out annually across the department, especially as these processes relate to the size and shape of the department's total force. DOD explained that the process provides direction on spending levels, mission priorities, and strategic goals, which then impact decisions regarding force structure and operational capabilities, and ultimately addresses prioritization and resource alignment. We agree with DOD that the Planning, Programming, Budgeting, and Execution process is an important aspect of workforce planning and decisionmaking; both requirements and resources drive workforce decisions. We noted in our draft report that various OSD officials stated that the workforce requirements determination process is part of the department's Planning, Programming, Budgeting and Execution process to help ensure fully informed risk and cost decisions are translated into justified and transparent manpower requirements. Further, we noted the roles and responsibilities of the various offices involved in developing workforce requirements, including as part of the budget process. However, we also noted that a recently enacted statute

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requires that DOD and prioritize the attainment of a workforce sufficiently sized and comprised of the appropriate mix of military, civilian and contractor personnel to carry out DOD's mission over cost. Our report addresses steps DOD is taking to implement statutory requirements to develop and utilize certain policies, analyses, and tools to aid in making such workforce mix determinations. As DOD stated, the budgeting process involves prioritization of requirements and making trade-offs among competing needs as part of resource allocation. Therefore, having the most reliable and accurate information is imperative for making well informed budgetary and other workforce planning decisions. Consequently we believe, DOD should continue to take steps to obtain and develop the information and data that will allow it to make more informed and strategic workforce mix decisions, such as analyses of the gaps in skills and competencies within the civilian workforce, identification of the functions that are critical to the department's mission, and the collection of more accurate and complete information regarding contractors performing work in support of DOD.

DOD partially concurred with our recommendation to revise the department's existing workforce policies and procedures to address the determination of the appropriate workforce mix and identification of critical functions. As we noted in our report, DOD has not issued new guidance or revised existing guidance to reflect the current statutory and other federal requirements for total force management policy. Specifically, we reported that DOD's primary policies for determining workforce mix—DOD Directive 1100.4 and DOD Instruction 1100.22—largely reflect current statutory requirements set forth in 10 U.S.C. § 129a for DOD policies concerning workforce mix, though there are several recent amendments that have yet to be incorporated, such as that DOD has not yet implemented the new requirements that determinations regarding the appropriate workforce mix be made using the civilian strategic workforce plan and the inventory of contracted services. Further, we reported that the guidance similarly does not reflect federal requirements for the identification of critical functions as required by Office of Federal Procurement Policy's Policy Letter 11-01. In response to our draft report, DOD stated in its agency comments that DOD Directive 1100.4. is currently undergoing revision and entering the formal issuance process for signature by the Deputy Secretary of Defense. Further, DOD stated that the updated directive will authorize and direct the revision of the instruction. We noted in our report that OSD officials told us that they were in the process of revising both the directive and instruction, and they provided us with a draft of the revised directive. DOD should issue this revised guidance in a timely manner and ensure that revisions to both



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guidance documents address statutory requirements related to determinations of the appropriate mix of the department's workforce and federal requirements to identify critical functions in order for decisionmakers to make better informed decisions regarding the mix of personnel and ensure that the department retains enough government employees to maintain control of functions that are critical to its mission.

DOD also partially concurred with our recommendation to include an explanation in annual budget exhibits of the methodology used to project contractor FTE estimates and any limitations of that methodology or the underlying information to which the methodology is applied. DOD stated in its agency comments that its financial management regulations and annual budget submission guidance memorandums issued by the Office of the Under Secretary of Defense (Comptroller) are the means used to explain budget exhibit preparation methodologies and the guidance directs how components are to develop and display budgetary estimates. DOD stated in its comments that this office will strengthen the annual guidance as improvements are made in the inventory of contracted services. Further, DOD stated that if a component's methodology deviates from the process defined in the annual guidance, a footnote explaining the deviation will be included in the contracted services section of the Operation and Maintenance Overview book within the budget. We recognize DOD has efforts underway to improve its inventory of contracted services, including its use in providing contractor FTEs within its annual budget exhibits. While footnoting any component methodologies that deviate from DOD's guidance is a step in the right direction, most components use methodologies that reflect inherent limitations that undermine the utility and accuracy of the FTE estimate. DOD acknowledged during the course of this review that the contractor FTE information provided in their fiscal year 2013 and 2014 budget submissions had significant limitations. Consequently, to improve transparency, we continue to believe that DOD should disclose the methodologies used and any limitations thereof until such time DOD is able to accurately project contractor FTEs.

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We are sending copies of this report to the Secretary of Defense, the Under Secretary of Defense for Personnel and Readiness, the Under Secretary of Defense for Acquisition, Technology and Logistics, the Under Secretary of Defense Comptroller, the Office of Management and Budget, and appropriate congressional committees. In addition, this report will also be available at no charge on the GAO website at <http://www.gao.gov>.