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# Measuring the Outcomes of Acquisition Reform by Major DoD Components

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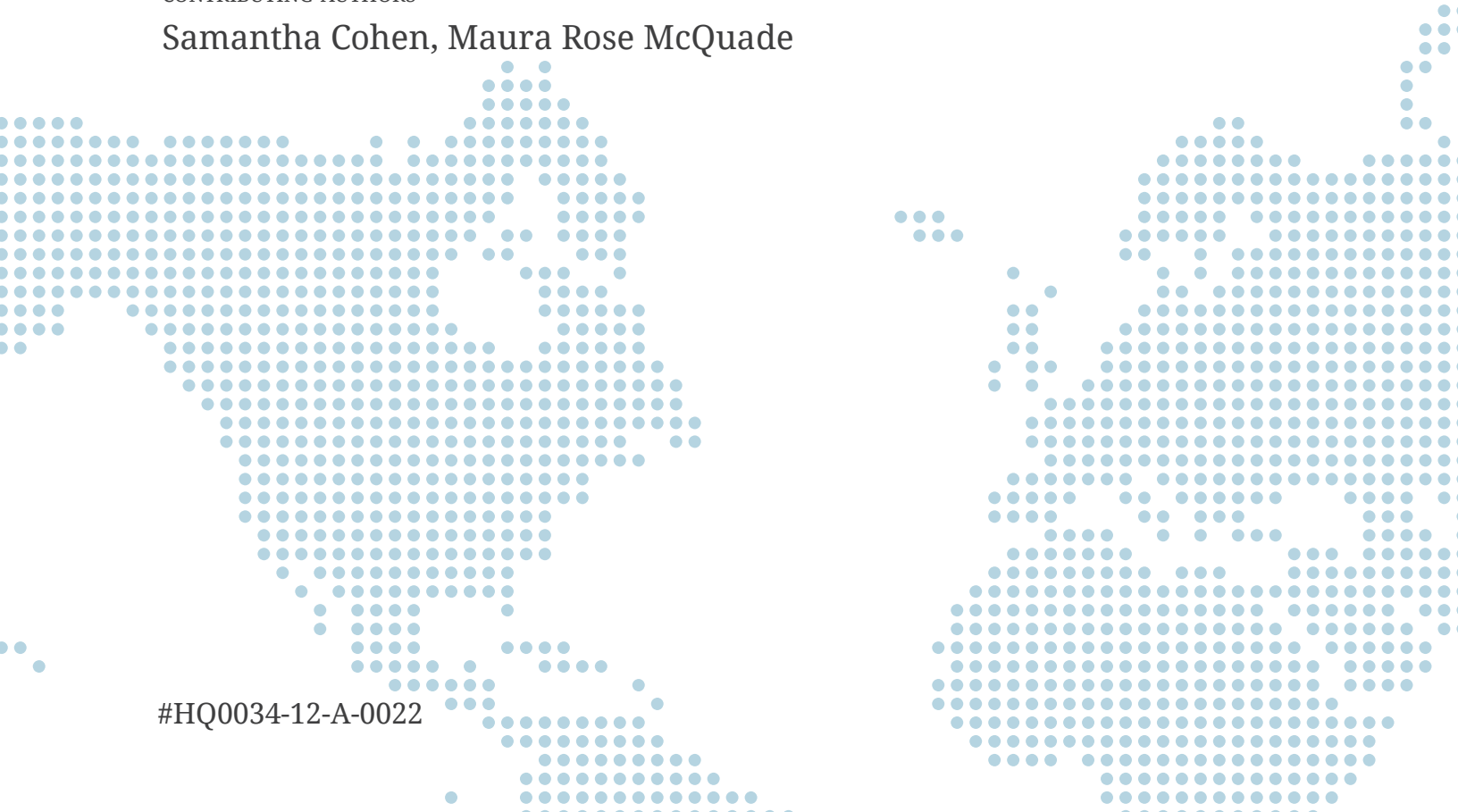
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## Abstract

This paper establishes measurements to evaluate the success of the Department of Defense components in implementing recent acquisition reform policies, most notably elements of the Weapon Systems Reform Act of 2009 and the differing iterations of Better Buying Power. Due to the dataset available, success in this case reflects whether or not the policies adopted led to the specific outcomes sought, e.g. an increase in competition or small business utilization, rather than measuring improvement in overall contract cost, schedule and performance. By using publicly available data from the Federal Procurement Data System, this paper addresses six major questions: Have the DoD components increased their rates of effective competition since the introduction of BBP in 2010? How successful have the components been at promoting contracting opportunities for small businesses? How has DoD shifted between fixed-price and cost-plus contracts as guidance evolved? Did the recent reforms and legislation shift components' acquisition portfolios? Have the components shifted away from certain contract vehicles? Did the recent reforms and legislation efforts shift components' acquisition portfolios?

By analyzing contracting trends for the Army, Navy, Air Force, Defense Logistics Agency, Missile Defense Agency, and the "Military Health" programs, this report provides important insights into what the data actually show in regards to the implementation, or non-implementation, of acquisition reform policies.

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# 1 Introduction

Since the 1950s, ongoing deliberations among the Department of Defense (DoD), Congress, and supporting defense industrial base have focused on reforming DoD's acquisition and procurement process. Whether it was the 1980s campaign for Congress to reduce "waste, fraud, and abuse," which led to the acquisition reforms enumerated in the Goldwater-Nichols Act and related legislation; the 1990s movement to make acquisition more "responsive, effective and efficient," which led to the Federal Acquisition Streamlining Act; or the 2000s push to gain control over cost growth, which led to the Weapon System Acquisition Reform Act, acquisition reform has appeared in multiple incarnations during the last half-century.<sup>1</sup> Despite many implemented reforms being apparent "successes," the problems of cost and schedule growth have remained significant and persistent. While acquisition reform can tune the system to the needs of the time, certain characteristics and problems persist. Accordingly, "reflecting on the defense acquisition reform studies of the past [six] decades, it is clear that the acquisition system has been strongly resistant to change."<sup>2</sup>

The facet of growth of cost and schedule provides a microcosm of the debate on why different reforms enacted by the Congress and internal DoD changes do not always have their intended effect. Some literature suggests that many of the reforms have failed to address root causes, even when they are nominally addressed in the reform package. Speaking to the need to improve incentives for and the training of the acquisition workforce, Dr. Ronald Fox, former Assistant Secretary of the Army for Acquisition, argues this line of thinking: "As long as defense acquisition is largely in the hands of managers for whom it is merely one step in a career path directed elsewhere, we will continue to see the same quality, cost, and scheduling problems."<sup>3</sup> Meanwhile, others argue that the failure is due to insufficient top-down direction to and within the DoD components. This paper does not provide a clear endorsement of either of these positions, but based upon the initial results presented below and past work on the topic, the study team argues that the implementation and institutionalization of reforms significantly varies between DoD components.<sup>4</sup> When the reforms studied in this paper achieved their intended results, typically two or more components led the way while others lagged notably behind. This variation provides an opportunity to study institutionalization by digging deeper into the differences demonstrated in the contracting data record. One notable factor apparent from this work is that defense agencies, perhaps due to their narrower scope of acquisition activity, necessarily closer relationship between agency leadership and the acquisition workforce, and direct relationship to the Defense Acquisition Executive, exhibited the greatest responsiveness to policy guidance.

Using publicly available data, CSIS first sought to establish measurements for recent reforms to assess the success of reform implementation at achieving stated outcome objectives and examine differences in performance among the DoD components, before ultimately looking at how DoD components may have institutionalized acquisition reforms differently. Leveraging nearly a decade's worth of experience utilizing the Federal Procurement Data System (FPDS), the study team analyzed contracting trends for the major DoD contracting components to measure how well they met the stated objectives of the recent reform efforts. The report first provides a history of acquisition reform and a methodology for leveraging

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<sup>1</sup> Christopher H. Hanks et al., *Reexamining Military Acquisition Reform: Are We There Yet?* (Washington, DC: RAND, 2005), [http://www.rand.org/content/dam/rand/pubs/monographs/2005/RAND\\_MG291.pdf](http://www.rand.org/content/dam/rand/pubs/monographs/2005/RAND_MG291.pdf).

<sup>2</sup> J. Ronald Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal* (Washington, DC: Center of Military History, 2011), [http://history.defense.gov/Portals/70/Documents/acquisition\\_pub/CMH\\_Pub\\_51-3-1.pdf](http://history.defense.gov/Portals/70/Documents/acquisition_pub/CMH_Pub_51-3-1.pdf).

<sup>3</sup> Senate Permanent Subcommittee on Investigations, "Defense Acquisition Reform: Where Do We Go From Here? A Compendium of Views by Leading Experts," 2014.

<sup>4</sup> Jesse Ellman, "Quality of Competition for Defense Contracts under 'Better Buying Power'" (Center for Strategic and International Studies, 2014), [http://csis.org/files/publication/141014\\_Ellman\\_CompetitionDefenseContractsBetterBuyingPower.pdf](http://csis.org/files/publication/141014_Ellman_CompetitionDefenseContractsBetterBuyingPower.pdf).

the wealth of data in FPDS, before applying that methodology to DoD components to measure implementation of the reforms. The report then provides a background on the recent major reforms and how they sought to change the acquisition system.

This report breaks out contracts by the policy regime on the date the contract was signed to provide a look at the successes and failures of each component's implementation of that policy under the various reforms. The results are summarized below.

***Competition: Have the DoD components increased their rate of effective competition since the introduction of Better Buying Power (BBP) in 2010?***

Across the board, the data show DoD components made little progress in making contracting more competitive during BBP 1.0, but there is a glimmer of progress for BBP 2.0. The Air Force and Navy both lost ground under BBP 1.0 but began to recover under the second round of reforms. The Missile Defense Agency achieved a notable increase in competition under BBP 1.0 despite having a long history of low competition rates, but reverted to lower competition under the BBP 2.0 regime. The Defense Logistics Agency increased competition under BBP 1.0 and 2.0 above even its already high historical rates of competition

***Vendor Size: How successful have the components been at promoting contracting opportunities for small businesses?***

While prior efforts had smaller effects, BBP 2.0 showed a notable move toward small business contracting. This trend is led by the Army and does not extend to the Air Force.

***Contract Type: How has DoD shifted between fixed-price and cost-plus contracts as guidance evolved?***

There was a broad-based move toward fixed-price contracts, both for those components like Army that make heavy use of them already, those like the Missile Defense Agency (MDA) that rarely use them, and those in the middle such as Navy and Air Force. This level of consistency was not found for other reform measures.

***Product or Service Area: Did the recent reforms and legislation efforts shift components' acquisition portfolios?***

Trends across the Department suggest that external events such as the drawdowns in Afghanistan and Iraq overwhelm the influence of reform efforts. Under BBP 1.0, the shares of contract obligations for R&D fell across the department in spite of guidance to protect the technology base. Under the Sec. 808 guidance limiting certain kinds of services contract spending, the share of contract obligations for all types of services contracts actually rose across the Department, going from 41 percent of contract obligations to 44 percent.

***Contract Vehicle: Have the components shifted away from certain contract vehicles?***

Reversing trends earlier this century, for overall DoD there was actually a decrease in the use of multiple-award vehicles when compared to the study period before the implementation of the reforms. Those trends are reflected within each of the components with the exception of MDA.

***Top Vendors: As DoD seeks efficiencies and savings, have major vendors moved out of specific markets?***

Across the Department of Defense, Boeing, Lockheed Martin, General Dynamics, Raytheon, and Northrop Grumman all retained their spots in the top six defense vendors. The components saw varying degrees of changes to their top vendors as the United States withdrew from Iraq and Afghanistan and subsequently drew down Defense budgets. The Army had the largest shifts of the military departments and the three smaller DoD components, Defense Logistics Agency (DLA), MDA, and Military Health, all saw shifts in their top ten vendors to an even greater degree than those seen in the Army.

## 2 History of Acquisition Reform: What Did We Seek to Accomplish?

The debate over how to best reform defense acquisition has been ongoing as long as there have been U.S. military forces, and has been a particular concern in the post–World War II era, when the U.S. strategy depended on the technological advantage that the acquisition system was designed to provide. Discussion persists today, with no less intensity than in the past, testifying to the perception that long-lasting, successful reform of the DoD acquisition and procurement process has yet to be reached. From 1989–2002 alone, the DoD implemented 63 different acquisition reform policies.<sup>5</sup> Historical reforms have ranged from efforts targeting perceived waste, fraud, and abuse in the 1980s, to a focus on streamlining overly rigid military specifications and processes in the 1990s, to a focus on transformational technologies under Secretary of Defense Donald Rumsfeld in the 2000s. The current debate in Congress on the role of service chiefs in acquisition, technology, and logistics, and debate around the effective integration of reforms by DoD components have recently dominated talk of acquisition reform. The following literature review discusses the various major acquisition reforms, including their goals, successes, and consequences.

### 2.1 Pre-1980s Reforms: DoD 5000 Series

The DoD’s 5000 Series refers to the complete set of departmental instructions governing the policy and procedure of defense acquisition. The instructions reflect changes in the acquisition and implementation process, and are updated to reflect new directives, regulations, and policies. According to a 2005 RAND study, the 5000 Series “is the program manager’s ‘Bible’—i.e., the place where Program Managers are supposed to go for policy guidance.”<sup>6</sup> The first iteration, DoD Directive (DODD) 5000.1, was released in 1971 with the accompanying instructional document DODI 5000.2. The DoD has since updated the initiatives multiple times in response to fluctuating systems in the Office of the Secretary of Defense (OSD).<sup>7</sup> Due to the wide historical breadth of the series, a study of its history can be a reference in examining acquisition reform initiatives. For example, Joe Ferrara, in his analysis in *Acquisition Review Quarterly*, observes the following trend: “The founding 5000.1 set the tone and all subsequent documents have been remarkably consistent in continuing to articulate a few key themes.”<sup>8</sup> To Ferrara, this demonstrates a consistency in policy, yet also an inability to make significant progress addressing the underlying problem. Subsequent revisions over the next decades continue to add more detail and policy to align with changing OSD goals.

### 2.2 1980s Acquisition Reform Efforts-Defense Reorganization

The acquisition reform efforts of the 1980s occurred at the same time as a significant reorganization of the Department of Defense focused on better integrating the military departments and the military services as part of the reforms enacted in the Goldwater-Nichols Act of 1986. The acquisition reforms adopted at this time were fueled by high profile accusations of fraud, waste, and abuse in the acquisition system regarding seemingly simple items such as hammers and toilet seats.<sup>9</sup>

#### Blue Ribbon Commission on Defense Management: The Packard Commission

In response to criticism of DoD for cost increases and mischarges, President Ronald Reagan established a Blue Ribbon Commission on Defense Management, known as the Packard Commission, “as a preemptive measure to deflect the litany of growing criticism leveled against his administration and the Pentagon by

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<sup>5</sup> Hanks et al., *Reexamining Military Acquisition Reform: Are We There Yet?*

<sup>6</sup> Ibid.

<sup>7</sup> Joe Ferrara, “DOD’s 5000 Documents: Evolution and Change in Defense Acquisition Policy,” *Acquisition Review Quarterly*, Fall (1996), <http://www.dau.mil/AckerLibrary/AckerLibraryDocs/ferrar.pdf>.

<sup>8</sup> Ibid.

<sup>9</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 14.



external pressure groups, Congress, and the media.”<sup>10</sup> The 1986 Packard Commission, chaired by former Deputy Secretary of Defense and Hewlett Packard co-founder David Packer, reviewed defense acquisition and related processes including the budget process, procurement system, and legislative oversight of all aspects of the defense industry.<sup>11</sup> Ultimately, the Commission issued the following recommendations to improve the defense acquisition system:<sup>12</sup>

1. The creation of a new position, the Undersecretary of Defense for Acquisition, USD(A), responsible for overseeing and setting policy for the entirety of the DoD acquisition system.
2. The creation of new positions, Senior Acquisition Executives, within each of the services to be responsible for the management of acquisition within each service.
3. The creation of the Program Executive Officer (PEO) positions within the services to be responsible for the oversight of program managers in charge of major defense acquisition programs (MDAPs).
4. The creation of a vice chairman of the Joint Chiefs of Staff, who would co-chair a Joint Requirement Management Board with the USD(A) that would be responsible for approval and oversight of requirements for new MDAPs.

The Packard Commission also aimed to increase the use of commercial products by emphasizing front-end planning. This meant the utilization of standard commercial components instead of over-specialized parts, reducing high costs of procurement in small quantities. It also recommended increased procurement of off-the-shelf commercial products over those that were only designed for the military. In addition, the Commission recommended increasing the role of the Defense Advanced Research Projects Agency (DARPA) in prototyping and pursuing joint programs.<sup>13</sup>

In theory, the recommended reforms would create a more efficient acquisition process. However, Ronald Fox concluded in *Defense Acquisition Reform, 1960–2009: An Elusive Goal* that “Even though many of the Packard Commission recommendations became law, they did not all bring about significant procedural changes in the weapons acquisition process or in the training, assignments, or tenure of program managers.”<sup>14</sup> Waivers to this process were frequently granted and the reforms lacked clarity and furthered conflicting priorities. As a result, Fox said, the “organizational ambiguity enabled the Army, the Navy, and the Air Force to maintain considerable control over weapons acquisition.”<sup>15</sup> These failures in the management issues resulted from conflicting expectations for the USD(A) from Congress, the military services, industry, and OSD.

### Goldwater-Nichols Department of Defense Reorganization Act

In 1986, Congress passed the Goldwater-Nichols Department of Defense Reorganization Act (GWN) incorporating many of the Packard Commission reforms.<sup>16</sup> Several bills were passed in close proximity to GWN in 1986 and early 1987 that contained related changes to the acquisition system originating in the Packard Commission recommendations; however, for simplicity's sake, this paper will discuss these acquisition reforms generally as part of GWN. Part of an unprecedented restructuring of DoD, the

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<sup>10</sup> Ibid., 127.

<sup>11</sup> “Executive Order 12526—President’s Blue Ribbon Commission on Defense Management,” *Federal Register*, July 18, 1985, <http://www.archives.gov/federal-register/executive-orders/1985.html>.

<sup>12</sup> *President’s Blue Ribbon Commission on Defense Management, An Interim Report to the President* (Washington, DC: U.S. Government Printing Office, 1986), 16.

<sup>13</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 131.

<sup>14</sup> *President’s Blue Ribbon Commission on Defense Management, An Interim Report to the President*, 132.

<sup>15</sup> Ibid.

<sup>16</sup> The creation of the USD(A) occurred prior to GWN with the passage of the Military Retirement Reform Act of 1986. See *Military Retirement Reform Act of 1986*, Public L. No. 99-348 (Washington, DC: 99th Congress, 1986), <http://www.gpo.gov/fdsys/pkg/STATUTE-100/pdf/STATUTE-100-Pg682.pdf>.

Goldwater-Nichols reforms established the command structure that exists to this day. GWN's primary goal was the centralization of civilian authority, and it worked toward nine objectives, including the strengthening of civilian authority, an increase in efficiency for the utilization of resources, an increase in success of joint officer management, and improvement of the management and administration of DoD.<sup>17</sup> To meet these objectives, GWN reformed the structure of DoD to increase coherence and enhance the roles of the Joint Staff and OSD. Soon after, these initiatives were incorporated into a new issuance of the 5000.1 directive. This revised version established a new acquisition chain of command and adjusted Department structure to assist in management of new bodies. It additionally established new acquisition milestones for review.<sup>18</sup>

GWN established the Defense Acquisition Board (DAB), chaired by the USD(A) and vice-chaired by the Vice Chairman of the Joint Chiefs of Staff (JCS), which was to act as a forum to advise the USD(A) on decisions regarding major acquisition category (ACAT)1D programs.<sup>19</sup> GWN also established the "three-tiered acquisition management chain of command within each service consisting of a service acquisition executive, program executive officer, and program manager."<sup>20</sup>

In a paper analyzing GWN and its results throughout the first four years after its passage, Vincent Davis in the *Annals of the American Academy of Political and Social Science* applauded the increased centralization in DoD as a result of GWN appointing the JCS as "the big boss of the entire overall joint system on the uniformed side of the defense establishment, a side that was previously weak and without an effective boss or patron or constituency."<sup>21</sup> Davis also mentioned how this met the specific goal of "sharply reducing layers in the chain of command between the White House and deployed forces."<sup>22</sup> In contrast to this analysis, a paper written in 2001 by James R. Locher III, former Assistant Secretary of Defense for Special Operations and Low-Intensity Conflict, focuses on the incompleteness of these reforms and unresolved disputes between civilian and military officials. Locher found that "The department itself, however, still has no concept of its needs for joint officers or of how to prepare and reward them. The officer corps is much smaller now than it was when Goldwater-Nichols was passed; this is no area in which to be adrift. It requires, again, a balance between joint and service emphasis."<sup>23</sup> The paper also criticized GWN on its efforts to increase efficiency in the use of resources. Locher argued that services have yet to dismantle the funding of Cold War systems at the same time that the Joint Requirements Oversight Council has been "rubber-stamping" the decisions of the services without taking joint concerns into consideration.<sup>24</sup>

These critiques suggest that while Goldwater-Nichols was a positive step in reorganizing DoD, the acquisition changes in the 1980s failed to make some of the necessary changes in culture and that the acquisition management chain-of-command guidelines recommended by the Packard Commission that were put into law by Congress did not immediately lead to improved coordination between OSD and the military services. The purpose of increasing the capabilities of the Joint Staff was so they would be functioning at the same level as OSD and so cooperation would be more fluid. Lochler argued that OSD

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<sup>17</sup> James R. Locher, "Has It Worked?," *Naval War College Review* 54, no. 4 (2001): 106, <http://www.ngade.com/uploads/GoldwaterNichols.pdf>.

<sup>18</sup> Ferrara, "DOD's 5000 Documents: Evolution and Change in Defense Acquisition Policy."

<sup>19</sup> *Ibid.*, 134.

<sup>20</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 135.

<sup>21</sup> Vincent Davis, "Defense Reorganization and National Security," *The ANNALS of the American Academy of Political and Social Science* 517, no. 1 (1991): 159, doi:10.1177/0002716291517001012.

<sup>22</sup> *Ibid.*, 170.

<sup>23</sup> Locher, "Has It Worked?," 112.

<sup>24</sup> *Ibid.*

was weakened during this time period, preventing improved coordination from happening.<sup>25</sup> Additionally, Fox concluded that there were “conflicting motivations, mismatched priorities and institutional rivalries” between the Congress, the White House, and the Pentagon.<sup>26</sup> In response to the Packard Commission and GWN, Fox argued that the dichotomy between management of profit-maximizing businesses and that of governmental institutions such as DoD prohibited success in this business approach to defense acquisition. Although not all aspects of GWN have been well received, the implementation of GWN established the basic acquisition structure that persists to this day.

### 2.3 1990s Reform Efforts—Streamlining and Move to Commercial Contracts

Acquisition reforms in the 1990s focused more directly toward streamlining the acquisition process and acquiring commercial products, as well as improving the education and effectiveness of the acquisition workforce.

#### Defense Acquisition Workforce Improvement Act

One of the key findings of the Packard commission and other reform efforts was that the acquisition workforce (AW) was both too large and underperforming as a result of being “undertrained, underpaid, and inexperienced.”<sup>27</sup> These reports concluded that it was vitally important to make improvements to the training and motivation of the current personnel to improve the quality of the AW. The first reform effort of the 1990s, the Defense Acquisition Workforce Improvement Act (DAWIA), aimed to improve the education and effectiveness of the AW. Key objectives of DAWIA were to “provide a clear track for the acquisition workforce, educate the workforce, increase the number of senior-level acquisition positions that civilians were qualified to fill, provide career growth, and increase acquisition expertise and experience.”<sup>28</sup> Furthermore, DAWIA aimed to reduce the size of the AW in order to increase efficiency.

Evaluations on both the success of implementation and long-term outcomes of DAWIA remain mixed. A 1997 analysis of DAWIA by Andrew Garcia et al. in *Acquisition Review Quarterly*, however, argued, “[DAWIA] has succeeded in prompting the DoD components to take the steps necessary to professionalize the defense acquisition workforce.”<sup>29</sup> It observed that, as a direct result of DAWIA, “Military departments have raised standards, increased training, and enhanced development of their acquisition personnel.”<sup>30</sup>

According to a 1992 Government Accounting Office (GAO) report on the implementation of DAWIA, DoD faced a variety of setbacks during the implementation of its provisions.<sup>31</sup> The report observed that “The process of identifying acquisition positions and evaluating the individual qualifications of each member of the work force is time-consuming and may delay implementation of key act provisions.”<sup>32</sup> The

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<sup>25</sup> Ibid

<sup>26</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*.

<sup>27</sup> *President’s Blue Ribbon Commission on Defense Management, An Interim Report to the President*, 66.

<sup>28</sup> Joseph Kevin Pope, “Measuring the Effect of the Defense Acquisition Workforce Improvement Act” (Naval Postgraduate School, 1997), 75,

<http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA331749>.

<sup>29</sup> Andrea Garcia et al., “The Defense Acquisition Workforce Improvement Act: Five Years Later,” *Acquisition Review Quarterly* 4, no. 3 (1997): 305.

<sup>30</sup> Pope, “Measuring the Effect of the Defense Acquisition Workforce Improvement Act,” 75.

<sup>31</sup> In 2004, the Government Accounting Office was renamed the Government Accountability Office. For the purposes of this paper the acronym GAO refers to both iterations of the name.

<sup>32</sup> Government Accounting Office, “Implementation of the Defense Acquisition Workforce Improvement Act” (Washington, DC: U.S. Government Printing Office, 1992), 2, <http://www.gao.gov/assets/220/215582.pdf>.

GAO also reported that financial obstacles and controversy over appointing civilians to certain critical positions within the services would likely delay implementation.<sup>33</sup>

Garcia, et al. further noted that DAWIA implementation still showed areas for improvement. They stated that the lack of uniformity across DoD components provided a barrier to the reform's implementation, and prevented complete Department success. The opportunities for professional development and education for civilian and military personnel also remained too low to adequately respond to industry demands.<sup>34</sup>

#### Long-Term DAWIA Consequences: Too Small of an Acquisition Workforce?

The implementation of DAWIA led to severe reductions in the size of the acquisition workforce, both as a result of increased training requirements and mandated cuts stemming from provisions in the legislation. For example, DAWIA “required [the] Secretary of Defense to reduce the number of employees in [the] Department of Defense acquisition force on [the] last day of each fiscal year . . . by not less than [a] number equal to 4 percent of [the] number of employees,” resulting in a 20 percent reduction of the workforce.<sup>35</sup> Additionally, increased training and position requirements limited the amount of available, competitive employees with adequate credentials.<sup>36</sup> A 2013 RAND report stated that the “civilian AW, as measured by the DAWIA count, hit a low of 77,504” in 1999.<sup>37</sup> The issue persisted into the 21st century, as the Army-established Gansler Commission reported in 2007 that increased workload and workforce demands had stalled after encountering insufficient AW.<sup>38</sup> A further analysis completed by the GAO in 2012 observed that, as a result of DAWIA, the “lack of an adequate number of trained acquisition and contract oversight personnel contributed to unmet expectations and at times has placed DoD, at risk of potentially paying more than necessary.”<sup>39</sup>

Attempting to reverse the consequences of workforce reductions implemented by DAWIA and continued by Congress for several additional years after the initial reductions, the 2008 Congress created the Department of Defense Acquisition Workforce Development Fund (DAWDF), which, while following many of the same goals as DAWIA, called for an increase in the size of the AW.<sup>40</sup> In its FY2012 Annual Report to Congress, the DAWDF stated that its primary purpose “had been to rebuild the capacity and size of the Defense Acquisition Workforce.”<sup>41</sup> Through initiatives such as recruiting incentives and outreach programs, retention incentives, and training enhancement, a report published by RAND reported

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<sup>33</sup> Ibid.

<sup>34</sup> Garcia et al., “The Defense Acquisition Workforce Improvement Act: Five Years Later,” 306.

<sup>35</sup> Defense Acquisition University, “10 USC Ch. 87: Defense Acquisition Workforce,” DAWIA (current Law), 2013, <http://www.acq.osd.mil/se/docs/dawia.pdf>.

<sup>36</sup> Government Accountability Office, “Defense Acquisition Workforce: Improved Processes, Guidance, and Planning Needed to Enhance Use of Workforce Funds,” 2012, <http://www.gao.gov/assets/600/591766.pdf>.

<sup>37</sup> Susan M. Gates et al., *Analyses of the Depratment of Defense Acquisition Workforce* (RAND, 2013), [http://www.rand.org/content/dam/rand/pubs/research\\_reports/RR100/RR110/RAND\\_RR110.pdf](http://www.rand.org/content/dam/rand/pubs/research_reports/RR100/RR110/RAND_RR110.pdf).

<sup>38</sup> Commission on Army Acquisition and Program Management in Expeditionary Operations, “Urgent Reform Required: Army Expeditionary Contracting. Report of the Commission on Army Acquisition and Program Management in Expeditionary Operations,” 2007, <http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA515519>.

<sup>39</sup> Government Accountability Office, “Defense Acquisition Workforce: Improved Processes, Guidance, and Planning Needed to Enhance Use of Workforce Funds.”

<sup>40</sup> 10 U.S. Code § 1705—Department of Defense Acquisition Workforce Development Fund

<sup>41</sup> Office of the Under Secretary of Defense for Acquisition Technology and Logistics, “Defense Acquisition Workforce Development Fund (DAWDF) FY 2012 Annual Report to Congress” (Washington, DC: U.S. Government Printing Office, 2013), [http://www.ndia.org/Advocacy/policyweeklydigest/Documents/20June2014/DAWDF\\_FY12\\_Report.pdf](http://www.ndia.org/Advocacy/policyweeklydigest/Documents/20June2014/DAWDF_FY12_Report.pdf).

that the civilian AW numbered over 136,000 by the end of FY2011.<sup>42</sup> A 2012 GAO report concluded that, despite issues with fund distribution, DAWDF was responsible for strong success in increasing the capacity of the acquisition workforce.<sup>43</sup>

### Secretary of Defense Perry White Paper—Acquisition Reform: A Mandate for Change

In 1994, Secretary of Defense William Perry published a white paper titled *Acquisition Reform: A Mandate for Change*, which argued that the cost of doing business remained too high and fundamental system change was necessary.<sup>44</sup> According to a report published in the *Defense Acquisition Review* journal, Perry’s mandate directed the DoD toward reform based upon products and outcomes, and away from a process-focused strategy.<sup>45</sup> As a result, he pushed industry to maintain a technological edge over its adversaries while reducing costs.<sup>46</sup> Perry authorized the appointment of House Armed Services Committee veteran Colleen A. Preston as Deputy Undersecretary of Defense for Acquisition Reform, where most literature credits her with an attempt to reform the acquisition process to make it focus more directly on products rather than the process. *Defense Acquisition Review* journal author Edward Rogers notes, “It thus was a mandate for both increased efficiency and effectiveness while restructuring the industry-government relationship base.”<sup>47</sup> The administration’s resulting emphasis on commercial products, simplification and streamlining of processes, and reduction of extraneous oversight led to the motto “faster, better and cheaper” to describe the reform goals. In order to better integrate civilian and military sectors, eliminate unnecessary costs, and reduce oversight, Preston formed ad hoc Project Action Teams (PATs) with the goal of discovering how to best implement industry streamlining and commercially available products into the defense industry.<sup>48</sup> Ronald Fox notes that these efforts significantly impacted the defense community by demonstrating that the DoD leadership was committed to reform; this effort was furthered by a congressionally approved mandate to reduce acquisition systems management and acquisition costs by 25 percent by October 1998.<sup>49</sup>

### Federal Streamlining Act of 1994

In 1994, Senate staff produced an influential procurement reform bill, entitled S.1597, the Federal Acquisition Streamlining Act (FASA). According to a 1998 GAO report, FASA was intended to streamline the acquisition process and promote the use of commercial products and acquisition approaches.<sup>50</sup> It streamlined the process further by simplifying procedures for contracts under \$100,000.<sup>51</sup> According to a 2002 RAND report, FASA eased access to commercial products by requiring “contracting officers to take advantage of commercial warranties, and requires them to ensure that, as far as possible, the government benefits from at least the same warranty terms as those customarily available to the

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<sup>42</sup> Gates et al., *Analyses of the Department of Defense Acquisition Workforce*.

<sup>43</sup> Government Accountability Office, “Defense Acquisition Workforce: Improved Processes, Guidance, and Planning Needed to Enhance Use of Workforce Funds.”

<sup>44</sup> William J. Perry, “Acquisition Reform: A Mandate for Change,” 1994, [http://www.library.dau.mil/PerryWJ\\_AcqReform\\_Feb94.pdf](http://www.library.dau.mil/PerryWJ_AcqReform_Feb94.pdf).

<sup>45</sup> Edward W. Rogers and Robert P. Birmingham, “A Ten-Year Review of the Vision for Transforming the Defense Acquisition System,” *Acquisition Review Quarterly* January–April (2004): 37–61, <http://oai.dtic.mil/oai/oai?verb=getRecord&metadataPrefix=html&identifier=ADA423544>.

<sup>46</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 154.

<sup>47</sup> Rogers and Birmingham, “A Ten-Year Review of the Vision for Transforming the Defense Acquisition System.”

<sup>48</sup> Ibid.

<sup>49</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 159.

<sup>50</sup> Government Accounting Office, *Implementation of Key Aspects of the Federal Acquisition Streamlining Act of 1994* (Washington, DC: U.S. Government Printing Office, 1998), <https://www.fas.org/man/gao/nsiad98081.htm>.

<sup>51</sup> Federal Acquisition Streamlining Act of 1994 (Washington, DC: 103rd Congress, 1994), <http://www.gpo.gov/fdsys/pkg/BILLS-103s1587enr/pdf/BILLS-103s1587enr.pdf>.

general public.”<sup>52</sup> The Small Business Committee also highly favored FASA because of its “particular sensitivity to the interests of small businesses.”<sup>53</sup>

These initiatives represent important successes in the acquisition reform progression. Available literature notes that the defense community recognized the efforts of Preston and the PATs as positive steps. According to a 2001 GAO report, FASA implemented reforms that would aid small businesses in the defense industry. The report stated, “For example, FASA increased the threshold of federal contracts exclusively reserved for small businesses.”<sup>54</sup> FASA also increased market opportunity for commercial products. A 2011 report by Aerospace Industries Association stated that, as a result of FASA, “Commercial companies were able to begin participating in government programs as prime contractors or subcontractors, using common product lines and work forces to provide products and services for both commercial and military customers.”<sup>55</sup> A further success was FASA’s bipartisan support, which, according to Fox, “helped fuel a spirit of reform.”<sup>56</sup>

However, despite these reforms, there remained little streamlining effort for projects over \$100,000, which often involved the most bureaucracy. According to the 2001 GAO report, small businesses were also concerned that “FASA exempted purchases of \$2,500 or less from the range of contracts previously reserved.”<sup>57</sup> Most importantly, FASA did not significantly impact DoD and contractor activities. Fox concludes that “FASA ultimately moved the defense acquisition behemoth in the right direction but left most DoD and contractor activities largely unchanged.”<sup>58</sup> Part of this may stem from alterations in the legislation after its passing. One report notes that FASA “has been sub-optimized by many legislative and regulatory changes in recent years,” gravitating back to policies prior to its enactment.<sup>59</sup> The 2002 RAND study reported that “it has become apparent that many of the hoped-for benefits of [acquisition reform] have not been fully realized.”<sup>60</sup> RAND specifically identified targeted training, integration, and industry partnership as remaining barriers to success in the acquisition reform efforts of the 1990s.<sup>61</sup>

#### 2.4 The Rumsfeld Doctrine: Revolutions in Military Affairs and DoD Transformation

When Donald Rumsfeld was confirmed as Secretary of Defense in 2001, he entered the position with ambitious plans to reform the operations of the defense community to better align with a post–Cold War agenda. These plans were put into action via Rumsfeld’s Revolution in Military Affairs (RMA), which, as the Brookings Institution reported, placed increased significance on information technology and attempted to create a more flexible and agile military, able to adapt to emerging threats and maintain global superiority in defense technology.<sup>62</sup> In his confirmation hearing, Rumsfeld laid out his intention for total department transformation, stating that it “may require a near-term investment to acquire modern capabilities derived from U.S. scientific and industrial pre-eminence, rather than simply upgrading

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<sup>52</sup> Hanks et al., *Reexamining Military Acquisition Reform: Are We There Yet?*, 84.

<sup>53</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 168.

<sup>54</sup> U.S. General Accounting Office, *Trends in Federal Procurement in the 1990s* (Washington, DC: U.S. Government Printing Office, 2001), <http://www.gao.gov/assets/240/231046.pdf>.

<sup>55</sup> Aerospace Industries Association, *Defense Acquisition Reform: Moving Toward an Efficient Acquisition System* (Arlington, VA: AIA, 2011), [http://www.aia-aerospace.org/assets/report\\_acquisition\\_reform.pdf](http://www.aia-aerospace.org/assets/report_acquisition_reform.pdf).

<sup>56</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 169.

<sup>57</sup> U.S. General Accounting Office, *Trends in Federal Procurement in the 1990s*.

<sup>58</sup> Fox, *Defense Acquisition Reform, 1960–2009 An Elusive Goal*, 170.

<sup>59</sup> Aerospace Industries Association, *Defense Acquisition Reform: Moving Toward an Efficient Acquisition System*.

<sup>60</sup> Hanks et al., *Reexamining Military Acquisition Reform: Are We There Yet?*, 2.

<sup>61</sup> Ibid.

<sup>62</sup> Paul Light, “Rumsfeld’s Revolution at Defense,” Brookings Institution Policy Brief, 2005, <http://www.brookings.edu/~media/research/files/papers/2005/7/governance-light/pb142.pdf>.

existing systems.”<sup>63</sup> He emphasized the importance of acquiring key technology and proper warfighting products over the process of their production.<sup>64</sup> According to Rumsfeld, this was a necessary reform in an era of rapid technological advances.

Additionally, Secretary Rumsfeld looked to address the bureaucracy and sluggishness ingrained in the Pentagon’s acquisition process by emphasizing the need for rapid technological development and adaptability. By 2002, he was encouraging industry investments in critical technological advances, such as information warfare and precision weaponry.<sup>65</sup> In doing so, the Secretary of Defense aimed to transform DoD into a more business-like structure, rather than placing importance on money-saving strategies.<sup>66</sup> Simultaneously, Deputy Secretary of Defense Paul Wolfowitz canceled the active 5000 Series documents and worked to revise the policy. Modified versions, issued in 2003, were both shortened and adjusted to provide more flexibility in program execution, in addition to promoting knowledge and planning before a product’s developmental stage.<sup>67</sup> A GAO review of the policy stated that they could “put DoD’s decision makers in a better position to deliver high-quality products on time and within budget.”<sup>68</sup>

In 2003, the Joint Capabilities Integration and Development System (JCIDS) was created to address DoD requirements and abilities, demonstrating a “shift away from threat-based assessments to capability-based assessments of warfighter needs.”<sup>69</sup> The JCIDS addressed a need for more integrated, concepts-oriented capabilities across all components. In 2004, DoD created the Joint Rapid Acquisition Cell, aimed at continuing coordination efforts between the services, avoiding bureaucratic overhaul, and rapidly administering needed technology for urgent operational needs.<sup>70</sup>

Rumsfeld’s initiatives ultimately brought limited success. He struggled to work collaboratively with congressional and Department officials, who cited his inability to negotiate as a barrier to progress, and he appointed like-minded individuals into positions of authority.<sup>71</sup> Rumsfeld’s critiques of a bloated and bureaucratic Pentagon created a hostile environment between the Secretary and the services, who pushed back against the sudden shifts away from traditional capabilities and joined Congress in resenting Rumsfeld’s increased effort to assert control.<sup>72</sup> During Rumsfeld’s tenure, Congress increased defense spending to record-highs, but the department nevertheless initially struggled to meet the needs of

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<sup>63</sup> “Statement of the Honorable Donald H. Rumsfeld, Prepared for the Confirmation Hearing before the US Senate Committee on Armed Services,” 2001.

<sup>64</sup> Ibid.

<sup>65</sup> Light, “Rumsfeld’s Revolution at Defense.”

<sup>66</sup> Peter K. Eide and Charles D. Allen, “The More Things Change, Acquisition Reform Remains the Same,” *Defense Acquisition Research* 19, no. 1 (2012): 99–120, <http://www.dau.mil/pubscats/PubsCats/ARJournal/arj61/Eide61.pdf>.

<sup>67</sup> Government Accountability Office, *DoD’s Acquisition Policies and Guidance Need to Incorporate Additional Best Practices and Controls* (Washington, DC: U.S. Government Printing Office, 2004), <http://www.gao.gov/assets/250/243604.pdf>.

<sup>68</sup> United State General Accounting Office, “DOD’s Revised Policy Emphasizes Best Practices, but More Controls Are Needed” (Washington, DC: U.S. Government Printing Office, November 2003), <http://www.gao.gov/assets/250/240578.pdf>.

<sup>69</sup> “Joint Capabilities Integration Development System,” *Chairman of the Joint Chiefs of Staff Instruction 3170.01G*, March 1, 2009.

<sup>70</sup> Ibid.

<sup>71</sup> Timothy Came and Colin Campbell, “The Dynamics of Top-Down Organizational Change: Donald Rumsfeld’s Campaign to Transform the U.S. Defense Department,” *Governance* 23, no. 3 (2010): 411–35.

<sup>72</sup> Thomas E. Ricks, “Rumsfeld on High Wire of Defense Reform,” *Washington Post*, May 20, 2001, <http://www.washingtonpost.com/wp-dyn/articles/A45657-2001May18.html>.

warfighters deployed to Iraq, due to logistical failure and adaptability.<sup>73</sup> A report by the Center for Strategic and Budgetary Assessment remarked on Rumsfeld's defense budget, saying that "Despite its high costs, this plan may also fall short of meeting U.S. security requirements if the kinds of challenges faced by the U.S. military change significantly over the coming years."<sup>74</sup> His desire to transform the U.S. Armed Forces into an agile, lightly moving body with high-tech weaponry proved incompatible with evolving counterinsurgency operations.

The proposed shift to transformational capabilities rarely materialized. Analysis by Timothy Came and Colin Campbell in 2005 noted that, despite a few major cuts such as the Comanche helicopter program, "The administration is continuing to move ahead with the vast majority of the major weapons platforms in the plans it inherited from the Clinton Administration."<sup>75</sup> Furthermore, despite reform attempts, the Hon. David Walker, former Comptroller General of the U.S. and head of the GAO, noted that "Many current major-weapons systems programs continue to suffer the same cost over-runs and schedule delays."<sup>76</sup> Part of this may stem from a lack of guidance regarding program implementation. In a review of Defense Acquisition Best Practices, the GAO found that many of the proposed acquisition reforms "had not been sufficiently incorporated into either policies or the guidance."<sup>77</sup> The report further stated that "effective controls for ensuring that best practices are appropriately followed are not adequately provided for in the policies."<sup>78</sup>

In 2008, another version of DoD 5000.02 instruction was released. In this new version, review processes were expanded and made mandatory, increasing the number and frequency of oversight policies. The reissuance emphasized competitive prototyping, independent assessments, and more effective testing and development phase division.<sup>79</sup> A review of the new policies by the National Research Council stated that a revised 5000.02 "does not appreciably change the focus on milestones but it introduces more oversight reviews with the aim of achieving better acquisition results."<sup>80</sup>

## 2.5 Recent Acquisition Reforms

The major reforms that the study team will be testing are the Weapons Systems Acquisition Reform Act of 2009 (WSARA), the National Defense Authorization Act (NDAA) for Fiscal Year 2008 Section 843, the 2009 NDAA Sections 863 and 864, Better Buying Power (BBP), and the 2012 NDAA Section 808. These reform efforts sought to bring efficiencies to the system, but through different means. WSARA focused more heavily on reducing the time and cost overruns of the Major Defense Acquisition Programs (MDAPs) by achieving better knowledge and enhancing planning in the early stages of the acquisition process. The 2009 NDAA Section 864 focused on enhancing the effective use of cost-reimbursement contracts. The BBP series focused more on providing acquisition officials policy and program implementation guidance to find efficiencies across all levels of ACAT, to include MDAPs. Sec. 843 of

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<sup>73</sup> Eric Schmitt, "Iraq-Bound Troops Confront Rumsfeld over Lack of Armor," *New York Times*, December 8, 2004, [http://www.nytimes.com/2004/12/08/international/middleeast/08cnd-rumsfeld.html?\\_r=0](http://www.nytimes.com/2004/12/08/international/middleeast/08cnd-rumsfeld.html?_r=0).

<sup>74</sup> Steven M. Kosiak, "Analysis of the FY 2006 Defense Budget Request" (Washington, DC: Center for Strategic and Budgetary Assessment, 2005),

<http://www.csbaonline.org/4Publications/PubLibrary/R.20050517.FY06Bud/R.20050517.FY06Bud.pdf>

<sup>75</sup> Ibid.

<sup>76</sup> Review of Major Defense Acquisition Reform Initiatives: Hearing Before the Committee on Armed Services, United States House of Representatives, 109th Congress, 2006.

<sup>77</sup> Government Accountability Office, *DoD's Acquisition Policies and Guidance Need to Incorporate Additional Best Practices and Controls*.

<sup>78</sup> Ibid.

<sup>79</sup> "Department of Defense Instruction 5000.02," *Operation of the Defense Acquisition System*, January 7, 2015, <http://www.acq.osd.mil/fo/docs/500002p.pdf>.

<sup>80</sup> Air Force Studies Board, *Optimizing U.S. Air Force and Department of Defense Review of Air Force Acquisitions Programs* (Washington, DC: National Academies Press, 2009).



the 2008 NDAA and Sec. 863 sought to reform competition and usage of single-award and multi-award contracts. Finally, Sec. 808 of the 2012 NDAA placed limitations on DoD's contract services.

### Weapon Systems Acquisition Reform Act of 2009 (WSARA)

Passed unanimously in both the Senate and the House of Representatives, the Weapon Systems Acquisition Reform Act of 2009 was signed into law by President Obama on May 22, 2009. Designed to both reform and curtail time and cost overruns of the major weapon systems, WSARA created new positions designed to provide better knowledge of matters of cost, systems engineering, and technological maturity early in the acquisition process. In signing the bill, President Obama said, "the purpose of this law will be to limit cost overruns before they spiral out of control. It will strengthen oversight and accountability by appointing officials who will be charged with closely monitoring the weapons systems we're purchasing to ensure that costs are controlled."<sup>81</sup>

WSARA made a substantial number of changes designed to reduce time and cost overruns in acquiring the largest weapon systems. It created or modified a number of positions within the Office of the Secretary of Defense, including Director of Cost Assessment and Program Evaluation (D, CAPE), Deputy Assistant Secretary of Defense for Developmental Test & Evaluation (DTE), Deputy Assistant Secretary of Defense for Systems Engineering, and Director of Performance and Root Cause Analysis.<sup>82</sup>

Other notable acquisition process changes included:

- Requirements for competitive acquisition strategies, at both the prime and subcontract levels
- Modifying the requirements process to include:
  - Allowing Combatant Commanders the opportunity to provide inputs on joint requirements
  - Providing that USD AT&L, USD Comptroller, and D, CAPE serve as advisers to the Joint Requirements Oversight Council
  - Considering cost, schedule, and performance tradeoffs at the requirements-generation stage of acquisition
- Improved cost estimation processes<sup>83</sup>
- Tougher requirements for continuing programs experiencing critical cost breaches
- A more stringent set of regulations on organizational conflicts of interest

### National Defense Authorization Act for Fiscal Year 2008 Section 843: Enhanced Competition Requirements for Task and Delivery Order Contracts

As part of the 2008 NDAA, Section 843 instituted changes to Title 10, United States Code, on the management and usage of single-award and multi-award task and delivery orders. These changes came in the form of three primary regulatory changes: limits on single-award task or delivery order contracts over \$100 million, enhanced competition requirements for orders in excess of \$5 million, and a general prohibition of protests on the issuance of task or delivery orders. Under the new regulations, single-award task or delivery contracts over \$100 million could only be awarded with the explicit written permission of the head of the respective military component. Even then, the military head could only approve contracts if they were: (a) deemed to be so integral only a single source could reasonably perform the work; (b)

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<sup>81</sup> The White House Office of the Press Secretary, "Remarks by the President at Signing of the Weapons System Acquisition Reforms Act of 2009 [Press Release]," May 22, 2009, <https://www.whitehouse.gov/the-press-office/remarks-president-signing-weapons-systems-acquisition-reform-act>.

<sup>82</sup> David Berteau, Joachim Hofbauer, and Stephanie Sanok, "Implementation of the Weapons Systems Reform Act of 2009" (Washington, DC: Center for Strategic and International Studies, 2010), [http://csis.org/files/publication/20100528\\_WSARA\\_Progress\\_Report.pdf](http://csis.org/files/publication/20100528_WSARA_Progress_Report.pdf).

<sup>83</sup> Weapon Systems Reform Act of 2009, Public L. No. 111-23 (Washington, DC: U.S. 111th Congress, 2009), <http://www.gpo.gov/fdsys/pkg/PLAW-111publ23/content-detail.html>.

firm, fixed-price task or delivery; (c) “only one source is qualified and capable of performing the work at a reasonable price to the government”; and (d) “because of exceptional circumstances, it is necessary in the public interest to award the contract to a single source.”<sup>84</sup>

The second regulatory change required that for task or delivery orders over \$5 million under a multiple-award contract, all contractors on the contract be given a fair opportunity to compete.<sup>85</sup> Finally, the 2008 NDAA authorized bid protests related to the issuance task or delivery orders of over \$10 million.

### Duncan Hunter National Defense Authorization Act for Fiscal Year 2009

The Duncan Hunter National Defense Authorization Act for Fiscal Year 2009, hereafter the 2009 NDAA, instructed two major revisions to the Federal Acquisition Regulations (FAR). First, Section 863 extended some of the competition requirements for task and delivery order contracts made in the 2008 NDAA to all federal agencies. Second, Section 864 mandated revisions on the effective use and management of cost-reimbursement contracts.

#### Section 863: Requirements for Purchase of Property and Services Pursuant to Multiple-Award Contracts

Section 863 contained guidance on the requirements for increased competition for multiple-award contracts and public notice of sole-source task or delivery orders made under multiple-award contracts. The law dictated that any task or delivery order under a multi-award contract over the simplified acquisition threshold must be made on a competitive basis unless a statutory exception applies or an agency is mandated by law to select from a specific source.<sup>86</sup> The final FAR rule on implementing Section 863 this change and also required public notice before the award of all sole-source task and delivery order contracts over the simplified acquisition threshold.<sup>87</sup>

#### Section 864: Regulations on the Use of Cost-Reimbursement Contracts

Section 864’s regulatory changes to cost-reimbursement changes occurred in four areas: guidance on cost-reimbursement contracts, identification of acquisition plan findings, acquisition workforce resources, and contract administration functions. The guidance on cost-reimbursement contracts explained under what circumstances contracting officers should select a contract type other than firm-fixed-price, under what circumstances cost-reimbursement should be used, and how to combine contract types. The next changes, those surrounding the identification of acquisition plan findings, required greater levels of documentation from the acquisition professionals and managers in the process of selecting a contract type. The third category of changes, acquisition workforce resources, ensured that contracting officers have access to helpful resources, noting that cost-reimbursement contracts are more complicated than firm-fixed-price. It also required properly trained contracting officer’s representative (COR) or contracting officer’s technical representative (COTR) to be used in managing the contracts.<sup>88</sup>

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<sup>84</sup> *National Defense Authorization Act for Fiscal Year 2008* (Washington, DC: U.S. CONGRESS, 2007), <http://www.gpo.gov/fdsys/pkg/CRPT-110hrpt477/pdf/CRPT-110hrpt477.pdf>.

<sup>85</sup> The 2008 NDAA defines fair opportunity as: (1) notice of the task or delivery order with requirements clearly stated; (2) reasonable period for responses; (3) “disclosure of the significant factor and sub factors”; (3) “written statements documenting the basis for the award and the relative importance of quality and price or cost factors” for contracts to be awarded on best value; and (4) post-award debriefing opportunity.

<sup>86</sup> Simplified Acquisition Threshold = Contracts less than \$150,000 except for those supporting contingency or counter-weapons of mass destruction missions. For those missions, the SAT is \$300,000 for contracts awarded and performed or purchase to be made within the United States and \$1 million for those outside the United States.

<sup>87</sup> “Federal Acquisition Regulation: Requirements for Acquisitions Pursuant to Multiple-Award Contracts,” *Federal Register*, March 2, 2012, <http://www.gpo.gov/fdsys/pkg/FR-2012-03-02/pdf/2012-4485.pdf>.

<sup>88</sup> “Federal Acquisition Regulation: Proper Use and Management of Cost Reimbursement Contracts,” *Federal Register*, March 16, 2011, <http://www.gpo.gov/fdsys/pkg/FR-2011-03-16/pdf/2011-5552.pdf>.

## National Defense Authorization Act for Fiscal Year 2012 Section 808: Temporary Limitation on Aggregate Annual Amount for Contract Services<sup>89</sup>

In the Fiscal Year 2012 National Defense Authorization Act, hereafter the 2012 NDAA, Congress temporarily restricted the amount DoD could annually spend on services contracts. Section 808, the contract services restriction provision, prohibited DoD from exceeding the FY2010 services contract obligation levels in FY2012 or FY2013 with the exception of: (1) military construction, (2) research and development, (3) services funded by Overseas Contingency Operations (OCO), and (4) services that moved from OCO to the base budget funding. In addition to restrictions on overall services spending, the provision dictated DoD to reduce spending on services for contractors performing functions closely associated with inherently governmental functions and staff augmentation services by 10 percent each.

In June 2012, then-Deputy Secretary of Defense Ashton Carter issued DoD guidance for compliance with Section 808's provisions, which was followed by an implementation memo from then-Director of Defense Procurement and Acquisition Policy Richard Ginman on July 31, 2012.<sup>90</sup> To meet the guidance, DoD directed contracting offers not to exceed the contractor's FY10 labor and overhead rates for any contracts over \$10 million. The guidance further stated that total value of the contract services could not exceed the amount paid in FY2010 for similar services without the approval of the Service Secretary of component head.

These restrictions on services contract spending were subsequently extended to include Fiscal Years 2014 and 2015 with the inclusion of provisions to amend Section 808 of the 2012 NDAA in both the National Defense Authorization Act for Fiscal Year 2014 and the Carl Levin and Howard P. "Buck" McKeon 2015 National Defense Authorization Act for Fiscal Year 2015.<sup>91</sup>

## Better Buying Power

Anticipating the imminent budget tightening that eventually led to the passage of the Budget Control Act, then-Under Secretary of Defense (AT&L) Ashton Carter introduced the first iteration of BBP on June 28, 2010.<sup>92</sup> This new initiative supported a Department-wide goal to find efficiencies and savings within the contracted portion of the DOD budget. Under the overarching goal to "do more without more," the new initiative had seven main objectives:<sup>93</sup>

- Deliver the warfighting capability we need for the dollars we have
- Get better buying power for the warfighter and taxpayer
- Restore affordability to defense goods and services
- Improve defense industry productivity
- Remove government impediments to leanness
- Avoid program turbulence

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<sup>89</sup> National Defense Authorization Act for Fiscal Year 2012, Public L. No. 112-81 (Washington, DC: 112th Congress, 2011).

<sup>90</sup> Richard Ginman, "Class Deviation—Limitation on Amounts of Available for Contracted Services [Memorandum]," Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, July 31, 2012, <http://www.acq.osd.mil/dpap/policy/policyvault/USA003691-12-DPAP.pdf>.

<sup>91</sup> National Defense Authorization Act for Fiscal Year 2014, Public L. No. 113-66 (Washington, DC: 113th Congress, 2013), <http://www.gpo.gov/fdsys/pkg/CPRT-113HPRT86280/pdf/CPRT-113HPRT86280.pdf>; Howard P. Buck McKeon, *Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015*, Public L. No. 113-291 (113th Congress, 2015), <http://www.gpo.gov/fdsys/pkg/CPRT-113HPRT92738/pdf/CPRT-113HPRT92738.pdf>.

<sup>92</sup> Ashton B. Carter, "Better Buying Power: Mandate for Restoring Affordability and Productivity in Defense Spending," Memorandum, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD, AT&L), June 28, 2010.

<sup>93</sup> *Ibid.*

- Maintain a vibrant and financially healthy defense industry

Accompanying BBP were implementation guidelines containing general guidance and specific actions for the five major areas: target affordability and controlling cost growth, incentivize productivity and innovation in industry, promote real competition, improve tradecraft in services acquisition, and reduce non-productive processes and bureaucracy.<sup>94</sup> To target affordability and control cost growth, Carter directed acquisition managers to mandate affordability as a requirement for potential acquisition programs, drive productivity growth through will-cost/should-cost management, eliminate redundancy within warfighter portfolios, make production rates economical and hold them stable, and set shorter program timelines and manage to them.

To incentivize productivity and innovation in industry, the guidelines directed acquisition managers to reward contractors for successful supply chain and indirect expense management, increase the use of fixed-price incentive firm-target (FPIF) contract type, and reinvigorate the industry's independent R&D and protect the defense technology base. To promote real competition, the guidelines recommended presenting a competitive acquisition strategy at each program milestone, removing obstacles to competition such as requiring open systems architectures, and increasing dynamic small business' role in defense marketplace competition.

In 2012, two years after the launch of Better Buying Power 1.0, DoD published a second iteration of the initiative. According to Under Secretary (AT&L) Frank Kendall, the progression from BBP 1.0 to 2.0 “reflected a change in emphasis from specific ‘best practices’ to an increased emphasis on helping acquisition professionals think critically and make better decisions as they confront the myriad, complex situations we encounter in defense acquisition.”<sup>95</sup> Continuing the efforts of BBP 1.0, BBP 2.0 represented not a major change in policy, but a shift in the cited emphasis while retaining the core initiatives.

While retaining the core values of the first iteration, BBP 2.0 created 36 initiatives with seven focus areas. These initiatives maintain BBP 1.0's core interest in achieving better buying power for the warfighter and the taxpayer while emphasizing a new focus on the importance of the acquisition workforce. The seven focus areas comprised:

- Achieving affordable programs
- Controlling costs throughout the product lifecycle
- Incentivizing productivity and innovation in industry and government
- Eliminating unproductive processes and bureaucracy
- Promoting effective competition
- Improving tradecraft in acquisition of services
- Improving the professionalism of the total acquisition workforce<sup>96</sup>

Furthermore, BBP 2.0 emphasized the enforcement of the implemented initiatives to create affordability constraints. The general guidance of BBP 2.0 explains how the affordability constraints will be formulated, met, and enforced. Specifically, a portfolio such as a tactical aircraft for the Air Force or a

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<sup>94</sup> Ashton B. Carter, “Implementation Directive for Better Buying Power—Obtaining Greater Efficiency and Productivity in Defense Spending,” Memorandum, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (USD, AT&L), November 3, 2010, [http://bbp.dau.mil/docs/Implementation Directive for Better Buying Power -- Restoring Affordability and Productivity in Defense Spending.pdf](http://bbp.dau.mil/docs/Implementation%20Directive%20for%20Better%20Buying%20Power%20--%20Restoring%20Affordability%20and%20Productivity%20in%20Defense%20Spending.pdf).

<sup>95</sup> Frank Kendall, “Better Buying Power 3.0 White Paper,” 2014, [http://www.acq.osd.mil/fo/docs/Better\\_Buying\\_Power\\_30-091914.pdf](http://www.acq.osd.mil/fo/docs/Better_Buying_Power_30-091914.pdf).

<sup>96</sup> Frank Kendall, “Better Buying Power 2.0: Continuing the Pursuit for Greater Efficiency and Productivity in Defense Spending,” November 13, 2013, [http://bbp.dau.mil/docs/BBP 2 0 Memo to the Workforce \(13 Nov\) Final.pdf](http://bbp.dau.mil/docs/BBP%202.0%20Memo%20to%20the%20Workforce%20(13%20Nov)%20Final.pdf).

ground combat vehicle for the Army should be analyzed by a predetermined and systematic process that will decide whether or not the program is affordable. If the analysis decides it is not affordable, it will be necessary to procure a lower-cost product or choose to lower the costs of a different program within another component's portfolio.<sup>97</sup>

Continuing the overarching theme to improve costs and efficiencies within the defense acquisition enterprise, the Under Secretary (AT&L) Frank Kendall published the third iteration of BBP: Better Buying Power 3.0 in April 2015. While BBP 3.0 maintains the themes from its predecessors to increase efficiency in DoD, it emphasizes the reduction of bureaucracy, the improvement of contracted services, and the shift toward innovation and technical excellence. The shift toward innovation and technical excellence focuses on the goal of maintaining U.S. technological superiority.<sup>98</sup>

One long-term initiative of BBP 3.0 is increasing DoD support for science, technology, engineering, and math (STEM) education and careers. The general guidance for this initiative includes direct and indirect support from DoD to STEM education. It also dictates the strengthening of relationships between DoD and the civilian technical community. Under this initiative, DoD is instructed to become more desirable for professionals in STEM careers to improve RDT&E in DoD.<sup>99</sup> BBP 3.0 continues the goals of improving efficiency combined with an attempt to orient the system to the greatest perceived challenges of the time.

### 3 Methodology

For nearly a decade, the Center for Strategic and International Studies has issued a series of analytical reports on federal contract spending for national security across the government. This report builds and expands on this well-established methodology developed for previous reports in order to assess how the components have implemented the recent round of acquisition reforms.<sup>100</sup>

#### 3.1 Study Design

The limitations of FPDS restrict the ability of the study team to assess certain elements of recent acquisition reforms. For example, the study team has no visibility into whether contracts are awarded under lowest-price technically acceptable (LPTA) source-selection criteria. The study team has attempted to study a variety of such questions through alternate avenues, such as searching for LPTA and variants in solicitations posted to the FedBizOps website, but while that term is commonly referenced by vendors it often does not appear in the full text description. The end result of these explorations was a determination that the study team's efforts were best spent making more effective use of FPDS than trying to integrate new outside sources. For those reasons, the study team focused on six contract characteristics that are observable through FPDS data:

- Competition: Have the DoD components increased their rate of effective competition since the introduction of BBP in 2010?

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<sup>97</sup> Frank Kendall, "Implementation Directive for Better Buying Power 2.0—Achieving Greater Efficiency and Productivity in Defense Spending," April 24, 2013, [http://www.acq.osd.mil/docs/USD\(AT&L\)BBP 2.0 Implementation Directive \(24 April 2013\).pdf](http://www.acq.osd.mil/docs/USD(AT&L)BBP2.0ImplementationDirective(24April2013).pdf).

<sup>98</sup> Frank Kendall, "Implementation Directive for Better Buying Power 3.0—Achieving Dominant Capabilities through Technical Excellence and Innovation," April 9, 2015, [http://www.acq.osd.mil/fo/docs/betterBuyingPower3.0\(9Apr15\).pdf](http://www.acq.osd.mil/fo/docs/betterBuyingPower3.0(9Apr15).pdf).

<sup>99</sup> Ibid.

<sup>100</sup> The Congressional Budget Office recently adopted the methodology the CSIS study team developed to analyze Product or Services categories. See <https://www.cbo.gov/sites/default/files/cbofiles/attachments/49931-FederalContracts.pdf>.

- Vendor Size: How successful have the components been at promoting contracting opportunities for small businesses?
- Contract Type: How has DoD shifted between fixed-price and cost-plus contracts as guidance evolved?
- Product or Service Area: Did the recent reforms and legislation efforts shift components' acquisition portfolios?
- Contract Vehicle: Have the components shifted away from certain contract vehicles?
- Top Vendors: As DoD seeks efficiencies and savings, have major vendors moved out of specific markets?

To assess how the components implemented reform guidance, the CSIS study team analyzed contracts using contract signed dates to divide the recent reforms into definitive periods for each of the variables above. Contract trends were first separated into new contracts started during Under Secretary of Defense (AT&L) Carter but before any of the recent reforms, to create a baseline from which to compare. Second, the variables were divided based on a series of reforms passed near the midpoint of President Obama's first term, each of which contained specific guidance regarding that particular variable. Finally, new contracts were divided upon the release of the guidance specifically targeting that variable. The dates for each variable period are as follows:

#### **Competition – Effective Competition**

- John J. Young, Jr. AT&L Regime: July 21, 2007–April 26, 2009
- Pre-Better Buying Power 1.0: April 27, 2009–November 2, 2010
- Better Buying Power 1.0: November 3, 2010–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

#### **Vendor Size – Small Business Promotion**

- John J. Young, Jr. AT&L Regime: July 21, 2007–April 26, 2009
- Pre-Small Business Task Force: April 27, 2009–September 22, 2010
- Small Business Task Force (SBTF): September 23, 2010–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

#### **Pricing Mechanism – Fixed Price v. Cost-Plus**

- John J. Young, Jr. AT&L Regime: July 21, 2007–April 26, 2009
- Pre-2009 NDAA Section 864: April 27, 2009–March 15, 2011
- 2009 NDAA Section 864: March 16, 2011–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

#### **Contract Vehicle – Multi-Award Contracts**

- John J. Young, Jr. AT&L Regime: July 21, 2007–April 26, 2009
- 2008 NDAA Section 843: April 19, 2010–March 1, 2012
- 2009 NDAA Section 863: March 2, 2012–September 21, 2014

#### **Product or Service Code Category**

- John J. Young, Jr. AT&L Regime: July 21, 2007–April 26, 2009
- Better Buying Power 1.0: November 3, 2010–July 30, 2012
- 2012 NDAA Section 808: July 31, 2012–September 21, 2014

#### **Top Ten Vendor**

- John J. Young, Jr. AT&L Regime: July 21, 2007–April 26, 2009
- Pre-Small Business Task Force: April 27, 2009–September 22, 2010
- Small Business Task Force (SBTF): September 23, 2010–April 23, 2013
- Better Buying Power 2.0: April 24, 2013–September 21, 2014

## 3.2 FPDS Methodology

See <http://csis.org/program/methodology> for the full methodology.

### Inherent Restrictions of FPDS

Since the analysis presented in this report heavily relies on FPDS data, it incurs notable restrictions.

1. First, contracts awarded as part of overseas contingency operations (OCO) are not separately classified in FPDS. As a result, we do not distinguish between contracts funded by base budgets and those funded by OCO appropriations.
2. Second, FPDS includes only prime contracts, and the separate subcontract database has historically been radically incomplete, accounting for less than half of the expected obligations. Therefore, only prime contract data are included in this report.
3. Third, reporting regulations require that only unclassified contracts be included in FPDS. We interpret this to mean that few, if any, classified contracts are in the database. For DoD, this omits a substantial amount of total contract spending, perhaps as much as 10 percent. Such omissions are probably most noticeable in R&D contracts.

### Constant Dollars and Fiscal Years

All dollar amounts in this report are reported as constant Fiscal Year 2014 dollars unless specifically noted otherwise.

### Competition

The study team followed DoD methodology and calculated competition by using two fields: extent of competition, which is preferred for contract awards; and fair opportunity, which is preferred for task and delivery orders under most indefinite delivery vehicles (IDVs). Additionally, to better evaluate the rate of “effective competition,” the study team categorizes competitively awarded contracts by the number of offers received.<sup>101</sup>

### Vendor Size

To analyze the breakdown of competitors in the market into small, medium, and large vendors, the CSIS team assigned each vendor in the database to one of these size categories. Any organization designated as small by the FPDS database—according to the criteria established by the federal government—was categorized as such unless the vendor was a known subsidiary of a larger entity. Due to varying standards across sectors, an organization may meet the criteria for being a small business in certain contract actions and not in others. The study team did not override these inconsistent entries when calculating the distribution of value by vendor size.

Vendors with annual revenue of more than \$3 billion, including those from nonfederal sources, are classified as large. This classification is based on the vendor’s most recent revenue figure at time of classification. For vendors that have gone out of business or been acquired, this date may be well before 2013. A joint venture between two or more organizations is treated as a single separate entity, and organizations with a large parent are also defined as large. Due to their system integrator role and consistent market share, the study team placed the six largest defense contractors (Lockheed Martin, Boeing, Raytheon, Northrop Grumman, General Dynamics, and United Technologies Corporation) into a separate category called “Big 6 defense vendors.” Any vendor assigned a unique identifier by FPDS that is neither small nor large is classified as “medium.”

In order to identify large vendors, the study team investigated any vendor with total obligations of \$500 million in a single year or \$2 billion over the study period. Determining revenues is the most labor-

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<sup>101</sup> CSIS defines effective competition as a competitively sourced contract awarded after receiving two or more offers.

intensive part of the process and involves the use of vendor websites, news articles, various databases, and public financial documents. While large vendors are, on rare occasions, reassigned into the middle tier, the vast majority of investigations either maintain the status quo or identify small or medium vendors that should be classified as large.

### Contract Vehicle

Determining the contract vehicle required classifying both awards and indefinite delivery vehicles (IDVs). While classifying awards is straightforward, classifying IDVs requires the referenced IDV contract type field, which is only available via the FPDS web tool. The study team recreates this field by automatically looking up the referenced parent IDV for each delivery order. When this lookup is unsuccessful, typically because the IDV originated before the study period, the study team relies on tables downloaded from the FPDS web tool. This approach may not exactly match the FPDS web tool results, but it allows for cross-tabulation and enables emulation of the DoD method for calculating competition. For DoD standards, the choice of which field to use when classifying competition is based on vehicle type. Many IDVs rely on fair-opportunity standards, while other vehicles and definitive contracts instead rely on the traditional extent-competed field.

### Measuring Changes in Product or Service Code Category

The inherent restrictions of FPDS prevent CSIS from identifying the full range of contracts funded by OCO appropriations, and those funded by regular appropriations. As Sec. 808 of the 2012 NDAA specifically exempts services contracts funded by OCO transferred to the base budget from the overall limitation on service contract obligations, CSIS is unable to measure implementation of that reform with sufficient academic rigor. Instead, the study measured what impact the provision had on the larger shifts in components acquisition portfolios. Complementing this analysis will be the inclusion of analysis by the GAO of DoD's official metrics and those of the GAO.

## 3.3 Explanation of the Horsetail Charts Used in this Paper

The inertia and cyclical nature of the defense acquisition system is one of the largest challenges to examining the influence of policy changes. For example, the highest share of contract obligations is awarded during the fourth quarter of the fiscal year. To account for this dynamic, this study has chosen to use "horsetail" charts that overlay each of the policy periods on top of one another.

### Categorizing Contracts by Signing Regime

Splitting recent years into policy regime periods is the first step to studying the effects of new policy, but it is not enough to determine which regime was in charge when a contract obligation takes place. After a contract has been signed the costs of changing it are inherently higher, no matter whether it misaligns with a new policy approach. To account for this significant inertia, the study team classified all contracts and task orders by the policy regime responsible at time of signing.<sup>102</sup> The starting fiscal year, listed as Year 0 in the graph, is different for each of the regimes. The legend below the graph identifies the starting year, ending period, and final displayed period for each policy regime. This allowed the study team to compare contracting trends between the different regimes at the same point in their regime period

Because we continue to track longer-duration contracts after the end of a policy regime, there is significant temporal overlap on the graph below. The end fiscal year of one policy regime is the starting fiscal year for the next one. However, because of the cyclical nature of contracting discussed below, the

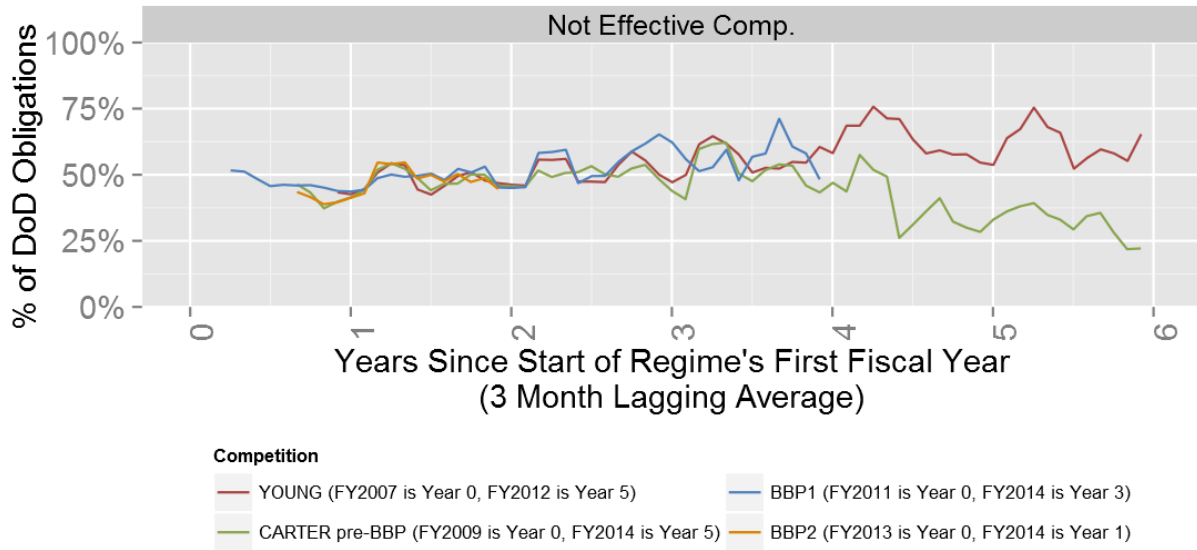
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<sup>102</sup> For indefinite delivery vehicles (IDVs), the assignment is made based on when the new task order was signed, as indicated by the assignment of a new procurement identifier (PIID), rather than when the base vehicle was created. While many of the parameters of an IDV contract are specified when the base vehicle is created, future contracting officers have some discretion as to whether and to what extent to use that particular vehicle.



study team felt it was more important to compare contracting trends happening, for example, at the start of the regime's third fiscal year than to compare trends occurring in November of 2010.

Figure 3-1: Example of Horsetail Chart Used In Paper



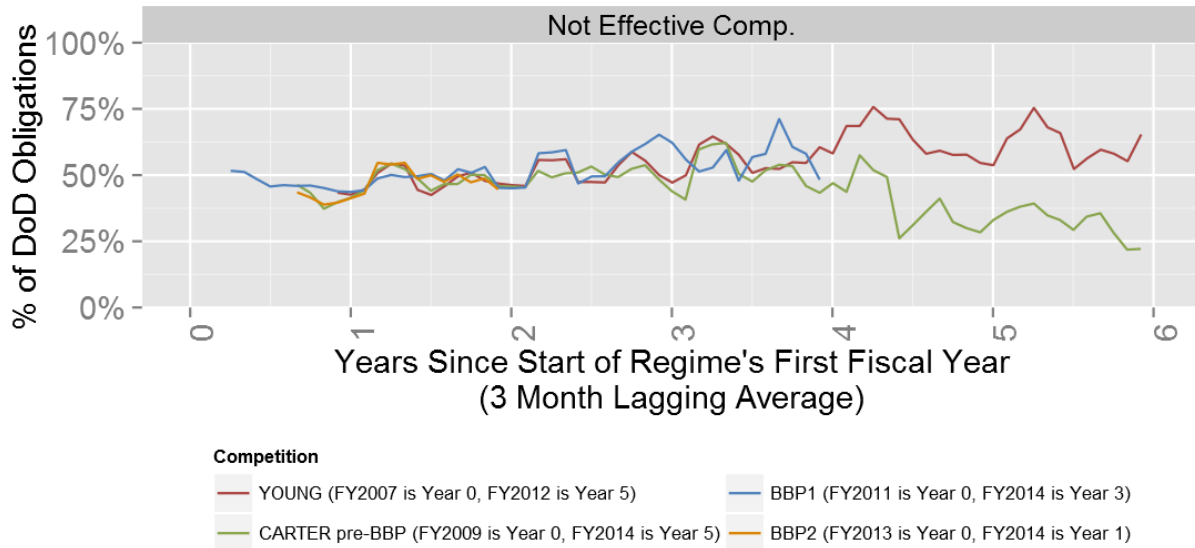
Source: FPDS; CSIS Analysis

As show in Figure 3-1, the y-axis of the horsetail charts tracks the percent share of monthly obligations going to a particular category of contract, in this case contracts not effectively competed. While the contract is assigned based on when it was originally signed, the spending is classified based on the month in which the obligation occurs. To account for natural variance in monthly contracting spending, contracting trends are smoothed using a three-month lagging average (value-weighted). As a side effect of this lag, each trend line starts on the third month of the given period.

## 4. Overall Department of Defense Trends

### Overall DoD Competition Trends

Figure 4-1: Overall DoD Not Effective Competition by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

For contracts signed during the Dr. Ashton Carter AT&L period, but before the issuance of BBP 1.0 guidance, 53 percent of contract obligations were awarded following effective competition, while 34 percent were awarded without competition. Under BBP 1.0 guidance, there was a slight decrease in the competitiveness of the DoD contracting marketplace when compared to before the reforms. Under the BBP 1.0 guidance, the share of new start contract obligations awarded without completion grew to 42 percent. While the rise in no-competition-contracting in spite of guidance to increase competition is troubling, there was one positive change during BBP 1.0. For new start contracts signed under BBP 1.0 guidance, just 9 percent were awarded after competition with just a single offer, a decline from 12 percent before BBP 1.0.

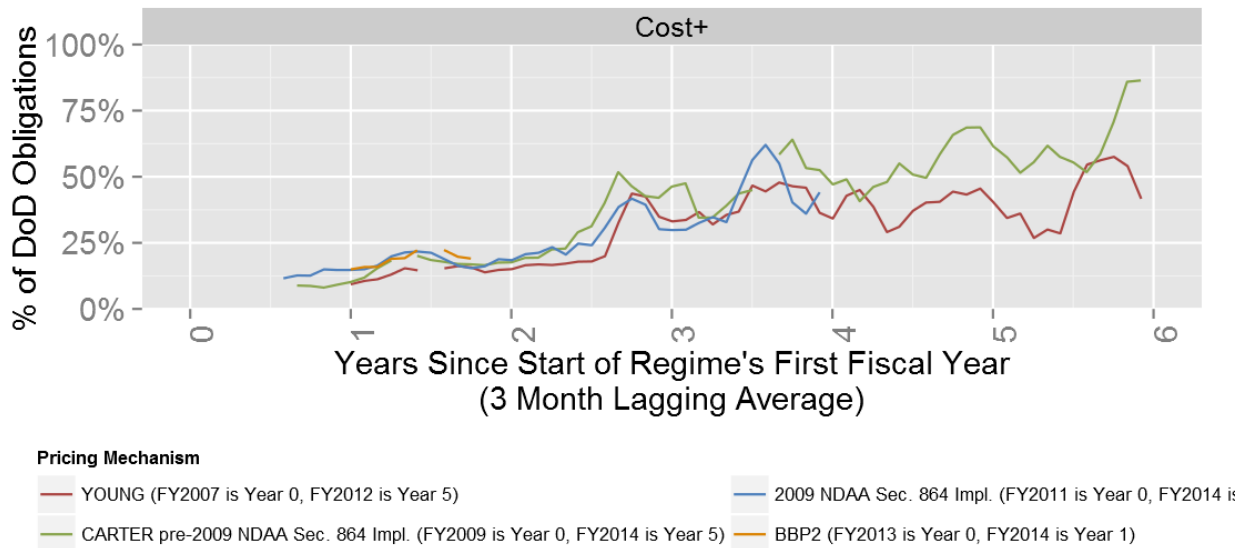
Under the BBP 2.0 guidance, unlike the BBP 1.0 guidance, competition across the Department increased. For overall DoD contracts signed under the BBP 2.0 guidance, contract obligations awarded without competition fell to 38 percent of total DoD contract obligations, while the share of contract obligations awarded with effective competition increased to 53 percent.

Figure 4-1 shows that overall DoD contract obligations shows effective rates of competition for overall DoD contract obligations largely follow the same cyclical pattern in the first two and a half years of a policy's regimes. For contracts signed in the fourth quarter of the first year's regime, 59 percent were awarded without effective completion prior to BBP, 55 percent under BBP 1.0, and 59 percent under BBP 2.0, suggesting the successful implementation to increase competition in the defense industrial base. For contact obligations awarded in the fourth quarter of the second year of a policy regime, effective completion rates slightly declined for all three periods when compared to the first year: effective competition rates under BBP 2.0 fell to 52 percent, under BBP 1.0 effective competition fell to 50 percent, and prior to BBP, 51 percent.

Beginning around the Year Three, Q2 of the various policy regimes, trends between Carter obligations prior to BBP and BBP 1.0 begin to substantially diverge. In the fourth quarter of the third fiscal year, effective competition rates for contract obligations signed under BBP 1.0 guidance fell to just 37 percent.

Meanwhile, shares of obligations for contracts awarded after effective competition that were signed under the Dr. Carter AT&L regime prior to the issuance of the BBP guidance at that same period in the regime remained around 50 percent or higher in the later years. The share of contract obligations awarded under effective competition for contracts signed under BBP 1.0 continues to fluctuate in the quarters beyond Y3Q4, suggesting the trends are not shaped by the cyclical nature of contracting.

Figure 4-2: Overall DoD Cost Plus by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

For contracts signed prior to the issuance of final guidance for the implementation of Section 864 of the 2009 NDAA, a strong majority (68 percent) were awarded under fixed-price contract types, with most of the remaining (26 percent) awarded under cost-reimbursement contract types.

There was a slight rise in the shares of contract obligations awarded under fixed in the post-2009 NDAA/Section 864 pre-BBP 2.0 period and those signed in the post-BBP 2.0 period. For contracts signed under the 2009 NDAA Section 864, 76 percent of contract obligations were fixed price. The share of fixed-price contract obligations continued to grow slightly under BBP 2.0, rising to 80 percent. Under the BBP 2.0 guidance, use of time and materials (T&M) contract types declined, falling from 2 percent pre-BBP 2.0 to 1 percent post-BBP 2.0, reflecting guidance in BBP 2.0 to scale back the use of T&M contract types.

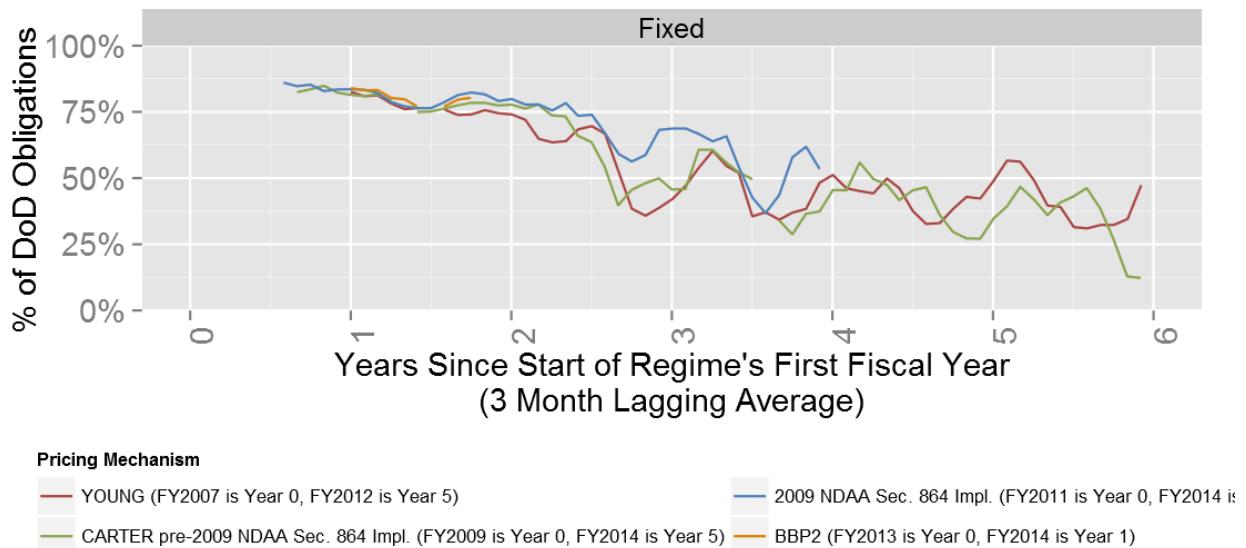
The share of contract obligations awarded as cost-plus contracts largely follows a similar trend: a gradual increase during the first two years, before a large increase in the Q3 of the third year, followed by a decline in the fourth quarter. Beyond Y3Q3, you see a similar rise and fall around the third and fourth quarters of the fourth year.

The trends for contracts signed during the Obama administration, both before and after the implementation of the 2009 NDAA Sec. 864 guidance, follow the trend outline above. At both the start of the Dr. Carter AT&L regime, and after the implementation of the NDAA guidance, around 11 percent of overall DoD contract obligations were for cost-reimbursement contracts. By the quarter four of the second year, the share of contract obligations for cost plus increased slightly faster under the NDAA guidance than the pre-reform Dr. Carter regime (NDAA: 19 percent, Carter: 18 percent). In Q3 of that third year of the reform period, the share of cost-plus contract obligations reached 52 percent without the NDAA guidance and 39 percent under it. After that quarter, the two reform periods largely followed the trends outlined above and shown in Figure 4-2.

The share of contract obligations for cost-plus new-start contracts signed under the BBP 2.0 guidance follows the gradual increase over the first two years similar to the other reform periods.

Analysis of the data suggests that the cyclical nature of contracting has some correlation to the shares of contract obligations awarded under a fixed-price mechanism. As shown in Figure 4-3, the share of fixed-price contract obligations follow a historical trend. For the first two years of a reform period, the share of contract obligations awarded under fix-priced mechanisms remains relatively steady. Around the third quarter of the third year, the share of fixed price contract obligations falls substantially, before recovering in the first and second quarters of the four year only to fall again.

Figure 4-3: Overall DoD Fixed Price by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

### Overall DoD Vendor Size Trends

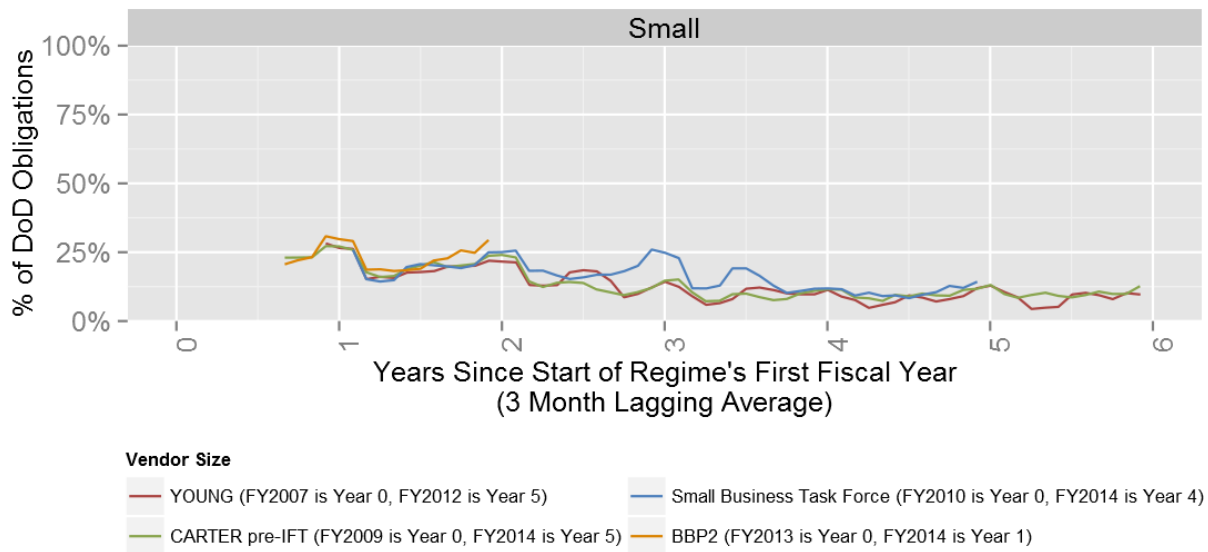
Prior to the implementation of BBP 2.0, the share of contract obligations going toward small businesses remained steady. Under the BBP 2.0 guidance, the share of contract obligations awarded to small businesses rose to 25 percent of contracts across the Department. This increase for small businesses came as large vendors contract obligations fell. Prior to the implementation of the SBTF and BBP 2.0 guidance, large vendors represented 36 percent of overall DoD contract obligations. Under the SBTF guidance, that share fell to 30 percent, before falling even further to 27 percent under BBP 2.0. The share of contract obligations to medium vendors remained at 23 percent throughout SBTF, but then increased to 26 percent after BBP 2.0.

Figure 4-4 shows that analyzing overall DoD contracting trends by the years since the start of a regime's first fiscal year shows that the majority of small businesses contracting obligations are awarded in the fourth quarter the fiscal year. Prior to any reforms, the Department awarded 27 percent of new start contract obligations to small vendors at the end of its first fiscal year of the Carter AT&L regime. While that share fell to 25 percent under the SBTF guidelines, the share of obligations for small vendors increased to 31 percent in the fourth quarter of the first year under BBP 2.0. For all the study periods, there were subsequent declines in the first and second quarters of the second fiscal year, followed in most cases with growth in the share for small businesses in the third quarter.

While contract obligations for small vendors lagged behind pre-reform trends under the SBTF guidelines for the first year and a half, there was a small vendor resurgence beginning in the second quarter of the

second year. Finally, under BBP 2.0 small vendors saw higher shares of contract obligations than at the same points in the other reforms. For example, under BBP 2.0 the Department awarded 29 percent of overall DoD contract obligations during the fourth quarter of the second year when compared to that same point in the SBTF and the pre-reform period, when the Department awarded 26 percent and 24 percent respectively. This is a positive early trend that suggests the protection and requirement to increase the share of the share of contract obligations for small businesses suggests the small business reforms may have been better implemented within the components that previous reform efforts.

Figure 4-4: Overall DoD Small Business by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

### Overall DoD Product or Service Code Category Trends

Between reform periods, there were large shifts in the composition of products, services, and R&D contract obligations for overall DoD. During the Young AT&L regime, 50 percent of contract obligations were awarded to products, 7 percent for R&D, and 42 percent for services. Under the beginnings of the Carter AT&L regime prior to BBP 1.0, just 43 percent of contract obligations were awarded for products, while 9 percent went to R&D and 48 percent to services.

Under the BBP 1.0 guidance, the share of contract obligations going toward products increased to 52 percent, while R&D fell to 7 percent and services to 41 percent. Under the Section 808 guidance, overall DoD saw a slight resurgence in services contract spending as a share of the portfolio, rising to 44 percent of overall DoD contracting obligations while R&D contracting obligations held steady.

### Implementation of 2012 NDAA Section 808

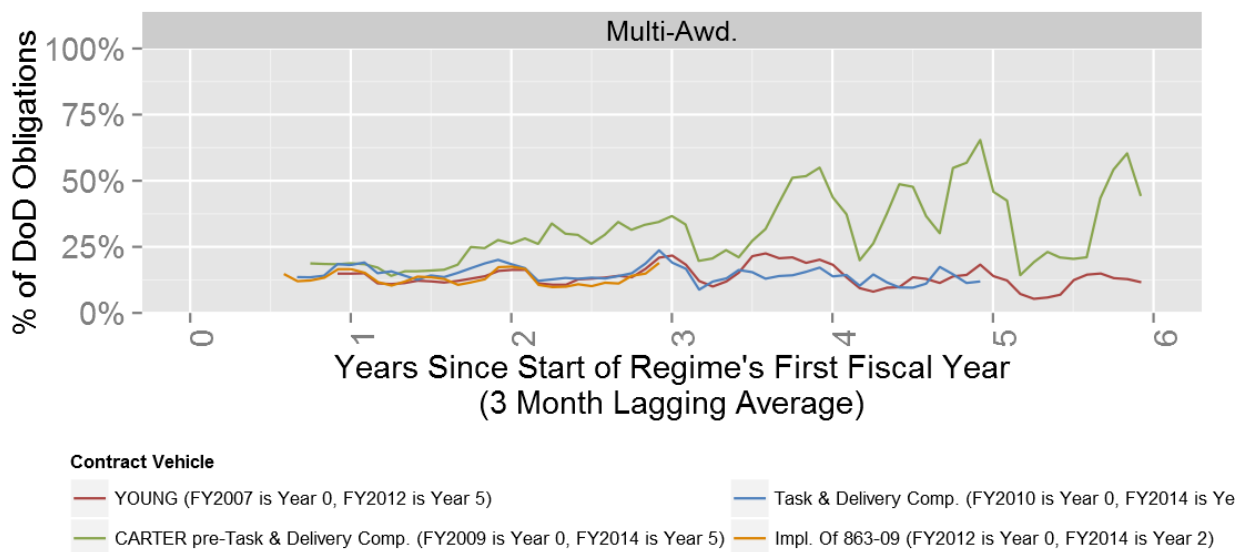
Based on internal calculations, DoD identified the overall cap on services contracts restricted by Sec. 808 of the 2012 NDAA as \$56.47 billion in FY2012. In order to meet the statutory restrictions placed on overall DoD services contracting spending, the Office of the Secretary of Defense issued targets to each of the components for how much they could spend on services that year. However, the official guidance came three-quarters of the way through the fiscal year, and the Army, Navy, Air Force, and DLA all exceeded those targets, overspending their caps by \$3.06 billion in total. Meanwhile, all other defense agencies underspent the targets by \$0.71 billion. When combined with the \$1.73 billion DoD set aside for unexpected costs, the Department internally reported overspending the cap by \$1.34 billion in 2012. GAO's assessment found that DoD inconsistently applied their methodology in the calculations of the

caps and aggregate services contracting spending, resulting in an additional \$0.38 billion in services contracting not accounted for; pushing the total amount overspent to \$1.72 billion.<sup>103</sup>

For FY2013, DoD calculated the aggregate spending limit for services contracts as \$57.46 billion. With more time for the components to take the necessary steps, the Department’s official reports state that it underspent the FY2013 cap by \$1.81 billion. GAO analysis identified methodological flaws in those calculations, similar to those found in an analysis of FY2012, resulting in more services contracting spending than reported. While still under the caps, the GAO report identified an additional \$1.32 billion in services contracts not accounted for by the Department. The unaccounted spending brought the Department down from \$1.81 billion under the cap to just \$490 million.<sup>104</sup>

### Overall DoD Contract Vehicle Trends

Figure 4-5: Overall DoD Multiple-Award by Years Since Start of Regime’s First Fiscal Year



Source: FPDS; CSIS Analysis

Prior to the start of the Obama administration, the majority of contract obligations under the Young AT&L regime were awarded under either a definitive (41 percent) or single-award (40 percent) contract vehicle. At the start of the Carter AT&L regime, but prior to implementation of Sec. 863 of the 2009 NDAA, contract obligations for multi-award contracts increased from just 13 percent during the Young regime to 22 percent. Meanwhile, the share of contract obligations awarded under definitive contract vehicles fell from 41 percent to 32 percent.

After the implementation of the final Sec. 864 guidance, the share of contract obligations awarded under multi-award contract vehicles across the Department fell to 15 percent with subsequent rises in definitive (38 percent) and “Other IDV” (2 percent) contract vehicles. Under the Sec. 863 guidance, the trends seen in the Sec. 864 reforms remain largely the same.

<sup>103</sup> Government Accountability Office, *DoD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed* (Washington, DC: U.S. Government Printing Office, 2014), 8–13, <http://gao.gov/assets/670/667432.pdf>.

<sup>104</sup> Ibid.

As shown in Figure 4-5, the share of contract obligations awarded under multiple-award vehicles is largely cyclical for only the first three years of a regime with the exception of those contract signed under the Carter regime prior to reform efforts. While the trends for the pre-reform Carter regime started out similar to the cyclical trends for the other reform regimes, beginning in the fourth quarter of the first fiscal year (Y1Q4), the share of contract obligations awarded under multiple-award vehicles rapidly increased, rising from an average of 17 percent of overall DoD contract obligations beforehand, to 28 percent in Y1Q4. Beyond Y1Q4, the share of contract obligations awarded under multiple-award vehicles continued to steadily increase, reaching 34 percent in the fourth quarter of the second year.

### Overall DoD Top Ten Vendors Trends

Figure 4-6: Overall DoD Top Ten Vendors by Reform Period

<i>Top 10 Overall DoD Vendors, BBP 2.0</i>		<i>Top 10 Overall DoD Vendors, SBTF</i>	
Vendors	Constant 2014 \$ millions	Vendors	Constant 2014 \$ millions
BOEING	11,330	LOCKHEED MARTIN	59,090
LOCKHEED MARTIN	11,110	BOEING	46,700
RAYTHEON	8,430	GENERAL DYNAMICS	26,240
GENERAL DYNAMICS	6,290	RAYTHEON	26,210
NORTHROP GRUMMAN	6,170	NORTHROP GRUMMAN	23,230
L3 COMMUNICATIONS	3,690	L3 COMMUNICATIONS	15,910
BAE SYSTEMS	3,380	UNITED TECH	14,460
SAIC	3,330	BAE SYSTEMS	12,640
UNITED LAUNCH ALLIANCE	2,980	SAIC	10,000
UNITED TECH	2,840	HUMANA	8,520
<b>Top Obligations</b>	<b>59,540</b>	<b>Top Obligations</b>	<b>243,000</b>
<b>Total BBP2 Obligations</b>	<b>229,490</b>	<b>Total Small Business</b>	<b>745,000</b>
		<b>Task Force Obligations</b>	
<i>Top 10 Overall DoD Vendors, Carter Pre-SBTF</i>		<i>Top 10 Overall DoD Vendors, Young</i>	
Vendors	Constant 2014 \$ millions	Vendors	Constant 2014 \$ millions
LOCKHEED MARTIN	26,800	LOCKHEED MARTIN	50,820
NORTHROP GRUMMAN	19,040	GENERAL DYNAMICS	38,670
RAYTHEON	18,940	BOEING	34,480
GENERAL DYNAMICS	15,970	NORTHROP GRUMMAN	33,250
BOEING	15,000	RAYTHEON	25,610
OSHKOSH	11,960	BAE SYSTEMS	21,640
HEALTH NET	10,380	UNITED TECH	19,190
BAE SYSTEMS	10,160	L3 COMMUNICATIONS	12,720
L3 COMMUNICATIONS	9,800	KELLOGG BROWN & ROOT	10,010
FLUOR	9,300	BECHTEL	9,780
<b>Top Obligations</b>	<b>147,340</b>	<b>Top Obligations</b>	<b>256,170</b>
<b>Total CARTER</b>	<b>480,750</b>	<b>Total YOUNG Obligations</b>	<b>688,750</b>
<b>pre-IFT Obligations</b>			

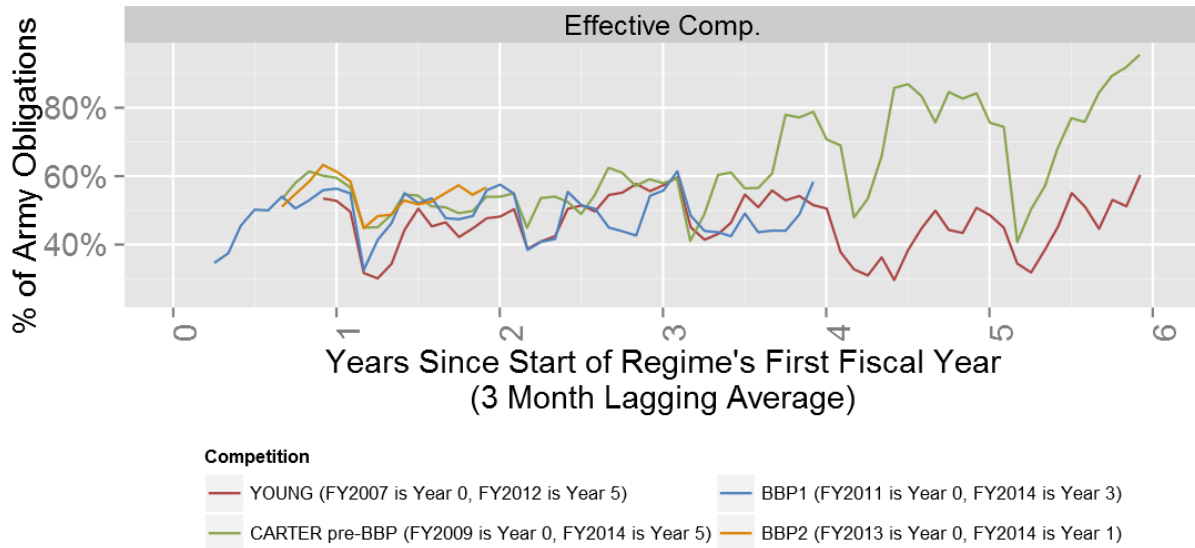
Source: FPDS; CSIS Analysis

For overall DoD, the largest five defense vendors (Boeing, Lockheed Martin, General Dynamics, Raytheon, and Northrop Grumman) all remained in the top five vendors throughout the entirety of the study period. While they shuffled positions between reform periods, none fell lower than fifth. The sixth position rotated between BAE Systems, Oshkosh, and L3 Communications. Finally, Figure 4-7 shows that over the course of the entire study period, Kellogg Brown & Root, Bechtel, Fluour, Health Net, and Humana all entered the top ten overall vendors during one reform period, before falling and failing to reach the top ten vendors list again.

## 5. Army Contracting Trends

### Army Competition Contracting Trends

Figure 5-1: Army Effective Competition by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

Of the DoD components, the Army has historically had slightly higher average effective competition rates than the other military services. The data show that for Army contracts signed under the Dr. Carter AT&L regime prior to BBP 1.0, 56 percent of contract obligations were awarded following effective competition. The share of contracting obligations awarded without competition was just 28 percent. Under the BBP 1.0 guidance, the Army saw a slight decline in the competitiveness of the contracting environment. Throughout the BBP 1.0 period, the shares of contracts signed under BBP following effective competition were 50 percent. The share of contract obligations awarded without competition meanwhile rose to 37 percent. Similar to the overall DoD trend, contract obligations awarded after competition with just a single offer begin to decline at the start of BBP 2.0.

Figure 5-1 shows that beginning with BBP 2.0 guidance, the Army returned to the effective competition rates seen before the recent acquisition reforms. After the issuance of the BBP 2.0 final guidelines, the share of contract obligations awarded following effective competition rose to 56 percent of new start Army contracting obligations. Shares of new contracts awarded without competition, or awarded after just a single offer, fell to 34 percent and 9 percent, respectively.

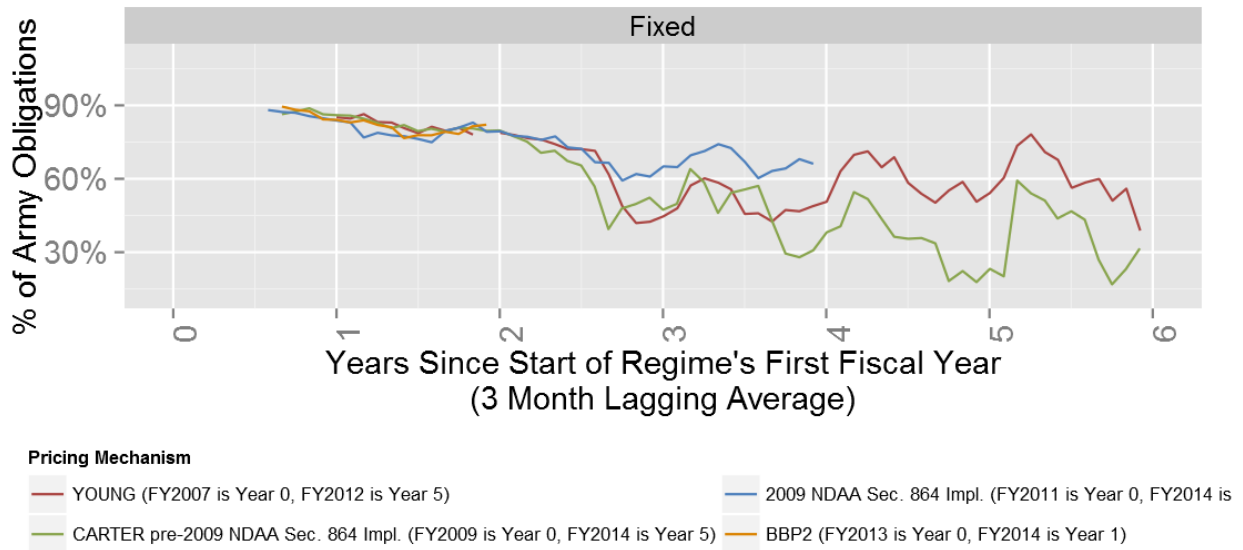
### Army Pricing Mechanism Contracting Trends

Figure 5-2 shows that trends within the Army track closely with those of overall DoD. For contract actions under those contracts prior to final implementation of 2009 NDAA Section 864, only 13 percent were awarded under cost-reimbursement contract types, while 81 percent were fixed price. For contract actions under those pre-2009 NDAA Section 864 contracts that went into effect “throughout” the post-2009 NDAA Section 864 period, 21 percent were cost reimbursement, while 72 percent were fixed price.

Like overall DoD, the mix of contract pricing mechanism types was largely unchanged between contracts signed in the post-2009 NDAA Section 864/pre-BBP 2.0 period and those signed in the post-BBP 2.0 period: 16 percent of contract obligations in both periods were awarded under cost-reimbursement contract types, while fixed price rose from 80 percent to 83 percent, largely drawing from T&M.



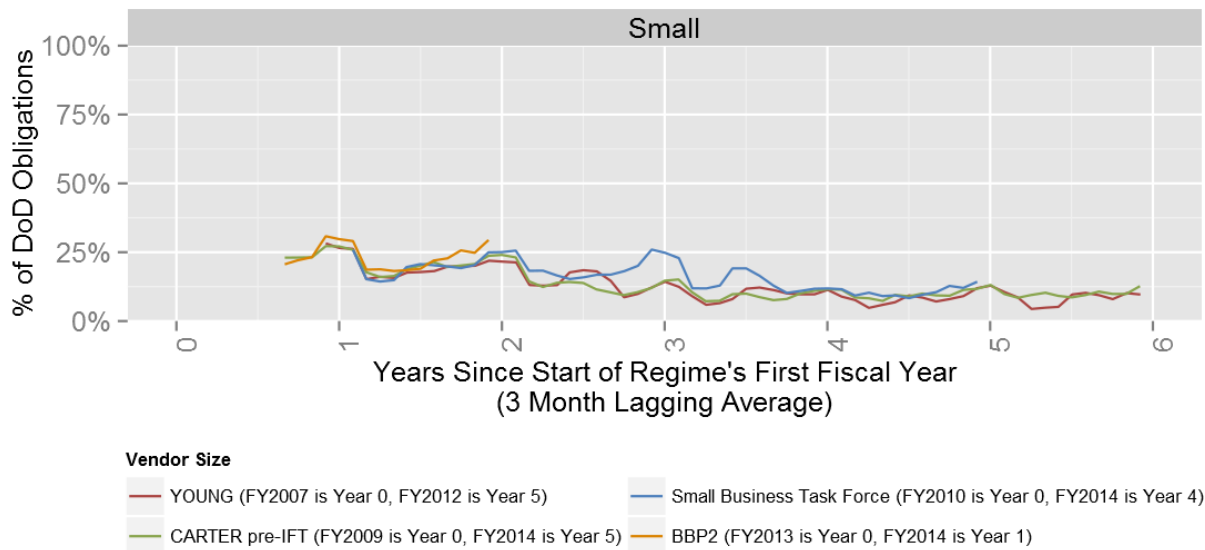
Figure 5-2: Army Fixed Price by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

### Army Vendor Size Contracting Trends

Figure 5-3: Army Small Business by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

Over the course of the study timeframe, the Army experienced large shifts in the defense industrial base, as measured by size of vendor. Prior to the SBTF and BBP 2.0, the Army awarded 35 percent of contract obligations to large vendors and just 13 percent to the Big 6 vendors. With the implementation of BBP 2.0, the share of contract obligations going to large vendors fell to 19 percent, while the share for the Big 6 defense vendors increased to 20 percent. As shown in Figure 5-3, small vendors saw incremental increases throughout the study timeframe, increasing from 21 percent of Army contracts before the SBTF,

23 percent throughout the SBTF, and 29 percent since the introduction of BBP 2.0. However, it remains to be seen how much of the shift can be accounted for as a result of the drawdowns in Afghanistan and withdrawal from Iraq when compared to the implementation of any acquisition reform guidance.

### Army Product or Service Code Contracting Trends

While the Army trends match those seen for “Overall DoD,” they differ substantially in their scale. Under the Dr. Carter AT&L regime, but prior to any reform efforts, the Army awarded just 38 percent of contract obligations to products. Fifty-seven percent of Army contract obligations during this period went to services, and just 5 percent for R&D. Under the BBP 1.0 guidance, there was a similar rise in Army products contracting, as seen for overall DoD, increasing to 44 percent.

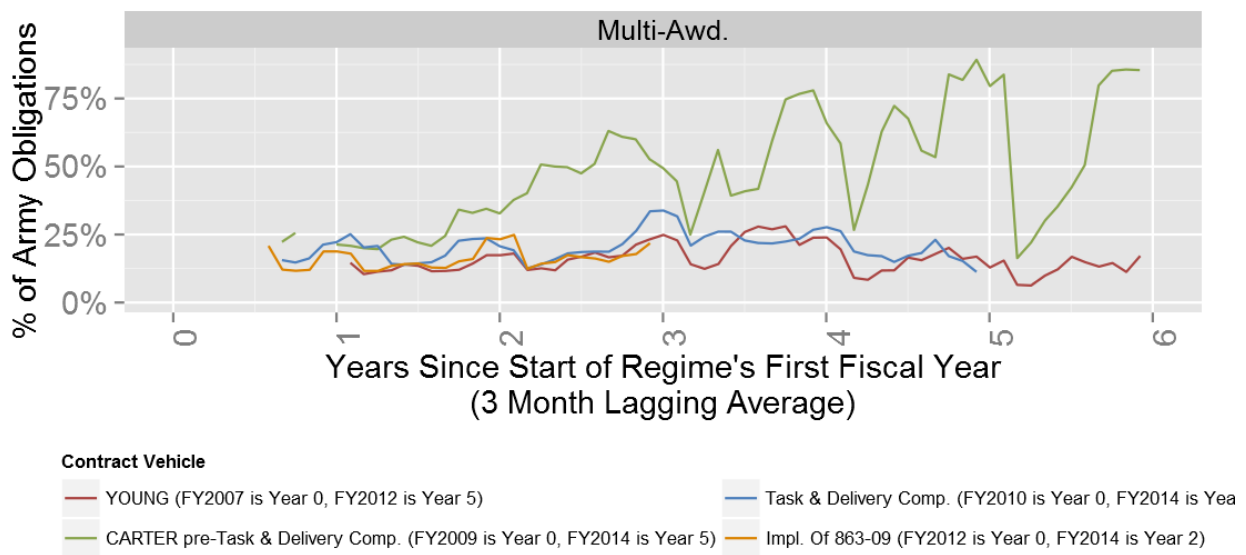
During the 2012 NDAA Sec. 808 guidance reform period, products contract obligations fell to 42 percent of Army contract obligations. Meanwhile, Army service contracts increased to 57 percent of the share of Army new start contract obligations.

### Implementation of 2012 NDAA Section 808

GAO analysis of the Army’s implementation of Section 808 found that the Army failed to solicit command inputs, set command spending targets, or even monitor command spending on services contracting. As a result, the Army overspent its target by \$2.37 in FY2012 and \$2.69 billion in FY2013.<sup>105</sup> GAO found that the Army failed to prioritize service requirements or monitor spending throughout the year.<sup>106</sup> This merits further monitoring as it suggests that the Army has not come close to implementation of Sec. 808 guidance.

### Army Contract Vehicle Contracting Trends

Figure 5-4: Army Multiple-Award by Years Since Start of Regime’s First Fiscal Year



Source: FPDS; CSIS Analysis

As shown in Figure 5-4, the Army contract vehicle trends only loosely resemble the overall DoD trends. Prior to the Obama administration, the Army awarded 15 percent of contract obligations under multiple

<sup>105</sup> Ibid., 11-16

<sup>106</sup> Ibid.

awards, 40 percent under single awards, and 38 percent under definitive contract vehicles. Similarly to overall DoD, at the beginning of the Dr. Carter AT&L regime, but prior to any reforms, multiple award rose as a share of Army contract obligations (32 percent) while definitive contract obligations fell (31 percent). Similar to overall DoD, under Sec. 843 of the 2012 guidance the share of contract obligations awarded under multiple-award contract vehicles fell 20 percent. Under Sec 863 of the 2009 NDAA guidance, that share fell further, to 17 percent. Unlike the overall DoD trends, shares of Army contract obligations awarded under a single-award contract vehicle fell during the pre-reform Dr. Carter regime and remained relatively steady through the remaining study periods.

### Army Top 10 Vendors Contracting Trends

Figure 5-5: Overall Army Top Ten Vendors by Reform Period

<i>Top 10 Army DoD Vendors, BBP 2.0</i>		<i>Top 10 Army Vendors, SBTF</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
BOEING	4,700	LOCKHEED MARTIN	11,130
GENERAL DYNAMICS	3,120	GENERAL DYNAMICS	10,480
RAYTHEON	2,780	UNITED TECH	8,190
LOCKHEED MARTIN	2,130	RAYTHEON	7,520
SAIC	1,360	OSHKOSH	6,590
BAE SYSTEMS	1,260	BOEING	5,090
ATK	850	BAE SYSTEMS	4,530
GREAT LAKES DREDGE DOCK	750	ITT	4,390
HARRIS	730	SAIC	4,370
NORTHROP GRUMMAN	720	NORTHROP GRUMMAN	3,420
<b>Top Obligations</b>	<b>18,410</b>	<b>Top Obligations</b>	<b>65,690</b>
<b>Total Army under BBP2 Obligations</b>	<b>69,000</b>	<b>Total Army under Small Business</b>	<b>240,370</b>
		<b>Task Force Obligations</b>	
<i>Top 10 Army Vendors, Carter Pre-SBTF</i>		<i>Top 10 Army DoD Vendors, Young</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
LOCKHEED MARTIN	11,130	BAE SYSTEMS	12,770
GENERAL DYNAMICS	10,480	GENERAL DYNAMICS	11,920
UNITED TECH	8,190	RAYTHEON	11,900
RAYTHEON	7,520	UNITED TECH	11,820
OSHKOSH	6,590	KELLOGG BROWN & ROOT	10,010
BOEING	5,090	NORTHROP GRUMMAN	7,890
BAE SYSTEMS	4,530	LOCKHEED MARTIN	6,940
ITT	4,390	BOEING	5,820
SAIC	4,370	L3 COMMUNICATIONS	3,490
NORTHROP GRUMMAN	3,420	SAIC	3,320
<b>Top Obligations</b>	<b>65,690</b>	<b>Top Obligations</b>	<b>85,880</b>
<b>Total Army under Small Business</b>	<b>240,370</b>	<b>Total Army under YOUNG Obligations</b>	<b>268,040</b>
<b>Task Force Obligations</b>			

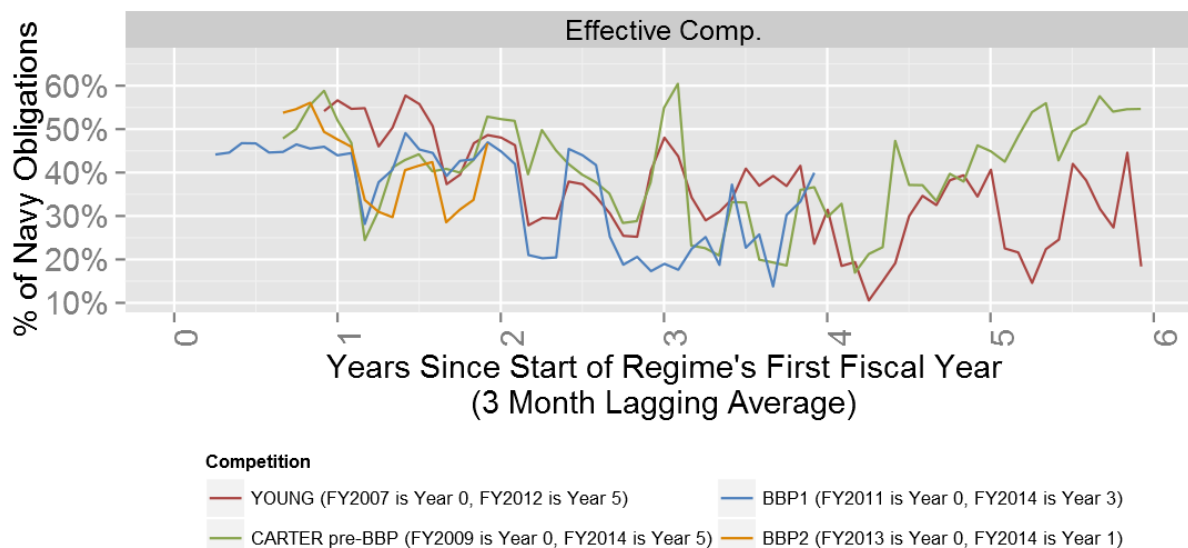
Source: FPDS; CSIS Analysis

Unlike overall DoD trends, there was much greater turnover within the top ten Army vendors between reform periods. The only vendor to remain in the top five Army vendors during all four periods was General Dynamics, while Raytheon remained in the top five for three of the four periods. You also see a different number-one vendor during all four reform periods as BAE Systems, Oshkosh, Lockheed Martin, and Boeing all topping the Army's contracting obligations at one point. Finally, Figure 5-6 shows Kellogg Brown & Root, Fluor, and ITT all entered the top ten, only to fall off the list in future reform periods. The large drop in Army contract obligations may account for some of this turnover.

## 6 Navy Contracting Trends

### Navy Competition Contracting Trends

Figure 6-1: Navy Effective Competition by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

At the start of the Dr. Carter's AT&L regime, Navy contracting was less competitive than for overall DoD. For contract actions in the pre-BBP period, 46 percent of Navy contract obligations were awarded after effective competition—an extended observation of contract actions under those pre-BBP contracts throughout the study time frame shows that the share of contract obligations decreased to 42 percent. Under the BBP 1.0 guidance, Navy contracting became an even less competitive marketplace. For contracts that went into effect before BBP 2.0, 51 percent of contract obligations were awarded after effective competition. That rate fell to 45 percent for contract obligations under pre-BBP 2.0 contracts throughout the study time frame. Similar to the overall trends, the data shown in Figure 6-1 the start in the decline in contracts awarded after receiving only one offer after the issuance of the BBP 1.0 guidance.

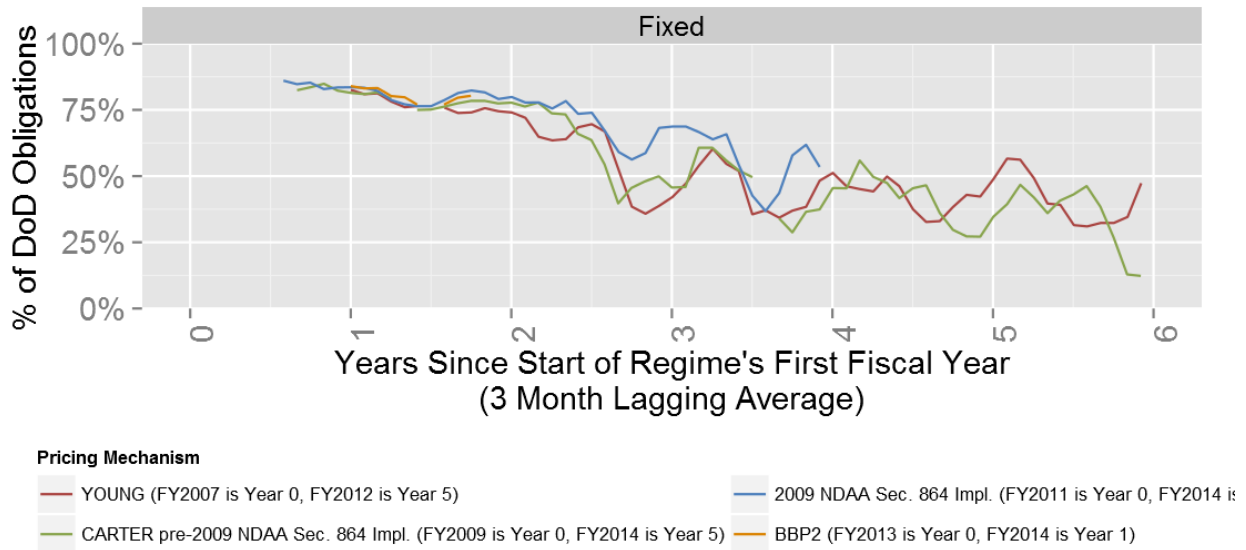
Under the BBP 2.0 guidance, the trends seen in BBP 1.0 begin to reverse for contracts signed after April 24, 2013, as the Navy awarded 49 percent of new start contract obligations without competition and 42 percent following effective competition. With the decline in vendors capable of building Naval vessels, it is possible that a few large contracts might be responsible for the trends seen above.

### Navy Pricing Mechanism Contracting Trends

Figure 6-2 below shows that trends within the Navy also largely followed the pattern seen in overall DoD. For contract actions signed prior to 2009, 39 percent of contract obligations were awarded under cost-reimbursement contract types increased to 35 percent, 61 percent were awarded under fixed price.

Like overall DoD, the mix of contract pricing mechanism types was largely unchanged between contracts signed in the 2009 NDAA Section 864/pre-BBP 2.0 period and those signed in the post-BBP 2.0 period: approximately 25 percent of contract obligations in both periods were awarded under cost-reimbursement contract types, while fixed price accounted for 74 percent in both periods.

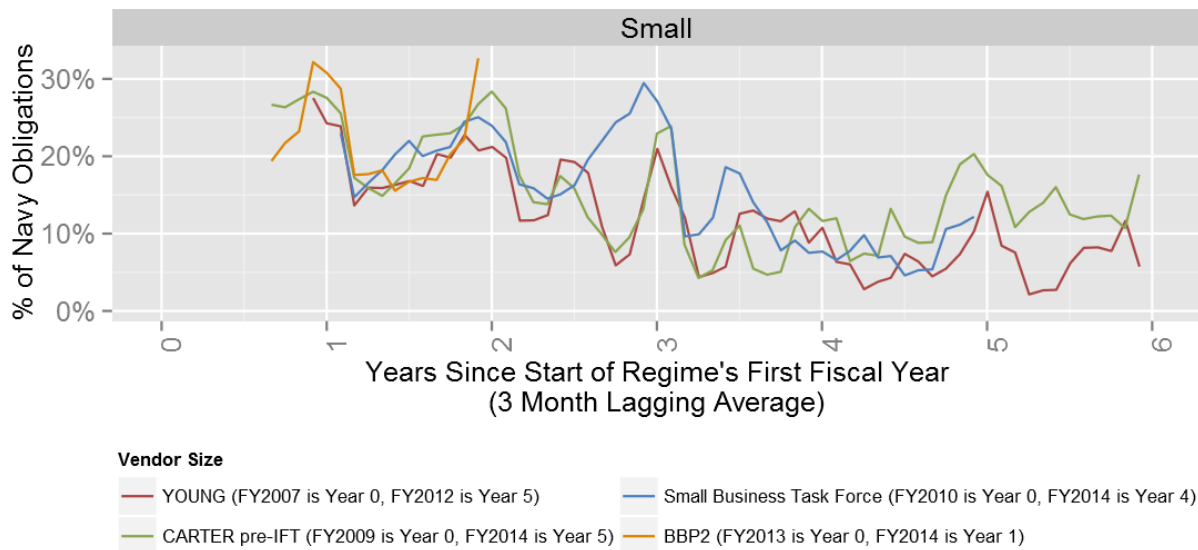
Figure 6-2: Navy Fixed Price by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

### Navy Vendor Size Contracting Trends

Figure 6-3: Navy Small Business by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

Before the implementation of any of the recent acquisition reform efforts, 61 percent of contract obligations were awarded to large and Big 6 defense vendors. For contracts signed under the SBTF guidelines, the share of contract obligations for the Big 6 defense vendors increased to 38 percent. The share of contract obligations for small vendors meanwhile was just 17 percent throughout. The share for large vendors fell from 30 percent to 6 percent.

Figure 6-3 shows that under the BBP 2.0 guidelines, small businesses made a resurgence, increasing to 23 percent of new start contract obligations. The Big 6 defense vendors' share of contract obligations fell from 38 percent to 29 percent. Large vendors remained steady at a 26 percent share of contract obligations, while medium vendors increased from 19 percent to 22 percent.

### Navy Product or Service Code Contracting Trends

For new start contracts signed under the Dr. Carter AT&L regime, but prior to the recent reform efforts, 47 percent of Navy contract obligations went to products, 9 percent to R&D, and 44 percent to services. Under the BBP 1.0 guidance, the Navy followed a similar trend to the overall Department, seeing an increase in products and a decrease in services. Under BBP 1.0, the Navy awarded 57 percent of contract obligations for products and 37 percent for services. Unlike the overall DoD, the Navy saw a significant decline in R&D contracting, falling from 9 percent to just 6 percent of the Navy's share of new start contract obligations.

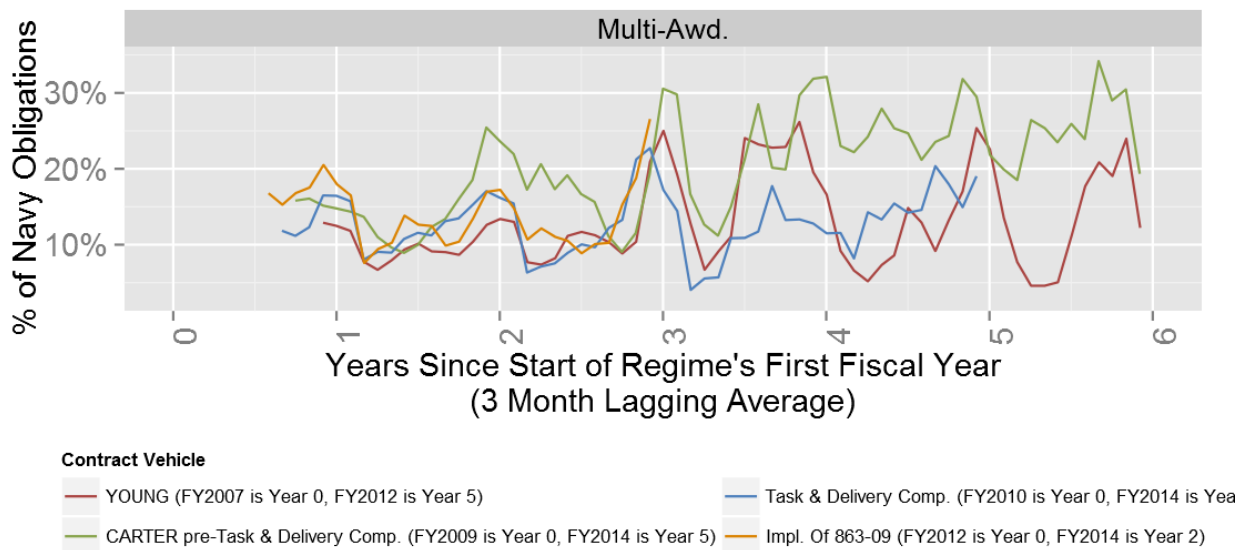
Under 2012 NDAA Sec. 808 guidance, the Navy saw a decline in the share of contract obligations awarded for products, and an increase in the share awarded to services, similar to that of the overall DoD. For new contracts signed under this guidance, 50 percent were awarded for products, 43 percent for services, and 7 percent for R&D.

### Section 808 2012 NDAA

GAO found that the Navy solicited command inputs, and monitored command spending, but failed to set command spending targets on services contracts. In FY2012 the Navy exceeded its target by \$0.77 billion and in FY2013 underspent its target by \$0.52 billion.<sup>107</sup>

### Navy Contract Vehicle Contracting Trends

Figure 6-4: Navy Multiple-Award by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

Figure 6-4 shows Navy contract vehicle trends do not closely resemble the overall DoD trends. Throughout all of the study periods, definitive contracts remain the most common contract vehicle,

<sup>107</sup> Ibid.

averaging 53 percent of Navy contract awards since the start of the John Young AT&L regime. Of note, the Navy showed progress in increasing the share of contract obligations awarded under a multiple-award contract vehicle under the Sec. 863 of the 2009 NDAA guidance after falling from previous levels during the 2008 NDAA

### Navy Top 10 Vendors Contracting Trends

Figure 6-5: Navy Top 10 Vendors by Regime Period

<i>Top 10 Navy DoD Vendors, BBP 2.0</i>		<i>Top 10 Navy Vendors, SBTF</i>	
Vendors	Constant 2014 \$ millions	Vendors	Constant 2014 \$ millions
LOCKHEED MARTIN	3,760	LOCKHEED MARTIN	27,420
BOEING	3,480	GENERAL DYNAMICS	13,970
RAYTHEON	2,930	BOEING	8,640
GENERAL DYNAMICS	2,580	RAYTHEON	7,170
HUNTINGTON INGALLS INCORPORATED	2,330	NORTHROP GRUMMAN	6,240
NORTHROP GRUMMAN	2,170	BAE SYSTEMS	5,090
HEWLETT PACKARD	1,890	BELL BOEING JOINT PROJECT OFFICE [BELL/BOEING]	4,530
BAE SYSTEMS	1,120	HEWLETT PACKARD	3,770
UNITED TECH	970	AUSTAL	3,110
SAIC	930	HUNTINGTON INGALLS INCORPORATED	3,030
<b>Top Obligations</b>	<b>22,180</b>	<b>Top Obligations</b>	<b>82,980</b>
<b>Total Navy under BBP2 Obligations</b>	<b>56,780</b>	<b>Total Navy under Small Business Task Force Obligations</b>	<b>187,610</b>
<i>Top 10 Navy Vendors, Carter Pre-SBTF</i>		<i>Top 10 Navy DoD Vendors, Young</i>	
Vendors	Constant 2014 \$ millions	Vendors	Constant 2014 \$ millions
LOCKHEED MARTIN	11,080	GENERAL DYNAMICS	24,640
NORTHROP GRUMMAN	7,360	LOCKHEED MARTIN	21,100
GENERAL DYNAMICS	5,730	BOEING	17,930
BAE SYSTEMS	5,260	NORTHROP GRUMMAN	15,060
RAYTHEON	4,850	BECHTEL	7,330
HUNTINGTON INGALLS INCORPORATED	3,400	RAYTHEON	6,560
UNITED TECH	2,830	BAE SYSTEMS	6,150
SAIC	2,500	Navistar International	5,200
L3 COMMUNICATIONS	1,950	HUNTINGTON INGALLS INCORPORATED	2,870
BOEING	1,930	SAIC	2,810
<b>Top Obligations</b>	<b>46,890</b>	<b>Top Obligations</b>	<b>109,640</b>
<b>Total Navy under CARTER pre-IFT Obligations</b>	<b>112,280</b>	<b>Total Navy under YOUNG Obligations</b>	<b>193,750</b>

Source: FPDS; CSIS Analysis

Analysis of Navy contract obligations in Figure 6-5 shows that, while the Navy saw little movement by new vendors into the top ten, there were significant shifts within the rankings. First, Lockheed Martin usurped General Dynamics as the Navy's top vendor at the start of the Dr. Carter regime, and hasn't yet relinquished that spot. Second, Northrop Grumman spinning off its shipbuilding capability to form Huntington Ingalls Industries Incorporated had long-term repercussions on the top-ten rankings.<sup>108</sup> By the introduction of BBP 2.0, Huntington Ingalls had overtaken Northrop Grumman's ranking. Furthermore, had the spinoff not occurred, Northrop Grumman would have usurped Lockheed Martin as the top Navy vendor. Beyond Northrop Grumman and Huntington Ingalls, Raytheon, Boeing, and General Dynamics round out the top-five Navy vendors.

<sup>108</sup> The appearance of contract obligations for Huntington Ingalls during the Young and Carter pre-SBTF periods, before the spinoff occurred, is a result of the methodological decision to analyze the entirety of contract obligations during those periods. For example, if the Navy signed a shipbuilding contract with Northrop Grumman in 2008 that included funds beyond March 31, 2011, those contracting obligations would be awarded to HII.

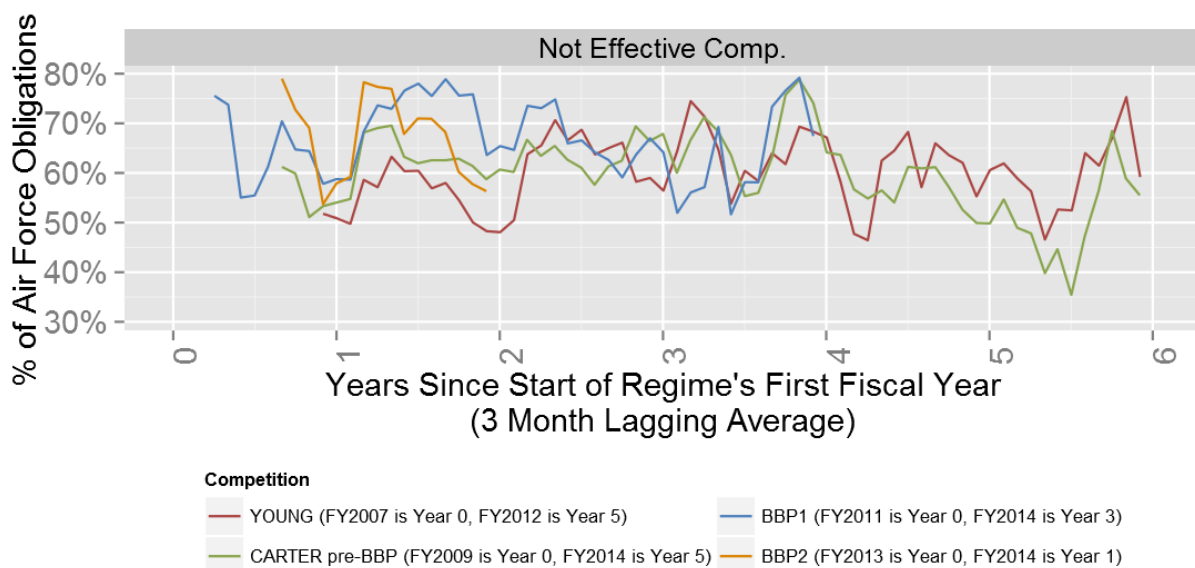
## 7. Air Force Contracting Trends

### Air Force Competition Contracting Trends

Before BBP 1.0, the Air Force contracting environment was less competitive, compared to the rest of DoD. For both contract actions during the pre-BBP period, and throughout the study time frame, the Air Force awarded 52 percent of contract obligations without competition. Of note, while the rest of the DoD components began decreasing the shares of contracts awarded with just a single-offer competition during BBP 1.0, that share in the Air Force was already below 10 percent prior to BBP 1.0 guidance. Under the BBP 1.0 guidance, the Air Force failed to improve their already-below-average rate of effective competition. For contracts signed under the BBP 1.0 guidance, the Air Force awarded 63 percent of total contract obligations without competition. While the Air Force awarded only 5 percent of total new start contracts with just a single offer, the rate of effective competition fell to just 32 percent.

Figure 7-1 shows that under the BBP 2.0 guidance, the Air Force saw small improvements in the competitiveness of its marketplace, awarding only 58 percent of new start contract obligations without competition. Over that same period, they awarded 34 percent of new start contract obligations following effective competition. While this is an improvement from BBP 1.0, the Air Force is still substantially less competitive than the rest of the Department.

Figure 7-1: Air Force Not Effective Competition by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

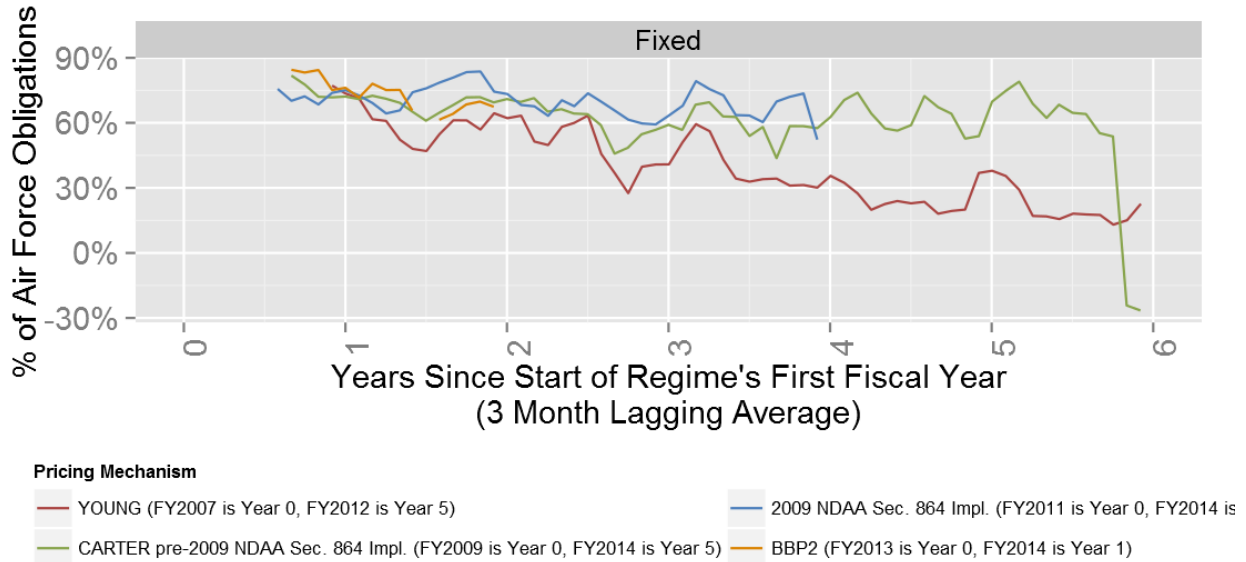
### Air Force Pricing Mechanism Contracting Trends

Figure 7-2 below shows that while the trend within Air Force contract obligations follows the same pattern as overall DoD, the magnitude of the shift is significantly smaller. For contracts signed pre-2009 NDAA Section 864, 25 percent of contract obligations were awarded under cost-reimbursement contract types, compared to 30 percent for contract obligations going into effect post-2009 NDAA Section 864, while use of fixed price declined slightly, from 70 percent to 66 percent.

There was actually a small shift in pricing mechanism usage between contracts signed in the post-2009 NDAA Section 864/pre-BBP 2.0 period and those signed in the post-BBP 2.0 period: use of fixed-price contract types declined from 73 percent to 71 percent, while cost reimbursement increased from 25 percent to 28 percent.



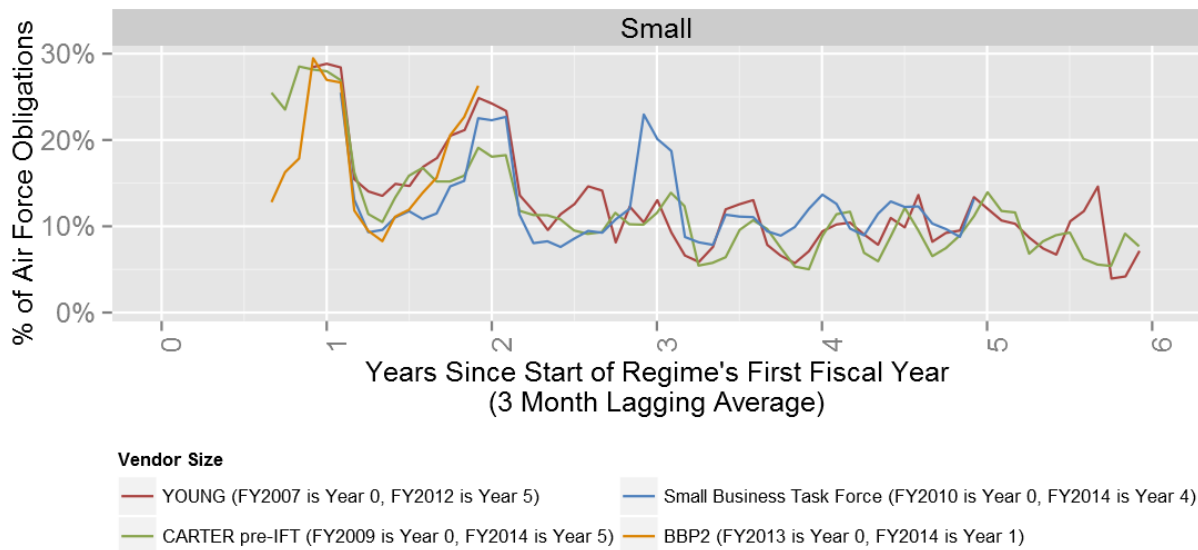
Figure 7-2: Air Force Fixed Price by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

### Air Force Vendor Size Contracting Trends

Figure 7-3: Air Force Small Business by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

Of all the military components, the Air Force has historically awarded the largest share of contract obligations to the Big 6 defense vendors. Figure 7-3 shows that before the recent acquisition reforms, the Air Force awarded 43 percent of new start contract obligations to the Big 6. Meanwhile, small vendors received 16 percent of Air Force contract obligations. Under the SBTf guidelines, the shares for the Big 6 continued to grow at the expense of small vendors. Throughout the SBTf regime, 49 percent of new start Air Force contract obligations were awarded to the Big 6, while small vendors received just 13 percent.

Under BBP 2.0, small vendors made a resurgence, growing from 13 percent under the SBTf guidelines to 19 percent. The Big 6 defense vendors' share of new start Air Force contract obligations decreased from 49 percent to 36 percent. Under BBP 2.0, the Air Force saw the growth in the share awarded to medium vendors for the first time in the study period. Before and during the SBTf guidelines, medium vendors received 18 percent of contract obligations, before growing to 26 percent under the BBP 2.0 guidelines.

### Air Force Product or Service Code Contracting Trends

The Air Force contracting trends do not closely resemble the overall DoD trends. For contracts signed under the Dr. Carter AT&L regime prior to the recent reforms, 32 percent were awarded for products, 23 percent toward R&D, and 46 percent for services. Under the BBP 1.0 guidance, the share of new start contracts awarded for products increased to 50 percent, while R&D's share decreased to just 12 percent. Meanwhile, the share of Air Force contract obligations for services fell to 37 percent during this period.

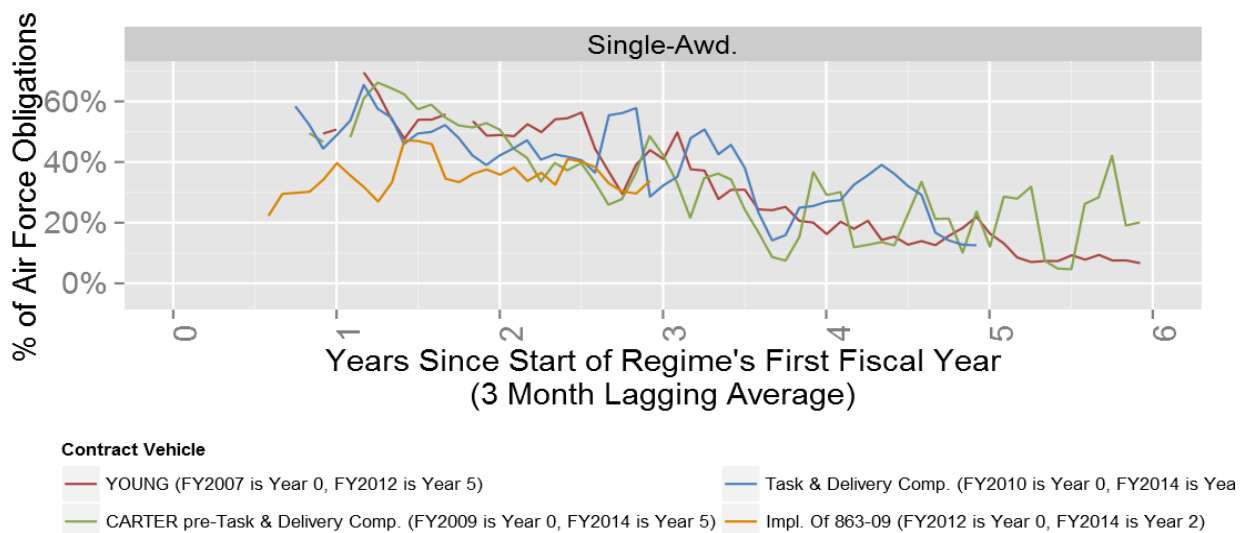
Under the 2012 Sec. 808 guidance, the share of new start contract obligations for services increased to 49 percent, while products fell to 35 percent. During this period, the share of Air Force contract obligations for R&D saw a slight resurgence, increasing to 15 percent.

### Implementation of 2012 NDAA Section 808

GAO found that of all the military services, the Air Force best implemented guidance for complying with the Sec. 808 guidance. In FY2013, Air Force leadership solicited command input, set command spending targets, and monitored command spending on services contracts throughout the year. The Air Force's efforts worked, as evidenced by the fact that they underspent their target by \$2.83 billion in FY2013, more than all of the other components combined. This trend stands in sharp contrast to an increase in overall Air Force services contracting, which emphasizes that the Section 808 standards only cover certain forms of services contracts.<sup>109</sup>

### Air Force Contract Vehicle Contracting Trends

Figure 7-4: Air Force Single-Award by Year's Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

<sup>109</sup> Government Accountability Office, *DoD Contract Services: Improved Planning and Implementation of Fiscal Controls Needed*

The Air Force contract vehicle trends do not largely reflect the overall DoD trends. Figure 7-4 shows that under the Dr. Carter regime, but prior to reform, the Air Force awarded 36 percent of contracts under definitive vehicles, 11 percent under multi-award, 47 percent under single award, and 1 percent under other IDVs. Under the 2008 Sec. 843 guidance, the shares largely remained constant with a slight decrease in single awards (44 percent) and a rise in other IDVs (4 percent).

Under the 2009 NDAA Sec. 863 guidance, the study team observed substantial shifts in contract vehicle usage. During this period, the share of contract obligations awarded under a single-award vehicle fell to just 34 percent while the share for definitive contracts rose to 43 percent. Other IDVs continued to grow in shares of Air Force contract obligations from 4 percent to 9 percent.

### Air Force Top 10 Vendors Contracting Trends

Figure 7-5: Air Force Top Ten Vendors by Reform Period

<i>Top 10 Air Force DoD Vendors, BBP 2.0</i>		<i>Top 10 Air Force Vendors, SBTF</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
UNITED LAUNCH ALLIANCE	2,980	BOEING	29,950
LOCKHEED MARTIN	2,880	LOCKHEED MARTIN	16,170
NORTHROP GRUMMAN	2,610	NORTHROP GRUMMAN	10,140
BOEING	2,270	L3 COMMUNICATIONS	8,240
L3 COMMUNICATIONS	2,110	RAYTHEON	5,300
RAYTHEON	1,810	UNITED LAUNCH ALLIANCE	4,710
GENERAL ATOMICS	980	SIERRA NEVADA	2,900
UNITED TECH	800	GENERAL ATOMICS	2,880
MASSACHUSETTS INSTITUTE OF TECHNOLOGY	770	UNITED TECH	2,470
THE AEROSPACE	740	MASSACHUSETTS INSTITUTE OF TECHNOLOGY	2,430
<b>Top Obligations</b>	<b>17,950</b>	<b>Top Obligations</b>	<b>85,180</b>
<b>Total Air Force under BBP2 Obligations</b>	<b>38,040</b>	<b>Total Air Force under Small Business Task Force Obligations</b>	<b>141,080</b>
<i>Top 10 Air Force Vendors, Carter Pre-SBTF</i>		<i>Top 10 Air Force DoD Vendors, Young</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
BOEING	9,530	LOCKHEED MARTIN	21,130
RAYTHEON	7,280	BOEING	7,920
NORTHROP GRUMMAN	6,440	NORTHROP GRUMMAN	7,900
LOCKHEED MARTIN	5,230	L3 COMMUNICATIONS	5,530
L3 COMMUNICATIONS	3,460	RAYTHEON	4,650
BOOZ ALLEN HAMILTON	2,090	UNITED TECH	4,590
GENERAL DYNAMICS	1,430	THE AEROSPACE	4,250
UNITED TECH	1,250	COMPUTER SCIENCES	2,510
SAIC	920	GENERAL ATOMICS	1,780
MASSACHUSETTS INSTITUTE OF TECHNOLOGY	860	GENERAL DYNAMICS	1,680
<b>Top Obligations</b>	<b>38,490</b>	<b>Top Obligations</b>	<b>61,930</b>
<b>Total Air Force under CARTER pre-IFT Obligations</b>	<b>73,270</b>	<b>Total Air Force under YOUNG Obligations</b>	<b>113,560</b>

Source: FPDS; CSIS Analysis

Compared to the other components, Figure 7-5 shows little movement by vendors into and out of the top-ten rankings. Throughout the period analyzed, Boeing, Lockheed Martin, Northrop Grumman, L3 Communications, and Raytheon remained in the top six. Beyond the top six, United Technologies Corporation, General Atomics, and MIT all made regular appearances in the top ten. In recent years, United Launch Alliance, the joint rocket venture between Boeing and Lockheed Martin, has become a top-six Air Force vendor.

Whereas General Dynamics had previously been a regular top-ten Air Force vendor, it has fallen off the list since the introduction of the SBTF guidelines. Computer Sciences Corporation, Booz Allen Hamilton, SAIC, and Sierra Nevada all made one-time top-ten appearances before decreasing in subsequent reform periods.

## 8. Defense Logistics Agency Contracting Trends

### DLA Competition Contracting Trends

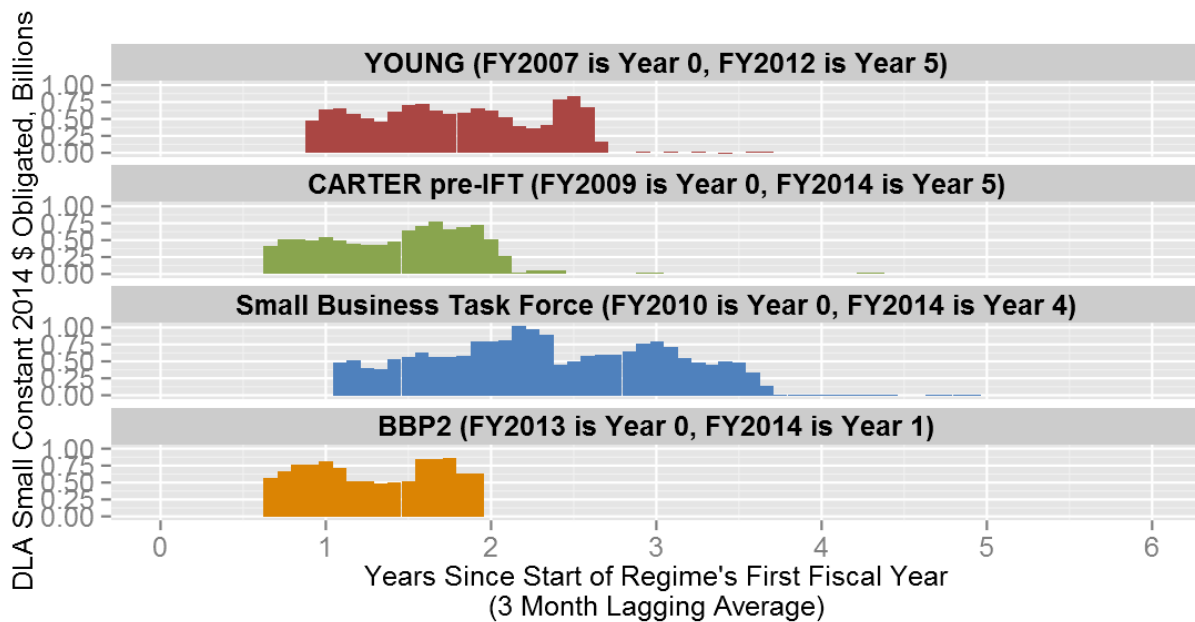
Under the recent round of acquisition reform efforts, the Defense Logistics Agency (DLA) improved on already-strong effective competition rates. Under the Carter regime prior to BBP 1.0, DLA awarded 69 percent of contract obligations following effective competition. Under BBP 1.0, that rate rose to 76 percent of contract obligations. That rate remained steady with the issuance of BBP 2.0, as DLA awarded 75 percent of new start contract obligations following effective competition.

### DLA Pricing Mechanism Contracting Trends

Over 98 percent of DLA contract obligations were awarded under fixed-price contract types in all periods, reflecting the fact that DLA predominantly uses contracts to purchase commercial goods and commodities such as fuel.

### DLA Vendor Size Contracting Trends

Figure 8-1: DLA Small Vendor by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

The share of DLA's contract obligations for small vendors increased, but only after the implementation of BBP 2.0. Figure 8-1 shows that the share of obligations awarded to small vendors remained constant at 20 percent before and after SBTF but grew to 25 percent after BBP 2.0. Medium vendors' share of obligations grew from 25 percent to 29 percent, before declining to 25 percent after BBP 2.0. Large vendors' share declined from 50 percent pre-SBTF to 46 percent after SBTF, and held relatively steady (45 percent) after BBP 2.0.

### DLA Product or Service Code Contracting Trends

The recent reforms had a negligible impact on DLA product or service contracting trends. For all study periods, products accounted for an average of 95 percent of all DLA contracting obligations.

### Implementation of 2012 NDAA Section 808

GAO analysis of DLA services contract spending found that DLA exceeded its targets in both FY2012 and FY2013, and had no command-driven plan for implementing the guidance. The lack of command guidance is illustrated by the following comment in the GAO Report on Section 808 guidance, "The DLA financial management official that we spoke with was not aware of the Section 808 guidance that set

contract services spending target for each component, and therefore took no action to manage to the spending target in the guidance.”<sup>110</sup> While DLA overwhelmingly contracts for products, the lack of even the most basic knowledge on service contract spending targets is troubling.

### DLA Contract Vehicle Contracting Trends

Prior to any recent reform efforts, DLA awarded the largest share of contract obligations under single-award contract vehicles. Under the 2008 NDAA Sec. 843, there were no notable shifts in the vehicle trends. Beginning with implementation of 2009 NDAA Sec. 863, there was a small shift away from single-award contract vehicles. Falling from an average of 82 percent under all other periods, DLA awarded 76 percent of contract obligations under a single-award vehicle during this period. There were subsequent increases in the shares of other IDVs (3 percent) and purchase orders (9 percent). There were no notable shifts in the multi-award vehicle trends during any of the reform periods.

### DLA Top 10 Vendors Contracting Trends

Figure 8-2: DLA Top Ten Vendors by Reform Period

<i>Top 10 DLA DoD Vendors, BBP 2.0</i>		<i>Top 10 DLA Vendors, SBTF</i>	
Vendors	Constant 2014 \$ millions	Vendors	Constant 2014 \$ millions
AMERISOURCEBERGEN	2,100	SUPREME GROUP	6,710
ROYAL DUTCH SHELL	1,960	ROYAL DUTCH SHELL	3,910
SUPREME GROUP	1,750	WORLD FUEL SERVICES CORPORATION	3,750
MCKESSON	1,620	AMERISOURCEBERGEN	3,680
CARDINAL HEALTH	1,390	BP GLOBAL	3,410
ATLANTIC DIVING SUPPLY	1,230	VALERO ENERGY	3,090
EXXON MOBIL	1,200	REFINERY ASSOCIATES OF TEXAS	2,680
VALERO ENERGY	1,160	CARDINAL HEALTH	2,470
ANHAM	1,040	ATLANTIC DIVING SUPPLY	1,930
NATIONAL FUEL	970	KUWAIT PETROLEUM	1,770
<b>Top Obligations</b>	<b>14,420</b>	<b>Top Obligations</b>	<b>33,390</b>
<b>Total DLA under BBP2 Obligations</b>	<b>46,000</b>	<b>Total DLA under Small Business Task Force Obligations</b>	<b>98,210</b>
<i>Top 10 DLA Vendors, Carter Pre-SBTF</i>		<i>Top 10 DLA DoD Vendors, Young</i>	
Vendors	Constant 2014 \$ millions	Vendors	Constant 2014 \$ millions
SUPREME GROUP	2,800	ROYAL DUTCH SHELL	4,090
BP GLOBAL	2,510	AGILITY DEFENSE & GOVERNMENT SERVICES	3,710
ABU DHABI NATIONAL OIL COMPANY	2,350	BP GLOBAL	3,590
KUWAIT PETROLEUM	2,290	BAHRAIN PETROLEUM COMPANY	2,980
AGILITY DEFENSE & GOVERNMENT SERVICES	2,190	AMERISOURCEBERGEN	2,530
AMERISOURCEBERGEN	2,010	VALERO ENERGY	2,340
MCKESSON	1,660	MCKESSON	1,760
CARDINAL HEALTH	1,240	RED STAR ENTERPRISES	1,710
INTERNATIONAL OIL TRADING	1,140	CARDINAL HEALTH	1,510
ROYAL DUTCH SHELL	1,000	EXXON MOBIL	1,230
<b>Top Obligations</b>	<b>19,190</b>	<b>Top Obligations</b>	<b>25,460</b>
<b>Total DLA under CARTER pre-IFT Obligations</b>	<b>52,770</b>	<b>Total DLA under YOUNG Obligations</b>	<b>70,030</b>

Source: FPDS; CSIS Analysis

Because the agency largely contracting for fuel and other products, DLA’s top-ten vendors do not closely resemble any of the other services. Figure 8-2 shows that throughout the study period, Royal Dutch Shell, AmerisourceBergen, and Supreme Group all made frequent appearances in the top-five vendors. Beyond the top-three vendors, McKesson, Valero Energy, and Cardinal Health were all top DLA vendors beyond their big three.

On the DLA top-ten lists, vendors frequently enter the list for one to two reform periods before falling from the list. For example, Red Star Enterprises, Bahrain Petroleum Company, International Oil Trading, Refinery Associates of Texas, World Fuel Services Corporation, and Abu Dhabi National Oil Company all make appearances in the top before disappearing in subsequent periods. The drawdowns in Iraq and Afghanistan can account for some of the rapid appearance before a subsequent disappearance. It bears further monitoring if the appearance of Anham and National Fuel in the top during the latest study period is a long-term trend, or another example of same circumstance.

<sup>110</sup> Ibid., 16

## 9. Missile Defense Agency Contracting Trends

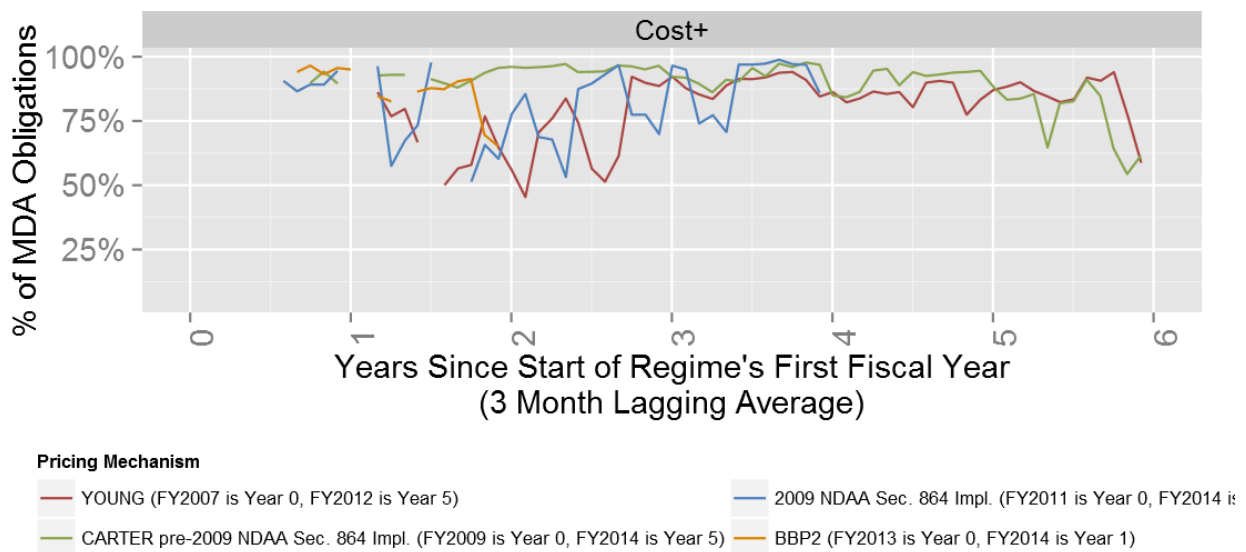
### MDA Competition Contracting Trends

Within MDA, there were notable shifts in the contracting landscape during the periods of acquisition reform. MDA awarded 58 percent of contract obligations without competition in the years before the issuance of the final BBP 1.0 guidelines. Looking at contract actions under those pre-BBP contracts across the entire study timeframe, that rate rises to 79 percent.

As the BBP 1.0 reforms went into effect, the share of contract obligations awarded without competition fell to 50 percent throughout the study timeframe. When the BBP 2.0 guidelines were issued, contract obligations awarded without competition began to rise again (62 percent during BBP 2.0).

### MDA Pricing Mechanism Contracting Trends

Figure 9-1: MDA Cost Plus by Years Since Start of Regime's First Fiscal Year



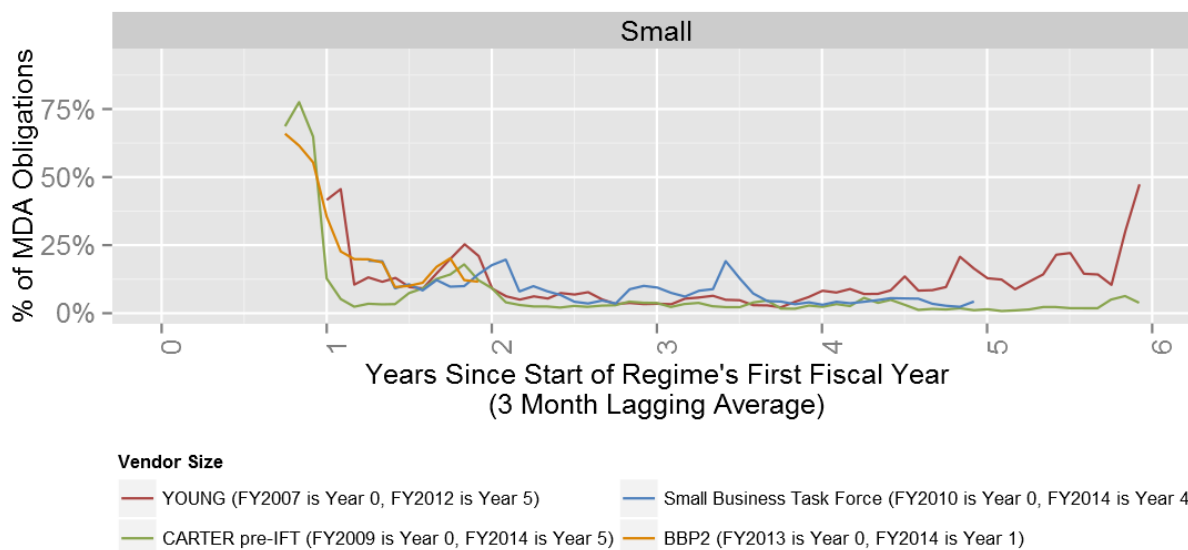
Source: FPDS; CSIS Analysis

Figure 9-1 shows that unlike those of any other major DoD component, an overwhelming majority of MDA contract obligations are awarded under cost-reimbursement contract types. For contracts signed pre-2009 NDAA Section 864, there was minimal difference in pricing mechanism usage between pre-2009 NDAA Section 864 contract actions (93 percent cost reimbursement, 5 percent fixed price) and contract actions that went into effect post-2009 NDAA Section 864 (91 percent cost reimbursement, 8 percent fixed price).

Use of fixed-price contract types increased dramatically in contracts signed post-2009 NDAA/pre-BBP 2.0, with the share of obligations awarded under fixed-price contract types rising to 26 percent, while cost reimbursement fell to 74 percent. This trend was reversed in contracts signed post-BBP 2.0, as the new guidance reduced emphasizing using fixed-price contract types: the share of obligations awarded under fixed-price contract types fell to 19 percent, while the share for cost reimbursement rose to 81 percent.

## MDA Vendor Size Contracting Trends

Figure 9-2: MDA Small Business by Years Since Start of Regime's First Fiscal Year



Source: FPDS; CSIS Analysis

MDA saw the strongest reaction to policy guidance throughout the study period in terms of composition of vendor base. Before the implementation of any reform efforts, small vendors were awarded just 5 percent of contract obligations. After the implementation of the SBTF guidelines, that share increased to 7 percent. After BBP 2.0 was introduced, that share further increased to 17 percent.

Throughout the study period, there was also a rise in medium-vendor share and a decline in Big 6 vendor share of obligations. Before reforms, the Big 6 and medium vendors were awarded 92 percent and 2 percent, respectively. Under the SBTF guidelines, the Big 6 fell to 74 percent of contract obligations, while medium vendors grew to 11 percent. Under BBP 2.0 guidelines, the Big 6 fell to 67 percent of contract obligations, while medium vendors remained steady at 11 percent.

## MDA Product or Service Code Contracting Trends

MDA undertook a larger shift in its acquisition portfolio than any of the other components.

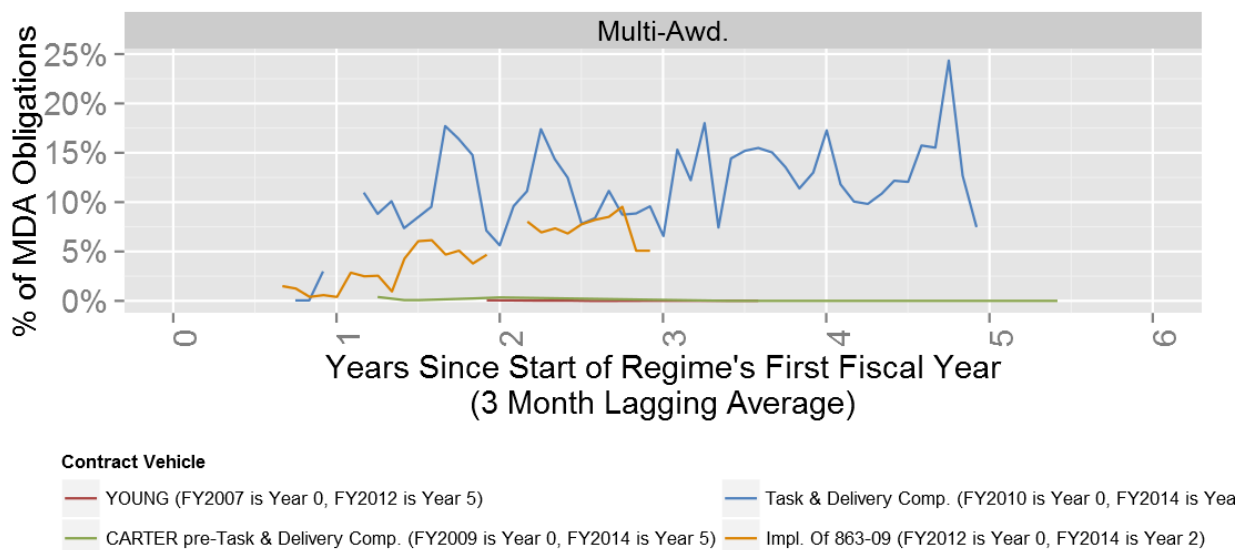
For contracts signed under the Dr. Carter regime prior to any reforms, 91 percent of contract obligations went to R&D, 3 percent for products, and 6 percent for services contracts. After the issuance of the BBP 1.0 guidance, the share of contract obligations for products and services increased to 19 percent and 15 percent, respectively. The share of contract obligations for R&D meanwhile fell to 65 percent.

After the issuance of the Sec. 808 guidance, the share of MDA contract obligations for R&D continued to fall (52 percent) as the share for products increased (36 percent). Of note, MDA was the only one of two components to see a decrease in the share of contract obligations awarded for services, after the issuance of the Sec. 808 guidance to decrease services contracts.<sup>111</sup>

<sup>111</sup> GAO did analyze MDA's specific implementation of the Section 808 guidance. They fell within the "All Defense Agencies" category that was \$0.71 billion below their spending target in FY2012 and \$2.25 billion in FY2013.

## MDA Contract Vehicle Contracting Trends

Figure 9-3: MDA Multiple-Award Contract Obligations



Source: FPDS; CSIS Analysis

Of all the major components, MDA saw the largest shifts in contract vehicle usage during the study period. Prior to the implementation of the two reform periods, MDA awarded a majority of contract obligations under definitive contract vehicles. Under the 2008 Sec. 843 guidance, the shares of contract obligations awarded under definitive contract vehicles fell from 71 percent under the pre-reform Carter regime to 59 percent. Multi-award contracts increased from less than 1 percent to 12 percent over that same time period.

After the implementation of the 2009 Sec. 863 guidance, MDA's trend away from definitive contract vehicles continued, falling to just 37 percent of contract obligations. The trend toward multiple-award contracts did not continue, however, as they fell from 12 percent to just 6 percent. The move away from multiple-award and definitive contract vehicles came as MDA moved heavily toward single-award contract vehicles during this period. During the previous reform period, single-award contract vehicles represented just 29 percent of MDA contract obligations. In the final reform study period, they rose to 54 percent of MDA contract obligations.

### MDA Top 10 Vendors Contracting Trends

Analysis of the top-ten MDA vendors highlights their broader shift away from an almost exclusive R&D industrial base. While the top five vendors were, and are to this day, largely dominated by four of the biggest five defense vendors, the bottom half of the top ten was more varied. Vendors in the top ten ranged from Utah State University to the Charles Stark Draper Laboratory. With the move toward more products and services, vendors such as Orbital Sciences, Sparta Inc., and L3 Communications have all moved into the top-ten MDA vendors.

Companies that fell from the top-ten MDA vendors include: Teledyne, BAE Systems, Computer Sciences Corporation, Engineering Management Concepts, Inc., Corvid Technologies, Inc., Charles Stark Dapper Laboratory, CACI, Utah State University, Teradyne, BCF Solutions, Inc., and Johns Hopkins University. In addition to those companies that fell out of the top-ten vendors permanently, Boeing was not a top-ten MDA vendor during the Dr. Carter regime prior to the implementation of the SBTF guidelines study period.



Figure 9-4: MDA Top Ten Vendors by Reform Period

<i>Top 10 MDA DoD Vendors, BBP 2.0</i>		<i>Top 10 MDA Vendors, SBTf</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
LOCKHEED MARTIN	540	RAYTHEON	4,210
RAYTHEON	210	BOEING	1,650
NORTHROP GRUMMAN	90	LOCKHEED MARTIN	1,600
BOEING	70	NORTHROP GRUMMAN	1,090
SPARTA	60	JOHNS HOPKINS UNIVERSITY	450
L3 COMMUNICATIONS	40	ORBITAL SCIENCES	420
GENERAL ATOMICS	30	SPARTA	420
ARTIC SLOPE REGIONAL	20	COMPUTER SCIENCES	260
COLLAZO ENTERPRISES	20	TERADYNE	110
AI SOLUTIONS	10	BCF SOLUTIONS	90
<b>Top Obligations</b>	<b>1,090</b>	<b>Top Obligations</b>	<b>10,300</b>
<b>Total MDA under BBP2 Obligations</b>	<b>1,360</b>	<b>Total MDA under Small Business Task Force Obligations</b>	<b>11,570</b>
<i>Top 10 MDA Vendors, Carter Pre-SBTf</i>		<i>Top 10 MDA DoD Vendors, Young</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
LOCKHEED MARTIN	2,190	BOEING	2,230
RAYTHEON	2,160	RAYTHEON	1,570
NORTHROP GRUMMAN	1,030	NORTHROP GRUMMAN	740
SPARTA	310	LOCKHEED MARTIN	560
ORBITAL SCIENCES	270	COLLAZO ENTERPRISES	240
BOEING	160	TELEDYNE TECHNOLOGIES	170
COMPUTER SCIENCES	160	L3 COMMUNICATIONS	160
JOHNS HOPKINS UNIVERSITY	90	BAE SYSTEMS	70
BCF SOLUTIONS	70	COMPUTER SCIENCES	60
TERADYNE	70	ORBITAL SCIENCES	50
<b>Top Obligations</b>	<b>6,500</b>	<b>Top Obligations</b>	<b>5,830</b>
<b>Total MDA under CARTER Obligations</b>	<b>7,540</b>	<b>Total MDA under YOUNG Obligations</b>	<b>6,470</b>

Source: FPDS; CSIS Analysis

## 10. Military Health Programs Contracting Trends

### Military Health Competition Contracting Trends

In the years before the issuance of the BBP 2.0 guidance, 99 percent of military health contracts were awarded following effective competition. In 2014, military health programs were awarded \$1.52 billion in no-competition contract obligations, the first substantial awarding of contract obligations without competition for the military health programs. CSIS plans to consult with industry experts to identify if this was a one-year trend, or a sign of a shift to noncompetitive contracting in the military health programs.

### Military Health Pricing Mechanism Contracting Trends

Pricing-mechanism usage fluctuated dramatically for military health, largely the result of how few dollars (relatively speaking) were obligated under those programs until recently. It is thus difficult to discern if there are real shifts in pricing-mechanism usage between the periods, or if it is the result of increasing contracting activity and a changing contracting mission. The study team will investigate further, in consultation with experts, to better understand contracting behavior within military health in recent years.

### Military Health Vendor Size Contracting Trends

Military health, while experiencing the same general trend toward small and medium vendors, was uniquely skewed toward medium vendors after the implementation of BBP 2.0. The share of contract obligations going to medium vendors for those contracts signed before and after SBTF remained constant at 3 percent. After the implementation of BBP 2.0, it increased to 64 percent. The share of obligations for small businesses increased more modestly, from 0 percent, to 1 percent, to 10 percent. Big 6 vendors had no market share for any of the periods in our study for military health. Large vendors lost market share in an inverse manner to the way medium vendors gained market share. Obligations going to large vendors accounted for 97 percent of obligations before SBTF, declining to 95 percent after SBTF, and declining again to 25 percent after BBP 2.0.

### Military Health Product or Service Code Contracting Trends

The share of contract obligations for products, services, and R&D in military health programs remains largely the same under the reform periods, with very slight changes under the Sec. 808 guidance. For the Young AT&L regime, the pre-reform Dr. Carter AT&L regime, and the BBP 1.0 period, military health programs awarded 99 percent of all military health services to services. Under the Sec. 808 guidance, the share of contract obligations for products increased to 3 percent, and R&D increased to 2 percent.<sup>112</sup>

### Military Health Contract Vehicle Contracting Trends

For all the reform periods with significant military health contract obligations, the predominant majority (overall average of 90 percent) was awarded under definitive contract vehicle. Under 2009 NDAA Sec. 863 guidance, contract obligations awarded under single-price increased from 5 percent to 13 percent. However, the contract obligations are not significant enough to determine if this is a temporary or long-term trend away from definitive contract vehicles.

### Military Health Top 10 Vendors Contracting Trends

Analysis of the top ten military health vendors by policy regime highlights that this is a less mature industrial base than other components. Within each reform period, the data show substantial movement both within the top-ten rankings but also the sudden appearances and disappearances of multiple vendors from the top-ten vendors in between reform periods. Instead, the military health marketplace is dominated

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<sup>112</sup> GAO did analyze Military Health's specific implementation of the Section 808 guidance. They fell within the "All Defense Agencies" category that was \$0.71 billion below their spending target in FY2012 and \$2.25 billion in FY2013.

by vendors winning large obligations during specific periods. Since the start of the Young AT&L regime, just eight vendors have been awarded more than \$1 billion in military health contract obligations:

1. Health Net—\$10.38 billion
2. Humana—\$8.48 billion
3. United Health Group—\$4.02 billion
4. Express Scripts—\$2.58 billion
5. Highmark—\$2.55 billion
6. John Hopkins University—\$1.92 billion
7. Martin’s Point Health Care—\$1.72 billion
8. Christus Health—\$1 billion

Figure 10-1: Top Ten Military Health Vendors by Reform Period

<i>Top 10 MilitaryHealth DoD Vendors, BBP 2.0</i>		<i>Top 10 MilitaryHealth Vendors, SBTF</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
JOHNS HOPKINS UNIVERSITY	410	HUMANA	8,480
LHI	410	UnitedHealth Group	4,020
MARTIN'S POINT HEALTH CARE	350	METLIFE	830
CHRISTUS HEALTH	170	HIGHMARK	600
BRIGHTON MARINE HEALTH CENTER	160	WISCONSIN PHYSICIANS SERVICE HEALTH INSURANCE	210
PACIFIC MEDICAL CENTER CLINIC	160	INTERNATIONAL SOS	150
WISCONSIN PHYSICIANS SERVICE HEALTH INSURANCE	120	SAIC	130
SAINT VINCENTS CATHOLIC MEDICAL CENTERS OF NEW YORK	120	PLANNED SYSTEMS INTL.	70
SAIC	90	SOFTEC SOLUTIONS	20
INTERNATIONAL SOS	80	SYSTEMS MADE SIMPLE	20
<b>Top Obligations</b>	<b>2,070</b>	<b>Top Obligations</b>	<b>14,530</b>
<b>Total MilitaryHealth under BBP2 Obligations</b>	<b>2,580</b>	<b>Total MilitaryHealth under Small Business Task Force Obligations</b>	<b>14,750</b>
<i>Top 10 MilitaryHealth, Carter Pre-SBTF</i>		<i>Top 10 MilitaryHealth DoD Vendors, Young</i>	
<b>Vendors</b>	<b>Constant 2014 \$ millions</b>	<b>Vendors</b>	<b>Constant 2014 \$ millions</b>
HEALTH NET	10,380	EXPRESS SCRIPTS	2,580
HIGHMARK	370	HIGHMARK	1,580
WISCONSIN PHYSICIANS SERVICE HEALTH INSURANCE	210	JOHNS HOPKINS UNIVERSITY	1,510
INTERNATIONAL SOS	100	MARTIN'S POINT HEALTH CARE	1,370
MERIDIAN RESOURCE COMPANY	10	CHRISTUS HEALTH	830
MAXIMUS	10	PACIFIC MEDICAL CENTERS	710
INFORMATION TECHNOLOGY SOLUTIONS & CONSULTING	10	BRIGHTON MARINE HEALTH CENTER	700
THE HENRY M JACKSON FOUNDATION	<1	SAINT VINCENTS CATHOLIC MEDICAL CENTERS OF NEW YORK	550
HUMANA	<1	WISCONSIN PHYSICIANS SERVICE HEALTH INSURANCE	120
CAHABA SAFEGUARD ADMINISTRATORS	<1	INTERNATIONAL SOS	20
<b>Top Obligations</b>	<b>11,100</b>	<b>Top Obligations</b>	<b>9,970</b>
<b>Total MilitaryHealth under CARTER pre-IFT Obligations</b>	<b>11,100</b>	<b>Total MilitaryHealth under YOUNG Obligations</b>	<b>9,990</b>

Source: FPDS; CSIS Analysis

## 11. Conclusions

The data presented in this paper provide a look into how the major DoD components are implementing recent acquisition-reform guidelines. Each contract and vendor characteristic has overall trends, but the details for individual components vary in magnitude and sometimes in direction. For those characteristics where reforms have shown measurable results, two or more components typically lead this trend while others lag behind. Furthermore, the data show that while trends are largely cyclical in the first two years of an acquisition regime, it's in the years beyond those first two or so that you begin to see the largest impacts of changes in acquisition policy and guidance.

### **Using the Appropriate Contract Type**

In recent years, industry has expressed concerns that the recent round of acquisition reforms has overemphasized the use of fixed-price contracts. The data affirm that there has been a rise in fixed-price contracting across the Department in the recent round of acquisition reforms. While the Army used predominantly fixed price for new start contracts before recent reforms, the share of fixed-price contracting has increased slightly since the recent reforms. Both the Navy and the Air Force have seen similar rises in the use of fixed-price contract types for new contracts. Even the Missile Defense Agency, which previously predominantly used cost-reimbursement contracts, has seen increases in fixed-price contracting in recent years.

### **Increasing the Competitive Contracting Environment**

Across the board, the data show DoD components made little progress in making contracting more competitive during BBP 1.0, but there is a glimmer of progress for BBP 2.0. While the Army and DLA remained relatively competitive, the Air Force and the Navy both saw effective competition rates decline considerably during BBP 1.0. Since then, both services have made small improvements during BBP 2.0, but it remains too early to tell if these are long-term shifts or the result of short-term trends driven by particular large contracts. In 2014, the military health programs saw enormous growth in contract obligations awarded without competition; while it is far too early to form definitive conclusions, this is a potentially troubling trend.

### **Small Business Participation**

Before the introduction of BBP 2.0, the data show little improvement in promoting small businesses' participation in the DoD contracting marketplace. Under BBP 2.0, the share of total DoD contract obligations awarded to small businesses increased. With the recent reforms, the Army leads the promotion of small business, awarding the highest percent of all new-start contracts under BBP 2.0 to small business (29 percent). Meanwhile, the Navy saw slight decreases under the SBTF guidelines before returning to pre-SBTF levels under BBP 2.0. The Air Force contracting data show that service has not improved small business participation since the recent reforms. Under the SBTF guidelines, Air Force small business participation rates fell and failed to improve under BBP 2.0. MDA and military health, which had previously seen negligible small business participation rates, made small but noticeable improvements.

### **Contract Vehicle: Increasing Usage of Multi-Award Contracts**

Trends across the Department suggest that the guidance on the use of multiple-award contract vehicles has resulted in the decreased usage of that vehicle. For overall DoD, there was actually a decrease in the use of multiple-award vehicles when compared to the study period before the implementation of the reforms. Those trends are reflected within each of the components with the exception of MDA. Under the 2009 NDAA Sec. 843 guidance, MDA increased the share of contract obligations awarded under multi-awards to 12 percent from less than 1 percent beforehand; however, under the 2009 Sec. 863 guidance, it fell to 6 percent.

### **Shifting Acquisition Portfolios: Services Contracting**

Trends across the Department suggest that the combination of the drawdowns in Afghanistan and Iraq, as well as the recent reforms, had a moderate impact on shifts in the acquisition portfolios of the major DoD

components. Across the Department, two general trends emerged between BBP 1.0 and implementation of the final rule for Sec. 808 of the 2012 NDAA that ran counter to the expected trends. Under BBP 1.0, the shares of contract obligations for R&D fell across the Department in spite of guidance to protect the technology base. Overall DoD R&D shares fell from 9 percent to 7 percent; in the Navy they fell from 9 percent to 6 percent, in the Air Force they fell from 23 percent to 12 percent, and for MDA they fell from 91 percent to 61 percent. Under the Sec. 808 guidance limiting services contract spending, the share of contract obligations for services actually rose across the Department, going from 41 percent of contract obligations to 44 percent. In fact, MDA and military health programs were the only major DoD components to decrease their share of contract obligations for services.

The implementation of DoD's guidance related to Sec. 808 of the 2012 NDAA Section varied significantly across the DoD components. GAO analysis found that of all the major components, the Air Force best implemented and planned for the mandatory reductions in contract services by setting command spending targets, soliciting commands inputs, and monitoring command services spending throughout the 2013 fiscal year. While the Navy was mostly successful in implementing and actively monitoring steps to limit services contract spending, there were significant issues for both the Army and DLA. While DLA has relatively few contract obligations for services, GAO found that DLA failed to adhere to DoD spending targets because they had failed to solicit command input, set command spending targets, or monitor command spending. The Army failed to adhere to their spending targets in FY2013 and exceeded their goals by \$2.69 billion in FY2013. The Army did set command spending targets for the fiscal year, but failed to monitor the spending of those commands throughout the year.

### **Top Ten Vendors**

Across the Department of Defense, Boeing, Lockheed Martin, General Dynamics, Raytheon, and Northrop Grumman all retained their spots in the top-six defense vendors. Since the end of the Young regime, BAE Systems has fallen from sixth place. In their place, Oshkosh temporarily secured the sixth position before L3 Communications subsequently overtook them. The components saw varying degrees of changes within their top vendors as the United States withdrew from Iraq and Afghanistan and subsequently drew down defense budgets. The Army saw changes, while the Navy and the Air Force largely remained the same. However, both components have seen the emergence of new vendors in the creation of the joint venture United Launch Alliance and the spinoff of Huntington Ingalls Incorporated, which seek to solidify their positions as top-six component-specific vendors.

The three smaller DoD components, DLA, MDA, and military health, all saw shifts in their top ten vendors to an even greater degree than those seen in the Army. While DLA largely retained contracting obligations for three of their largest vendors, outside of those top three vendors there was significant turnover. Vendors would enter the top ten during one reform period only to fall out in the subsequent period. For MDA, the shift from an almost exclusive R&D industrial base saw many of the largest defense vendors secure their positions as MDA vendors. Finally, the military health industrial base is perhaps the least mature at this time. Instead of a small number of companies dominating the entire study timeframe, there were companies entering and leaving the top-ten vendors. Instead, the military health industrial top vendors were dominated by countries winning significant contract obligations during one or two reform periods. With military health contracting obligations likely to continue increasing, this is an area of opportunity for traditional vendors looking to expand their portfolio.

### **Concluding Thoughts**

The implementation of the recent acquisition reforms has varied significantly across the components. Components that have demonstrated implementation of one reform have not demonstrated implementation of other reforms. At the component level, this methodology rarely reveals a single success story surrounded by inertia. Instead, typically a reform effort will either have minimal effects across the board or most components will show some results. One notable factor apparent from this work is that defense agencies, perhaps due to their narrower scope of acquisition activity, necessarily closer relationship between agency leadership and the acquisition workforce, and direct relationship to the

Defense Acquisition Executive, exhibited the greatest responsiveness to policy guidance. The study also serves as a helpful reminder that reform does not always move in a single direction. The example of contract vehicle shows that particular contracting approaches, such as multiple-award contracts, can come into and then fall out of favor. Thus, in some cases the continual process of acquisition reform may not represent a consistent failure to get results, but instead shows a steady effort to adapt to the requirements placed on the acquisition system.

This approach holds promise for future research. Moving forward, CSIS will continue to explore these issues and the institutionalization of these reforms within the components. CSIS will continue to explore the issue of visibility into separation of contracts funded by OCO and those base budgets. With early indications that the Congress will approve additional budgetary appropriations to the Department through OCO, separating OCO-funded contracts for contingency appropriations abroad and the OCO-funded obligations intended as supplements to the base budget at home.

## 12. About the Project Directors and Lead Author

**Andrew Hunter** is a senior fellow in the International Security Program and director of the Defense-Industrial Initiatives Group at CSIS. From 2011 to 2014, he served as a senior executive in the Department of Defense, serving first as chief of staff to undersecretaries of defense (AT&L) Ashton B. Carter and Frank Kendall, before directing the Joint Rapid Acquisition Cell. From 2005 to 2011, Mr. Hunter served as a professional staff member of the House Armed Services Committee. Mr. Hunter holds an M.A. degree in applied economics from the Johns Hopkins University and a B.A. in social studies from Harvard University.

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