

**NAVY CONTRACTING
ORGANIZATIONAL
ALIGNMENT STUDY
TEAM**

**FINAL REPORT
January 22, 1998**

CERTIFICATION PAGE

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Ncoast.max

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I CERTIFY THAT THE ABOVE MEMBERS OF THE NAVY CONTRACTS ORGANIZATIONAL ALIGNMENT STUDY TEAM (NCOAST) HAVE REVIEWED AND CONCUR IN THE CONTENTS OF THIS REPORT.

A. M. WINSTON
(TEAM LEADER)

ASN(RDA)ABM signed: Alfred M. Winston
22 JANUARY 1998

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I. OVERVIEW

The Navy Contracting Organizational Alignment Study Team (NCOAST) was chartered on 6 June 1997 by the Assistant Secretary of the Navy (Research, Development & Acquisition), the Deputy Chief of Naval Operations (Resources, Warfare Requirements & Assessments) and the Deputy Chief of Naval Operations (Logistics). As stated in Attachment (1), the study team was chartered to conduct an evaluation of existing contracting organizational structures, relationships and processes to identify alternatives that will enable the Navy to better support its customers, streamline processes, reduce infrastructure and eliminate inefficiencies. A Board of Advisors (BOA) at the Flag and Senior Executive Service (SES) level was created to oversee the working study group. The Board of Advisors consisted of executives from both CINCLANTFLT/ CINCPACFLT N41s, COMNAVSUPSYSCOM, COMNAVSEASYSYSCOM, COMSPAWARSYSYSCOM, OPNAV N8, BUMED, COMNAVFACENCOM, COMMSC and was chaired by the senior ABM executive. The NCOAST working study team consisted of representatives mirroring the BOA executives.

The NCOAST convened at the Washington Navy Yard 7 July 1997. The team leader was the current Naval Information Systems Management Command's Head of Contracts. After a kick-off brief to the team by ABM executives, the team leader initially divided the study team into three distinct groups; initiatives, objectives and data. For the initial part of the study, the team focused on researching the results of similar studies, INTERNET queries, cataloguing any similar initiatives, reviewing existing Business Case Analyses, and developing the objectives of the study. A data call spreadsheet was developed to collect information to create a Navy-wide contracting database.

Beginning in early August, contractor support was enlisted to assist in the establishment of the contracting data base.

NCOAST received informational briefs from NAVSUP concerning efficiency analyses and the IMPAC program, Standard Procurement System (SPS) program office brief by the Program Manager, an SPS functional demonstration by AMS, Inc., a "Regionalization" brief by OPNAV N462, an organizational study brief by LMI Inc., and an SSP 02 brief. The team interviewed the Naval District Washington (Regional Commander) Chief of Staff to find out more about their contracting/regionalization concerns. The team also interviewed the action officer for the contracting regionalization effort in the Northeast Region.

The study team released a comprehensive data call to all Navy contracting activities on 24 July 1997. A NAVADMIN message released by OPNAV N4 on 14 August 1997 announced the study group's efforts and data call. The study team developed a contracting customer survey that was posted on the ABM website.

The study team presented a brief to the BOA on 4 September 1997. The purpose of the brief was to present a series of twelve contracting structure options developed by the team, define key concerns of BOA members such as regionalization, resource ownership, HCA authority and consolidation and finally, to have the BOA reduce the options to those with merit. The team also developed basic strategies, assumptions, SYSCOM current missions, positive/negative factors and a decision criteria matrix. The team reviewed initial PMRS data. The BOA discussed the options and eliminated those options with little or no merit. Since this briefing presented “notional” options, the BOAs directed the team to provide a deeper analysis of the remaining options with data gathered from the data call, when complete.

On 15 September 1997, the study team leader was transferred to NAVSEA and a new team leader was provided from the ABM staff. During the next several weeks of the study a significant amount of time was spent clarifying and verifying the data. Additionally, time was spent consolidating various contracting organizational options into a few “thematic” options. The themes included HCA authority, Navy regionalization, resource ownership and infrastructure reduction both in the field and at the SYSCOM level.

A hypothesis was developed proposing that smaller contracting organizations could be consolidated with larger contracting organizations yielding labor dollar savings. A methodology was developed (based on the hypothesis) to mathematically represent labor dollar savings within the Navy contracting organizational structure. This methodology was based on a CNA study that theorized 20-50% labor savings based on consolidating existing organizations. The team used activity and labor dollar data from the data base to focus on the Hampton Roads and Northwest regions to build a Navy-wide model.

On 27 October 1997, the study team presented its second and final briefing to the BOAs. The presentation provided information about the Navy contracting workforce baseline of 570 activities, approximately 10,000 personnel, 1.3 million actions, and contract obligations of \$39 billion on a total labor base of \$500 million. Several options were provided focusing on Fleet/regional HCA authority, a single HCA regional support center and SYSCOM contracting variations, including a single SYSCOM. The options were evaluated by specific decision criteria that were established by the BOA at the 4 September briefing. The consolidation analysis methodology/model was explained. On an estimated \$500 million contracting direct labor base, the model identified a possible consolidation savings band of \$83 million to \$199 million. The team recommended that the final report be completed, a follow-on team be established to perform an in-depth analysis and further refine/validate estimated cost savings prior to any realignment initiatives, and that ABM maintain the database. The briefing was well received by the BOA. The BOA concurred that

ABM develop a decision brief for ASN (RD&A) and OPNAV recommending approval of a revised contracting approach pilot program of Fleet HCA authority or a single HCA regional support center. If approved, the pilot would take place in the Hampton Roads and Northwest regions.

The NCOAST completed a draft of the final report and was stood-down on 31 October 1997 after completing Phase I of the study.

II. DISCUSSION

A. Background

This report provides the NCOAST response to the Assistant Secretary of the Navy (Research, Development & Acquisition)(ASN (RD&A)), the Deputy Chief of Naval Operations (Logistics)(DCNO(L)), the Deputy Chief of Naval Operations (Resources, Warfare Requirements & Assessments)(DCNO(R,WR&A)) memorandum of 6 June 1997. The NCOAST was tasked to evaluate the current contracting organizational structure with the goal to identify alternative contracting structures capable of furnishing best value contracting support to our customers, considering the services provided and cost. As directed by ASN(RD&A)(ABM), the only activities that were not included in this study belonged to the Marine Corps.

ASN (RD&A), DCNO (L), and DCNO (RWR&A) approved a charter to evaluate the existing contracting organizational structures, relationships, and processes, and identify alternatives to these structures that would result in a more effective, responsive, and affordable organization. The objectives of the evaluation are to improve customer support; streamline our processes; reduce the contracting infrastructure; and eliminate inefficiencies. To meet the objectives, a study team, composed of representatives across multiple contracting and customer claimancies, were tasked to baseline the current organizational structure, consider the effects of changes all ready in progress, and develop alternative contracting structures or modifications to the present structure.

The team conducted an evaluation of each organizational option by applying top level costs, identifying advantages and disadvantages of each approach; and considering overall responsiveness to customers. The results of the evaluation should allow key decision makers to select, from a series of organizational options, one or more options for implementation.

B. Board of Advisors

A Board of Advisors, chaired by ASN (RD&A)(ABM), was set up to provide oversight to the NCOAST. The Board represents service providers, customers, and partners in the contracting process.

NCOAST BOARD OF ADVISORS

BOARD MEMBER	ORGANIZATION
RADM Hickman	Naval Supply Systems Command/OPNAV N41
RADM Ruble	Commander-In-Chief, U. S. Atlantic Fleet
RADM Vincent	Commander-In-Chief, U. S. Pacific Fleet
RADM Smith	Chief of Naval Operations, N44
Mr. Branch	Assistant Secretary of the Navy (Research Development & Acquisition) Acquisition & Business Management
Mr. Blickstein	Chief of Naval Operations, N8
Mr. Boyer	Naval Facilities Engineering Command
Mr. Brown	Naval Sea Systems Command
Dr. Uhler	Space and Naval Warfare Systems Command
CAPT Defibaugh	Bureau of Medicine and Surgery

C. NCOAST Team Membership

The NCOAST Members were selected by their HCA/BOA members. They represented their commands, but their focus was on the overall Navy structure.

NCOAST Members

REPRESENTATIVE	ORGANIZATION
Mona Banos	ASN(RD&A)ABM
Joel Brandzel	Space and Naval Warfare Systems Command
Mike Canales	Naval Air Systems Command
CAPT David Capizzi	NISMC, Team Leader (7 July to 13 Sept)
Jack Clarkin	Naval Undersea Warfare Center
Tauna Delmonico	Naval Medical Logistics Command/BUMED
Joe DiGiacomo	Military Sealift Command (Sep-Oct)
Shari Durand	Naval Facilities Engineering Command
CDR David Fitzgerald	Commander-In-Chief, U. S. Atlantic Fleet
Jonathan Hall	Naval Sea Systems Command
Nancy Heimbaugh	Naval Supply Systems Command
Patricia Holleran	Naval Facilities Engineering Command
Frank O'Day	Office of Naval Research
Deidre Rumsey	Military Sealift Command (Jul-Aug)
Carole Wieszek	Military Sealift Command (Aug-Sep)
Al Winston	ASN (RD&A) (ABM), Team Leader (16 Sept to 31 Oct)
John Bell	Commander-In-Chief, U. S. Pacific Fleet
CAPT Mac McKenzie	Commander-In-Chief, U. S. Atlantic Fleet

D. Analysis

(1) fundamental strategy & guiding principles

The fundamental strategy of the NCOAST was to identify alternative contracting structures that would improve the overall efficiency of the contracting process, reduce the cost of delivering the contracting service, and provide oversight of the process by the ultimate customer of the contracting service. The Team (1) collected data to support its alternatives, (2) incorporated the concerns of the customers of the contracting process as expressed in a customer survey conducted by the Team, (3) took advantage of the vast technical knowledge of the individual team members to fill in the gaps, and (4) extrapolated the data to reach its conclusions with respect to specific organizational structures, alignments and related cost savings.

In carrying out its fundamental strategy the NCOAST adhered to the following guiding principles:

- If the technical mission of the organization is accomplished through the contracting function then the contract function is retained by that organization.
- If the contracting mission is to support outside customers by performing a contract function, then that function is regionalized.
- SYSCOM organizations should retain only workload in direct support of core mission functions. Workload not in direct support of a SYSCOM organization mission should be regionalized.
- Regions should not do work that should be done by a SYSCOM.
- If more than one office does or can do a particular contracting function in a region, then a single source of performance will be identified.

(2) Assumptions

a. The study addresses Navy contracting organizations only. Realignment of other support functions and/or technical program offices is outside of the purview of this effort although clearly complementary efforts in supporting or supported organizations may have an impact on the validity of organizational structures or related savings recommended by the NCOAST.

b. Opportunity exists for combining current contracting operations which should result in associated economies of scale.

- c. Technology and innovative business practices facilitate the possibility of having regional contracting centers provide base operating services contracting support to all customers within a region.
- d. Budgets/overall Navy workload are decreasing .
- e. IMPAC Card usage will increase.
- f. Socio-economic issues will continue to impact contracting.
- g. Purchasing agents/procurement technicians (GS 1105/1106) will decline in number.
- h SPS will not be fully operational until the year 2001 unless further accelerated as a consequence of DEPSECDEF Management Reform Initiatives.
- i. Regionalization of fleet support will continue.
- j. Some local contracting capability is important but it must be balanced with cost effective delivery of the service .

(3) *Definition*

Core Mission: These are activities of organizations that are inherently what the organization was created to accomplish. It is fundamental that if that core mission of an organization is carried out via contracting, then the supporting contracting resources must be under the operational and management control of the same organization. Examples include the purchase of ships by NAVSEA, aircraft by NAVAIR, inventory by NAVICP, and MILCON by NAVFAC.

(4) *Data Collection*

The NCOAST Team viewed the establishment of a contracting organization baseline as critical to the execution of its mission. The team decided to collect three broad categories of data: (1) general information, (2) contracting actions and dollars, and (3) staffing. To gather this data, the team devised the Annex C Attachment (1) Excel® spreadsheets. Approximately 600 activities submitted responses. Once the completed spreadsheets were received, the data was transferred to Microsoft's Access® database program. This conversion provided relatively easy manipulation and querying of the database.

The team's original intent was to utilize the database to design world-wide geographical maps of the Navy's contracting structure. Commercial mapping software was purchased to accomplish this but the software did not prove to be

as effective as expected. A map of the continental United States was developed which depicts the general locations of the contracting activities and was included in the final brief. The collected data proved to be very valuable during the team's deliberations. Annex C provides detailed information on the data collection and baseline establishment.

(5). Customer surveys

Another goal of the NCOAST was to maintain or improve the level of customer satisfaction within the contracting community. To better understand what is viewed as quality service, NCOAST developed a Customer Survey which was posted on the ASN(RD&A)ABM World Wide Web Homepage. A series of questions for customer activities of the present HCA structure were constructed to determine the degree to which the current structure is serving the needs of "Fleet" and "Shore-Based" customers. The questions addressed quality, timeliness, and economy-of-service issues. Approximately 300 responses were received from around the world and were generally favorable regarding the service currently provided. A detailed summary and analysis of the responses is provided in Annex D.

(6) Impact of technology

NCOAST looked at the impact of technology and other contracting initiatives that are currently being imposed on the contracting process. A discussion of individual initiatives follows.

a. Government International Merchants Purchase Authorization Card (IMPAC)

IMPAC has dramatically expanded the flexibility of the Government to organize and execute the procurement function. With the very clear and easy-to-follow commercial-type procedures in place to execute and reconcile purchases made with the Government purchase card, the maximum dissemination of this capability is taking place throughout DoD and the Federal Government. For purchases of commercial goods where a trained procurement official has little opportunity to add value to the action, the execution of a buy with the purchase- card by the requiring activity provides timely support without sacrifice of value or accountability. In the NCOAST study, this business process innovation provides the framework by which organizations or functions can be realigned without affecting the accomplishment of day-to-day operations. In the cost savings phase of the study, NCOAST assumed that the contracting warrants of organizations which hold only micro-purchase authority could be eliminated and replaced with IMPAC card authority. The NCOAST notes that increasing micro-purchase authority to \$100,000 could result in further organizational consolidation and cost savings.

b. DoD Standard Procurement System (SPS)

The DoD SPS is the single authorized procurement system for DoD and Navy activities (DDP memorandum of 12 July 1996 and ASN (RD&A)(ABM) memorandum of 20 February 1997). It is planned to contain features which permit information sharing through use of a centralized "Shared Data Warehouse" and facilitates the electronic exchange of information throughout the Navy and DoD communities using Electronic Data Interchange and Electronic Data Access. These capabilities will facilitate the ability of activities to process workload efficiently and effectively from locations remote to the requiring activities, and also permit workload to be leveled among/between activities which have similar capabilities/responsibilities for processing procurement actions. With the advent of a single authorized system for procurement and the enhanced data sharing/passing capabilities of SPS, the feasibility of "Regionalization" for purchasing Base Operating Support (BOS) type actions is greatly enhanced.

c. Electronic Data Interchange (EDI)

The use of EDI for passing of award data to contract administration activities and payment offices will greatly reduce the clerical burden and the errors associated with rekeying of data both within DoD and with the vendor base which serves DoD. In addition to the substantial economies provided by electronic passing of data, EDI provides the speed and accuracy needed to establish regionalization as a feasible strategy for providing contracting support. This strategy is central to reducing problem disbursements (negative unliquidated obligations/unmatched disbursements) within DoD and to make the payment systems more responsive to the communities which they service. The Central Contractor Registration facility of the DoD EDI implementation plan will also pay significant dividends in maintaining consistency of information on vendors and will greatly reduce the number of duplicative databases of such information.

(7) Regionalization

a. Assessment

The NCOAST also looked at regionalization since this is a major initiative affecting support to the fleet. The Team felt it was important to have a thorough understanding of that process so that our recommendations on how to realign the contracting function could best be integrated into this wider ranging effort to improve overall logistical support to the fleet.

The goal of regionalization is to allow for the proper consolidation and distribution of workload and resources. This should result in a most efficient organization (and work force across not only a specific geographic region but

worldwide). The process allows for the sharing of ideas and incorporation of best practices while at the same time encouraging creativity and standardization. Not only will regionalization allow for consolidation of organizations in a region, but it should also reduce the cost of performing contract actions by using best practices in a region as opposed to only within an activity. This should also minimize excess capacity over a larger area while maintaining surge capability.

NCOAST's concept of regionalizing the contracting function focused on the allocation of contracting resources within a geographical region. As discussed in the options section of this report, the region would be established at the Regional Commander level but the HCA function could be placed at the Regional Commander level, retained at the CINC level (East coast/West coast), or retained by the current HCAs (with variations). All field contracting organizations were considered regionalization candidates.

b. Impediments to regionalization

The NCOAST found some potential impediments to regionalization. These include merging mission funded organizations with those funded on a reimbursable basis and statutory matters pertaining to research and development, military construction, and the relationship of acquisition activities to operational activities.

If contracting organizations are to depend on modern technology, then they must have the tools with which to accomplish their jobs. With the advent of SPS or other computer based contracting systems such as EC, EDI, it is critical that up front planning and budgeting take place to ensure these tools are integrated into the contracting workforce in a timely manner.

Finally, realignment and consolidation of contracting resources should not result in degradation of customer support. Customer surveys have shown that customers like having their contracting support organizations near by where those organizations can provide timely and convenient support. Providing this type of support can be costly but a reasonable balance must be maintained between cost control and responsiveness to the customer.

(8) Field Organizational Structures and HCA Alignment – the Options

Realignment and consolidation of contracting resources need not result in degradation of customer support. Even though customer surveys have shown that consumers like having their contracting support organizations nearby where those organizations can provide timely and convenient support, this type of support can be costly. The NCOAST feels that realignment and consolidation can achieve a reasonable balance between cost control and customer support.

In order to identify possible alternative contracting structures for the Navy, the NCOAST decided to look at the existing Navy contracting system. Because a detailed examination of the entire Navy infrastructure was not feasible in the time allotted, the Team opted to select representative geographical areas for in-depth review. The Hampton Roads area and the Pacific Northwest were chosen as they represented areas of both geographic concentration and dispersion as well as both the East and West coasts of the United States.

Early in the analysis it became evident that no matter what management structure was ultimately selected, significant cost savings could be achieved by eliminating small activities (replace with an IMPAC card issued to non-contracting personnel) or consolidating smaller organizations performing like functions into larger organizations.

Consequently the Team findings are divided into two major categories: (1) dollar savings that can be achieved by consolidating organizations performing like functions, and (2) restructuring management and ownership of resources to improve responsiveness and better align contracting resources to support core missions of the customers those resources support.

The Team believes that the integration of contracting resources and process into operational fleet organizations could enhance customer responsiveness and facilitate business and operational trade-off decisions. However, there are risks associated with making this type of structural change to the contracting processes in the Navy. Therefore, the NCOAST conducted a careful analysis of those risks and considered the offsetting benefits.

In order to better evaluate possible HCA alternatives, the NCOAST baselined the current Navy HCA structure:

- Naval Air Systems Command
- Naval Sea Systems Command
- Naval Facilities Engineering Command
- Naval Supply Systems Command
- Naval Inventory Control Point
- Space and Naval Warfare Systems Command
- Strategic Systems Project Office
- Office of Naval Research
- Military Sealift Command

NCOAST notes that HCAs traditionally operate independently, with separate management functions, processes, and procedures, all under the overarching guidelines of Federal, DoD and Navy regulations. (A summary of HCA responsibilities identified in the FAR, DFARS, and NAPS at the time of the study is

included as Annex F). HCAs that delegate contracting authority to activities within and outside their claimancy are responsible for oversight, training, policy, and procedures for those activities. The Team believes the existing structure inhibits the sharing of best practices within HCAs, restricts communication within the Navy contracting community, and does not consistently place accountability and responsibility for the contracting process with those organizations responsible for mission execution via the contracting process.

The NCOAST recognizes that the efficient distribution and management of Navy contracting resources is important to timely and effective contracting support and must be consistent with Navy regionalization initiatives. Consequently, the Team has concluded that it should offer to the senior decision makers contracting alignment options under which contracting resources would be owned by or more closely aligned with the CINCs or Regional Commanders.

Based on the above, a number of approaches to contracting organizational alignment were presented to the BOA on 27 October 1997 (Attachment 2). The approaches were derived from the original options presented to the BOA on 04 September 1997 (in the final presentation, the original options are cross-referenced on the slide for each approach). Each proposed alternative was evaluated against the decision criteria recommended by the BOA on 04 September. Specific factors within each criterion were identified in order to differentiate the merits and drawbacks of each approach:

CRITERIA

Criterion (1): Responsiveness

- One-stop service and one face to the customer
- Customer ownership of resources and process
- Common management of both contracting and requirements functions
- Opportunity for region wide contracting and purchasing vehicles
- Opportunity for process standardization
- Management level of HCA authority

Criterion (2): Cost

- Opportunity for consolidation and workforce/infrastructure reduction
- Opportunity for consolidation of contracting actions
- Extent of administrative support functions
- Elimination of redundant/duplicative functions

Criterion (3): Accountability

- Contracting function is answerable to the customer
- Checks and balances

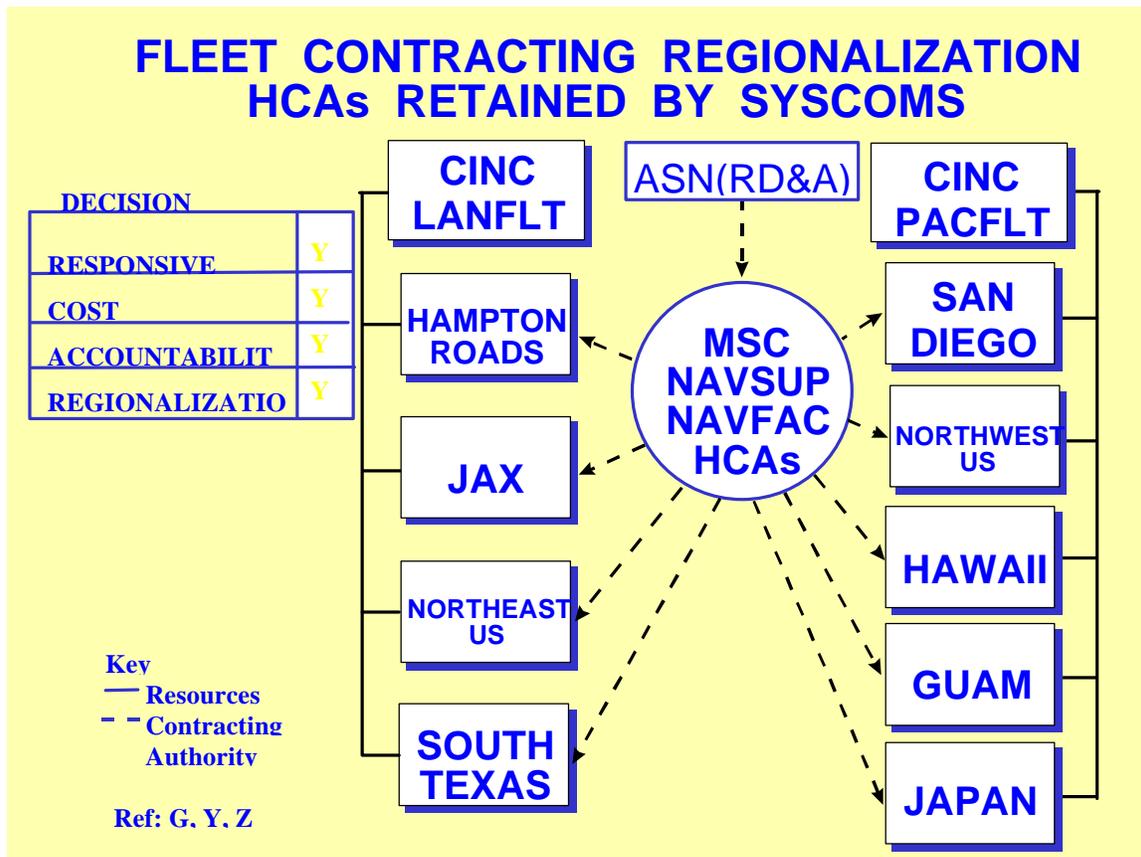
Criterion (4): Regionalization

Complements Navy-wide regionalization concept

The options together with a discussion of inherent advantages and disadvantages are explained in detail below. A simple Red/Yellow/Green system is used to indicate the degree to which each option satisfies the above criteria, i.e. Red does not satisfy, Yellow partially satisfies and Green fully satisfies a criterion.

APPROACHES

a. Provide contracting oversight via existing HCAs with fleet owned contracting resources.



This would entail consolidating existing regional NAVSUP, NAVFAC, and MSC field activities that provide common base operating type support into regional contracting support centers in each fleet operational region (as tentatively identified by OPNAV N46) that are efficiently aligned to support fleet customers. This approach envisions contracting resources being owned, organized and managed by the Regional Commander. The contracting oversight functions would be provided via the existing NAVSUP, NAVFAC, MSC organizational structure. HCA authority would continue to be provided from NAVSUP, NAVFAC, or MSC as appropriate.

Responsiveness: Yellow

While the regions will own their contracting resources, retaining multiple HCAs will perpetuate fragmentation of customer support.

The customer will own the resources but not the processes. This may cause conflicts between contracting issues and priorities of supported customers.

Limited opportunity for fleet-wide contracting and purchasing vehicles.

Discourages process standardization.

Cost: Yellow

Limited opportunities to consolidate repetitive contracting requirements. Duplication of administrative support and policy oversight.

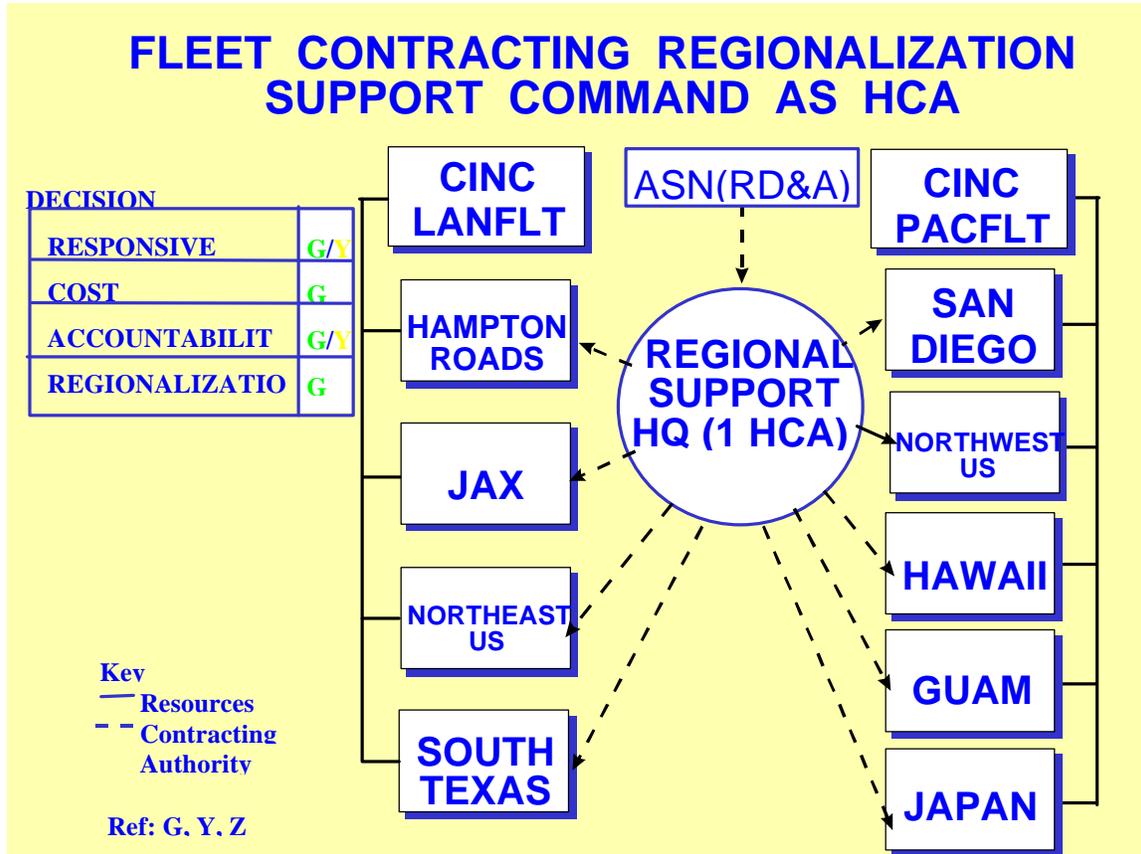
Accountability: Yellow

Contracting authority is not aligned with the regional command structure.

Regionalization: Yellow

Contracting resources aligned with Regional Commanders but not HCA management authority/accountability.

b. HCA authority for regional contracting functions vested in a single, centralized contracting HCA with ownership of contracting resources vested in the fleet.



This option is identical to (a) above except HCA authority would be vested in a single HCA that could be either a new contracting organization or consolidating up that authority under one of the traditional HCA's.

Responsiveness: Green/Yellow

Regions will own the contracting resources, facilitating one-stop service and one face to the customer.

Dedication of the HCA specifically to regional contracting should result in more focused oversight of the process.

More opportunity for fleet and Navy-wide contracting.

The customer will have more visibility and access to contracting choices.

Encourages process standardization, resulting in efficiencies and making it easier for the customer to understand and employ contracting as a tool.

Since the HCA is not aligned with the Regional Command structure, there would be some degree of process delay for certain operational decisions.

Cost: Green

Common management of requirements and contracting functions facilitates consolidation and workforce/infrastructure reduction.

Opportunities for consolidation of contracting actions within and among regions are enhanced due to the single HCA.

Eliminates duplication of procurement policy and oversight.

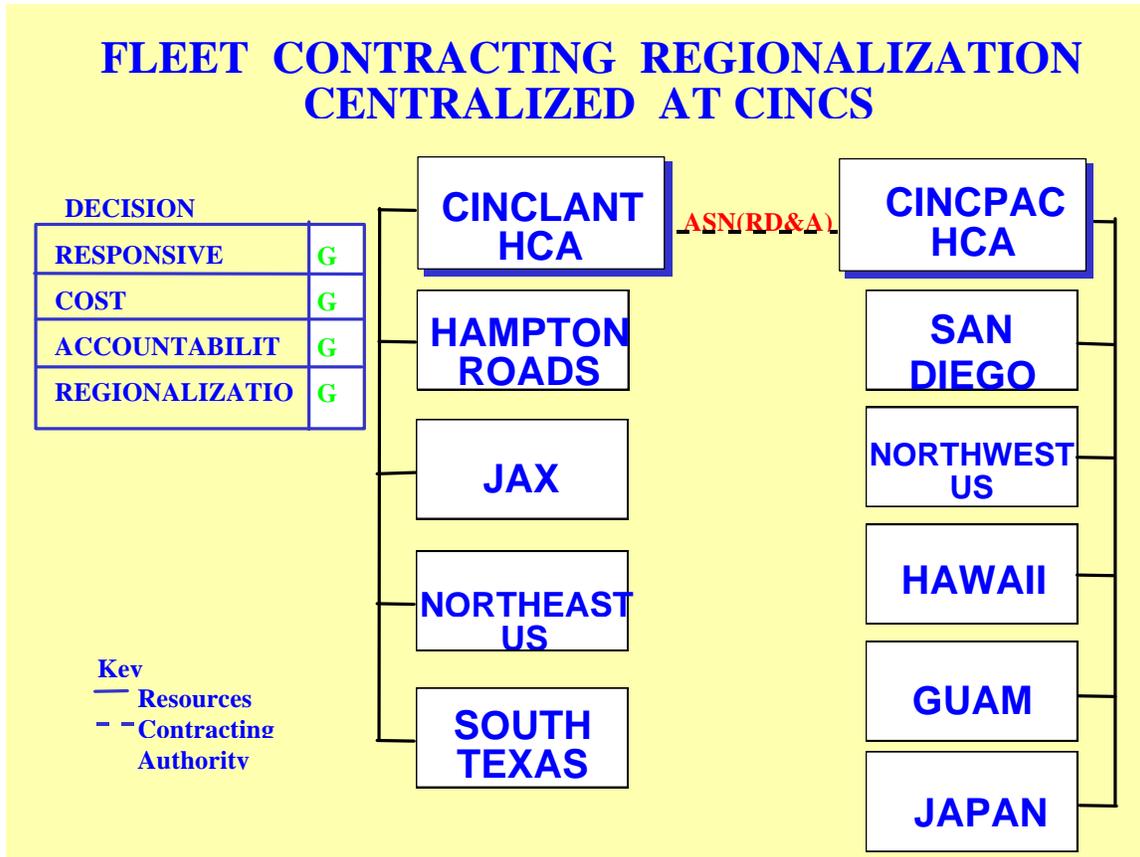
Accountability: Green/Yellow

Possible conflicts between fleet management and contracts oversight.

Regionalization: Green

Contracting resources aligned with Regional Commanders. While HCA management of the contracting process is outside the regional command structure, the single HCA will be dedicated to regional operations.

- c. ASN(RDA) could delegate HCA authority to the CINC. Resources would also be owned by the fleet



Under this option, HCA authority would be placed in the Fleet. Each CINC would be responsible for providing contracting authority, oversight, training, and policy to the contracting offices under its command and would have complete control of the contracting process within its area of responsibility. ASN (RD&A) would designate CINCLANTFLT and CINCPACFLT as Heads of Contracting Activities (HCAs). As HCAs, the CINCs (or their designees) would delegate contracting authority to the Regional Commanders who would own, organize, and manage contracting support resources in each region.

Responsive: Green/Yellow

Provides One-Stop service and one face to the customer.

Provides a more effective means of setting priorities and making trade-offs between business and operational considerations for both resource allocation and operational contracting decisions.

The customer will have greater visibility and access to contracting choices.

Common management of fleet regions encourages process standardization.

HCA authority at a management level above the Regional Commanders could cause some process delay.

Cost: Green

Common management of requirements and contracting functions facilitates consolidation and workforce/infrastructure reduction.

Greater control and visibility into like requirements increases opportunities for consolidation of contracting actions both within and among regions, with resulting economies of scale and decreased contracting workload.

Single HCA for each fleet minimizes duplication of administrative support functions for policy deployment and oversight.

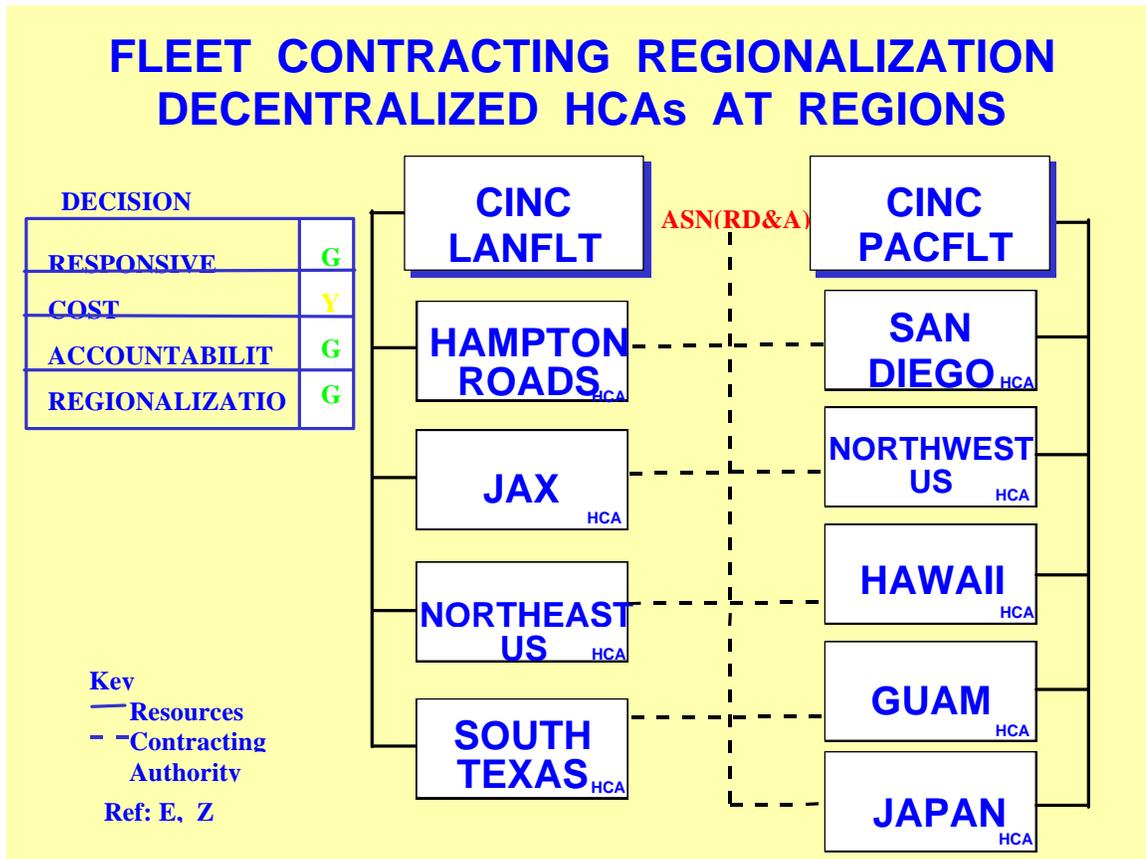
Accountability: Green

Contracting authority is aligned with the command structure at the fleet level.

Regionalization: Green

Aligns contracting resources with Regional Commanders for regionalization effort.

d. ASN(RDA) delegates HCA authority to the Regional Commander.



This is similar to option (c) but under this approach, HCA authority would be delegated to Regional Commanders. Each regional support center would be responsible for providing contracting authority, oversight, training, and policy to the contracting activities under its cognizance and would be supervised by its CINC. Again, the Fleet would have complete ownership, organizational and management responsibility for the contracting process in its area of operation.

Responsive: Green

Vesting HCA authority and resource ownership with the Regional Commanders will maximize one-stop service and one face to the customer.

Customer ownership of both resources and processes, as well as common management of both the contracting and requirements functions will provide a more effective means of setting priorities and making trade-offs between business and operational considerations. This is true for both resource allocation and operational contracting decisions.

Increased visibility and access to contracting choices through potential region-wide contracting and purchasing vehicles.

Cost: Yellow

As HCAs, Regional Commanders will be in a good position to trade off process quality and associated resources with operational needs.

Greater control and visibility into like requirements increases opportunities for consolidation of contracting actions within regions

Establishing an HCA function in each region causes duplication of administrative support functions.

The increase in HCAs would also necessitate an increase in administrative effort on the part of ASN (RDA) for performance of oversight functions.

Accountability: Green

HCA authority and resource ownership are aligned with the command structure.

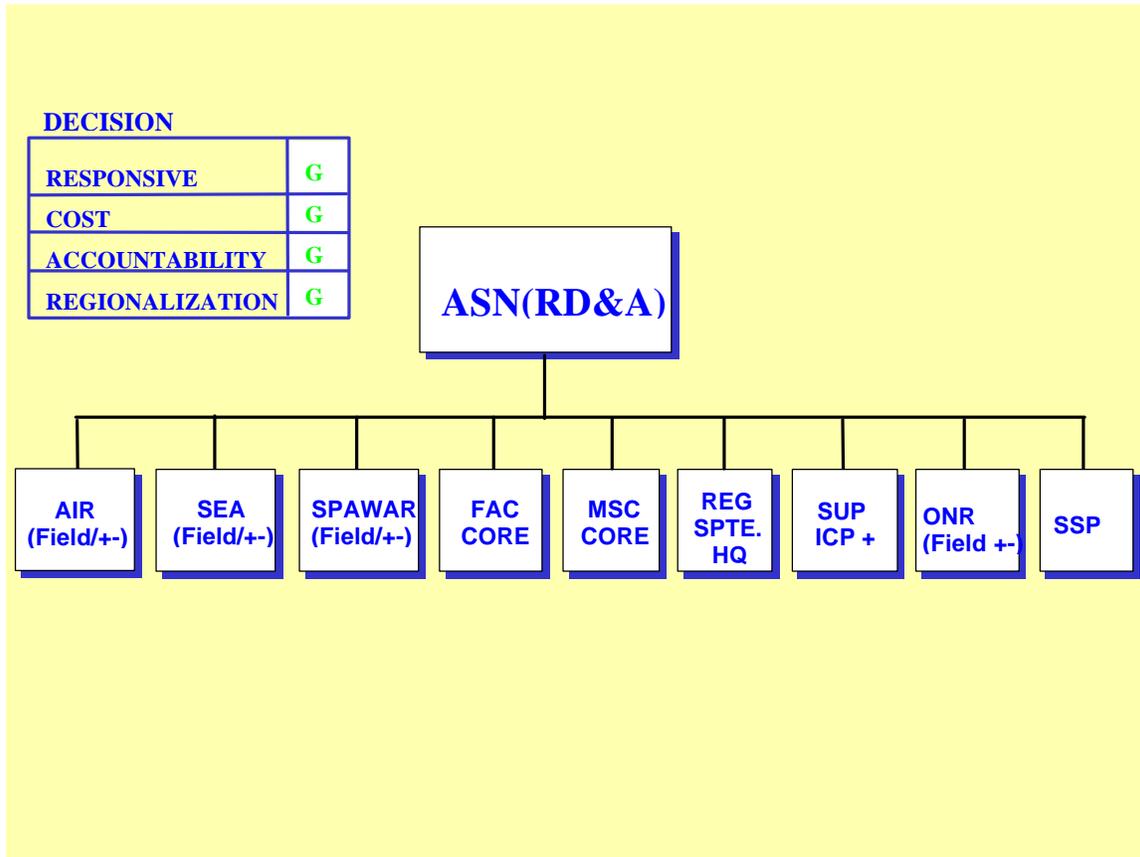
Regionalization: Green

Aligns contracting resources and HCA authority with Regional Commanders.

(9). Systems Commands (SYSCOM) Contracting Purification and Consolidation.

Related to regionalization and management realignment of common base operations support to the Fleet is the associated purification and consolidation of the remaining core missions of the SYSCOMS. The process first requires a review by the SYSCOMS to add back contracting functions that are directly related to the execution of their core missions (see definition at section II D (3)) and remove those functions that are not core mission related. In the next step, common or repetitive field missions of the SYSCOMS are consolidated, and as a final step, the SYSCOMS can be combined into one single NAVSYSCOM. The following two options illustrate that process:

a. Consolidation of SYSCOM Field Activity core contracting



Under this option, contracting responsibilities and workload among the SYSCOM field activities would be “purified” to remove those requirements and customers which are associated with regional operations, and to absorb workload and customers which may historically have been supported by the former regional contracting operations, but are more appropriately aligned with the SYSCOMs. In addition, SYSCOM field activities would consolidate within HCAs and regions, to the degree that geography and similarity of activity function allow. For example, all the NAVSEA field activities in the Hampton Roads area could be consolidated into one organization.

Responsive: Green

Facilitates one-stop service and one face to the customer.

SYSCOMs will own the resources as well as the process.

Effective means of setting priorities and making trade-offs between business and operational considerations.

Opportunity for SYSCOM region-wide contracting and purchasing vehicles.
Encourages process standardization within SYSCOMs.

Cost: Green

Facilitates consolidation and workforce/infrastructure reduction.

Opportunities for consolidation of contracting actions.

Reduces administrative support.

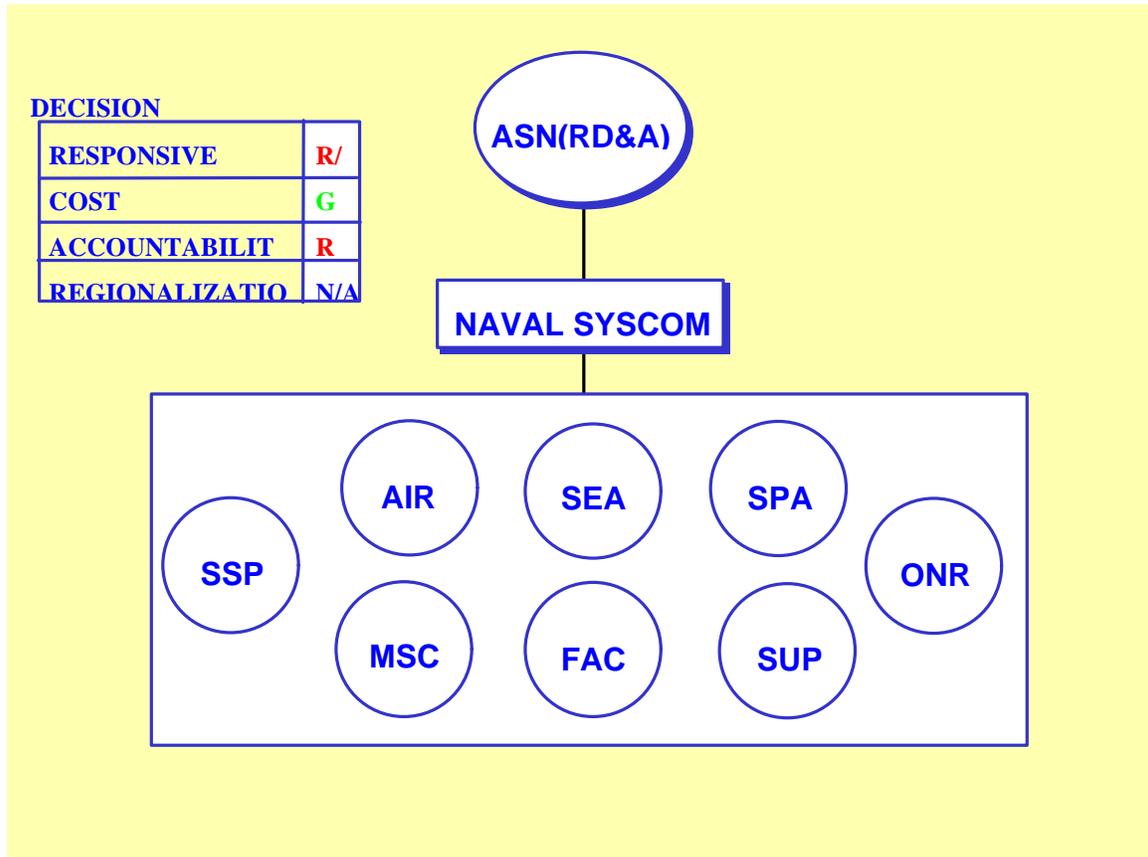
Accountability: Green

Contracting authority is aligned with the command structure.

Regionalization: Green

Consistent with Navy-wide regionalization initiatives.

b. SYSCOM Contracting Consolidation



In this approach, SYSCOM headquarters contracting functions would be consolidated into a single “Naval SYSCOM” contracting organization. The technical missions of the SYSCOMs would remain separate, as in the current state. Contracting resources would be matrixed from the single contracting support organization to the several SYSCOMs as a “virtual” contracting organization. Variations on this theme are possible with partial consolidations also feasible, i.e., rolling the Strategic Systems Program Office into NAVSEA.

Responsive: Red/Yellow

One-stop service and one face to the customer.

SYSCOMs will own neither the contracting resources nor processes.

Setting priorities and making trade-offs between business and operational considerations very difficult.

Good opportunity for SYSCOM and Navy-wide contracting vehicles.

Encourages process standardization.

Centralized management can be very bureaucratic.

Workload/workforce “leveling” can be achieved.

Cost: Green

Facilitates consolidation and workforce/infrastructure reduction.
Consolidation of contracting actions among SYSCOMs are enhanced.
Significantly reduces administrative support functions.

Accountability: Red

Contracting authority is not aligned with the command structure.

Regionalization: Not Applicable

This approach addresses SYSCOM headquarters consolidation.

10. Issues affecting Consolidation and Regionalization

a. Geography

Geographical issues could adversely impact the ability to consolidate some organizations both within and across HCAs. For example, in the Northwest Region (assuming no change in the structure and location of supported activities), the locations of those activities do not easily lend themselves to physical consolidations. Whidbey Island is located approximately 3 hours from Bremerton/Silverdale; Everett is 2 hours from Silverdale. Based on this geography, the physical consolidation of the offices in Everett, Silverdale, and Whidbey Island probably would not be logical nor cost effective (use of EDI would mitigate some of the impact). However, the various offices within the individual areas, such as within Silverdale, Everett, and Whidbey Island lend themselves to consolidation.

In the Hampton Roads area, it is approximately 25 miles from SUPSHIP Newport News to Norfolk Naval Shipyard in Norfolk. However, such offices in Little Creek and Oceana could be combined, while combining offices in Yorktown (a 45 minute one way trip from Norfolk) with Norfolk offices would need to be effectively analyzed.

b. The Change Process

Productivity

Potential side effects of downsizing include hiring limitations, buyouts, priority placements, reductions in force, retirements, and/or transfers. These disruptions can negatively impact the entire workforce's productivity and morale for a certain period of time. It is reasonable to assume the workforce would recover from these changes.

Cost

Costs of attrition, early-outs, or separations could offset some savings from downsizing in the near term. There would be up front costs as a result of physical relocation of offices.

Customer Satisfaction

Separation of contracting functions from customers may decrease customer satisfaction. Activities could offset these disadvantages by the use of electronic capabilities and more efficient purchasing practices.

Financial Management

The combination and mingling of staffs from both mission funded and Navy Working Capital Funded activities could cause accounting difficulties (See Annex E for a more detailed discussion).

c. Ownership and Management of Contracting Resources

The team recognized that ownership and management of contracting resources could be accomplished in a number of manners. Under the existing system the HCA management function is accomplished by NAVSUP but the contracting resources and activities are frequently owned by other claimants (For example, major claimants such as BUMED, CNET, CHNAVRESFOR). In those cases, the contracting operations and resource allocations are controlled by the operational activity while contracting authority, oversight, “rules and tools,” and policy are managed at the centralized HCA (NAVSUP).

In other instances Navy HCAs manage and own the contracting resources under their cognizance. Examples include NAVSUP FISCs, NAVFAC EFDs and PWCs and MSC’s MSCLANT.

In support of Navy regionalization, the team concluded that the Fleet/Regional Commander should have the ability to own and control the contracting resources for those functions directly related to Fleet support and which are not considered “core mission” functions of the SYSCOMs. The contracting process management could be structured in different manners:

- (1) At the existing HCA levels;
- (2) Delegate HCA to the Regional Commander or CINC.
- (3) Delegate a single, centralized HCA to manage Fleet resources.

In the evaluation phase, the Team found that the transfer of resources and process ownership to operational organizations is likely to enhance responsiveness and facilitate business/operational trade-off decisions. However, there are risks associated with cost and accountability that must be weighed.

III. CONCLUSIONS

The overall conclusion of the NCOAST is that the Navy contracting system needs to be realigned.

The system, as it presently exists, has several fundamental problems:

- There is substantial duplication of effort
- Contracting missions are misaligned

- In some instances, ownership and management of the contracting function is inconsistent with missions of supported organizations

Many of these problems can be eliminated or minimized through consolidating like organizations performing similar functions with each other (within existing HCA's at the very least, and across HCA's when common base operations support functions are being performed). As a result of this potential consolidation and other management initiatives, such as (1) workload reduction, (2) elimination of overhead functions, (3) reduction in supervisory ratios, (4) leveraging of technology, (5) new acquisition reform rules and policies, and (6) taking advantage of and grouping of contracting requirements to accomplish more efficient contracting (bundling, etc.) substantial cost savings should result.

As part of the consolidation process, it is also desirable to purify contracting missions. Over time, contracting responsibility lines have been blurred and many contracting organizations are performing tasks that are not consistent with the core mission of their parent organizations. Either they have taken on inappropriate contracting tasks or they have delegated tasks to others that should not have been delegated. Realigning these missions should result in more efficiently operating contracting organizations.

Ownership and management of the contracting process is also critical to effective contracting support. The Team has identified situations (usually in support of the Fleet) where the contracting resources are not managed or owned by the key customer. This results in conflicts between contracting priorities and the operational needs of the supported organizations. The options offered by the NCOAST are designed to eliminate, or at the very least, minimize this problem.

The NCOAST has also concluded that consolidation, while cost effective, may also have a down side. Many of the customers of the existing system said they like it that way because they received timely, dedicated contracting support. This, of course, is the advantage of a highly decentralized system with dedicated resources. Quality must not be sacrificed just to achieve cost savings. Whatever system is ultimately designed, it is important that it meet the needs of its customers in a timely and efficient, as well as cost effective manner.

IV. RECOMMENDATIONS

Based on the results of this study, and the conclusions set forth above, together with input received from the Board of Advisors, the following recommendations are provided:

1. ASN (RD&A) should be briefed on the possible options for Regionalization and HCA realignment as well as the appropriateness of testing one of those options via regional prototype sites in accordance with the Board of Advisors recommendations of 27 October 1997. Candidates for regional prototypes are the Hampton Roads area and the Pacific Northwest.

2. Perform a region by region in-depth analysis to validate potential savings from consolidation of activities and Regionalization. Savings identified by the study team are recognized to be top-level costs for quantifying potential cost savings only and require further validation and refinement before being removed from existing budgets and used as a basis for implementation of realignment.

3. Coordinate implementation activity with OPNAV N46 to insure consistency with overall Navy-wide regionalization efforts.

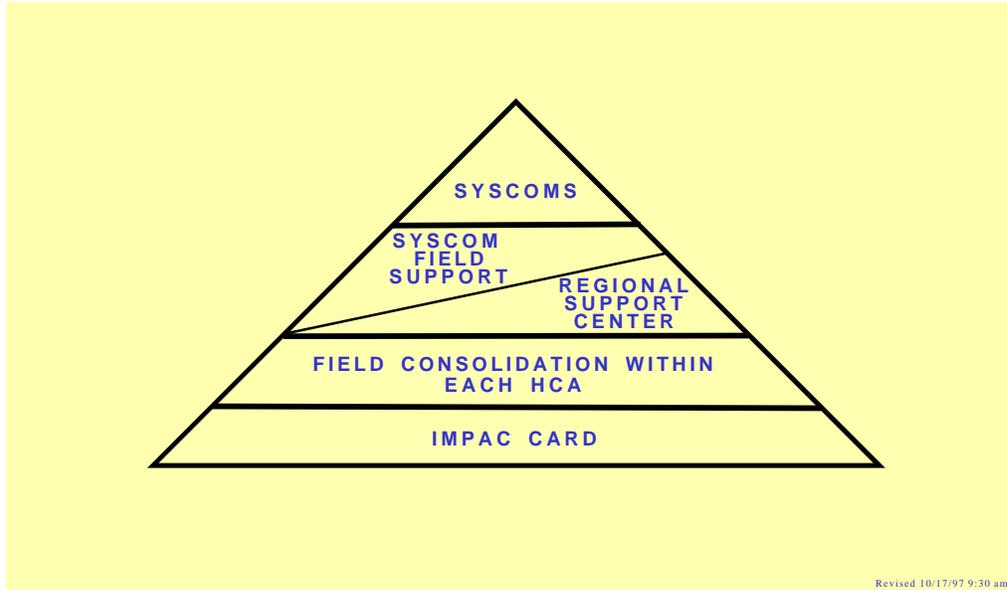
4. Maintain the NCOAST contracting management database. Recommend ASN (RD&A)(ABM) establish a project manager and, if necessary, continue contractor support for the database. Specific details are provided in Annex C.

5. NCOAST members continue as an ad hoc forum to advise ASN (RD&A) on further efforts in this area and further refinements in Regionalization and HCA Realignment strategies.

6. Maintain an on-going study effort by a recognized academic organization. This would allow rapid start-up of future Navy contracting study efforts through maintenance of up-to-date reference materials and continued scholarly thought on the subject. "Learning curve" pitfalls could be reduced/eliminated.

ANNEX A

REALIGNMENT COST SAVINGS SCENARIOS



1. CONVERT ACTIVITIES WITH PURCHASE AUTHORITY OF ONLY <\$2,501 TO PURCHASE CARDS.
2. PHYSICALLY COMBINING FIELD OFFICES WITHIN HCAS
3. PHYSICALLY COMBINING NON-CORE FUNCTIONS INTO A REGIONAL SUPPORT CENTER
4. PHYSICALLY COMBINING SYSCOM FIELD SUPPORT ACTIVITIES
5. PHYSICALLY COMBINING SYSCOMS

Scenario 1

Advantages of converting activities with purchase authority of only <\$2,501 to purchase card authority only

Elimination of overhead functions such as Procurement Performance Measurement Assessment Programs (formerly known as Procurement Management Reviews) from all the activities that are converted.

Eliminates need for contracting personnel at these activities.

Provides greater flexibility directly to the customer.

Scenario 1

Disadvantages of converting activities with purchase authority of only <\$2,501 to purchase card authority only

Transfers some workload from contracting community to requiring activities.

Scenario 2

Advantages of physically combining field offices within HCA

(This combination is based on combining the non-core mission functions among NAVSUP, NAVFAC, and MSC. This does not include those core functions of these three Commands nor does it include the "field activities" of the HSCs)

Using the queuing theory and associated economies of scale from the CNA study, there could be an approximate savings of 20% of the smaller activities staffing based on the consolidation of the smaller activities into the larger activities. If a 20% workload reduction is also assumed, the savings on smaller activity savings could increase to as much as 50%.

Elimination of overhead functions such as Procurement Performance Measurement Assessment Programs (formerly known as Procurement Management Reviews) from all the activities that are consolidated.

Consolidation of overhead functions including:

Defense Acquisition Workforce Improvement Act (DAWIA) related activities, such as training, contracting officer warranting, tuition assistance program, etc.

Personnel management, such as recruitments and other personnel actions

Other administrative functions such as travel orders, information technology systems management (Standard Procurement System)

Consolidation of duplicate contracting functions such as:

Socio-economic issues management (Small and Disadvantaged Business Utilization Specialists)

Office practices (standard operating procedures)

Establishment of one set of policies and contracting implementation procedures

Cross-training of personnel should result in a higher quality of trained individuals.

Eventual reduction in facilities expenses, such as utilities (electricity, phones, information technology infrastructure)

One HCA face to the customers for similar contracting missions.

Permits workload leveling; each combined site becomes a "virtual" site.

Reduces competition for various jobs between the different activities because the resources would now belong to one activity. This should also equate to a more stable workforce.

Increases responsibility, accountability, and ownership of projects within each HCA. For example, it will be one office that is responsible for the projects, not many. When the call comes in from the customer, there is no other activity to "point to" - the responsibility lies within the one office.

Establishment of a standard set of metrics to compare and measure performance as well as staffing levels.

Scenario 2

Disadvantages of physically combining field offices within HCAs

Geographical locations could adversely impact consolidation within HCAs assuming supported organizations are not also consolidated. For example, in the Northwest Region, the locations of the activities do not easily lend themselves to physical consolidations. Whidbey Island is located approximately 3 hours from Bremerton/Silverdale; Everett is 2 hours from Silverdale.

Potential effects of downsizing could include hiring limitations, buyouts, priority placements, reductions in force, retirements, and/or transfers

One time costs and disruptions will be incurred from the physical relocations of offices. These costs will initially impact projected consolidation savings. New or expanded facilities may need to be identified and/or modified for the consolidated offices; old offices may need to be closed. (This does not equate to new construction of a facility; it means that physical changes may/will be necessary to move all the employees into one facility.)

Separation of contracting functions from customers may decrease responsiveness and could impact customer satisfaction. Many contracting offices are located near their customers based on their customers' missions and needs. Productivity could be reduced for those functions that rely on on-site support by the contracting workforce. Improved use of modern electronic capabilities and smarter business practices should help mitigate this problem.

The consolidation of staffs from both mission funded and Navy Working Capital Funded activities could cause accounting difficulties.

scenario 3

Advantages of physically combining non-core functions into a regional support center

(This assumes that NAVFAC, NAVSUP, and MSC have physically combined all their non-core mission activities into one activity each, i.e. there is now one NAVFAC activity, one NAVSUP activity, and one MSC activity in each Region. Following the CNA study, the smaller activities would physically merge into the larger activity. The Regional Support Center could be comprised of the personnel from the various activities that are merged and could obtain their HCA authority from the Regional Support Headquarters or from the Fleet (assuming they have been delegated HCA authority.)

In addition to the advantages previously identified in scenario 2, the following additional benefits would be possible based on further consolidation within a region.

One face to the customers for general base operating type supplies and services.

Permits workload leveling across a wide spectrum of professionals.
Reduces competition for jobs between different activities which enhances workforce stability.

Reduces competition between activities for customers' requirements.

Increases responsibility, accountability, and ownership of projects within HCAs.

Only set of performance/staffing metrics in region.

scenario 3

Disadvantages of physically combining non-core functions into a regional support center

In addition to those disadvantages previously identified in scenario 2 the following apply:

Potential disruptions and relearning due to changes in HCA designations.

Could be viewed as bureaucratic.

scenario 4

Advantages of physically combining SYSCOM field support activities

(This assumes that all hardware systems commands field offices in one geographical area are physically combined and that all non-core mission work that they are currently providing is transferred to the Regional Support Center or other location as appropriate.)

In addition to the advantages previously identified in scenario 2, the following additional benefits would be possible based on consolidation OF SYSCOM FIELD ACTIVITIES within a region.

One face to the customers for SYSCOM field activities.

Permits workload/workstaff leveling across a wide spectrum of professionals—a “virtual” contracting organization

scenario 4

Disadvantages of physically combining SYSCOM field support activities

Same as identified for scenario 2.

scenario 5

Advantages of physically combining SYSCOMs

(This assumes that some of the hardware systems commands in one geographical area are physically combined.)

Advantages are the same as previously identified in scenarios 2, 3, and 4.

scenario 5

Disadvantages of physically combining SYSCOMs

Geographical locations make total consolidation of all SYSCOMS difficult in the short run. Potential short run candidates include consolidating SSP with NAVSEA and duplicated missions of MSC with NAVSEA.

Separation of contracting functions from program managers may decrease customer satisfaction. Activities may be able to offset these disadvantages by use of electronic capabilities and improved business practices.

Cultural differences could be an obstacle in the short run.

ANNEX B

CONSOLIDATION COST SAVINGS ANALYSIS

1. The conclusions which may be drawn from this analysis are directly dependent on the quality/completeness of the data upon which it is based. Due to this dependency, existing data on contracting workload from the Navy Procurement Management Reporting System (PMRS) and staffing data from the Defense Civilian Personnel Data System (DCPDS) were not considered singularly sufficient as a basis for this study. To supplement/validate existing data, NCOAST released a data call to all Navy contracting activities (See Appendix A for details). The resulting database consists of numerous data fields. Chief among them are: Activities, procurement actions, award dollars, direct labor dollars, overhead dollars, supplies/services purchased, and personnel assigned to contracting organizations. During the entire period of the study, database updating was continuously required due to late reporting activities and corrections to the earlier reporting activities. At a point in time (18 Oct 97), it was necessary to temporarily freeze the database to enable NCOAST to analyze the database. On 18 Oct 97, the NCOAST database consisted of 1.3M procurement actions totaling \$39B in awards from 570 Navy world-wide contracting activities. A contracting workforce of approximately 10,000 employees was extrapolated from the database as well as from DCPDS.

2. The sheer magnitude of the database prevented an analysis of all Navy contracting organizations. Instead, we hypothesized that we could analyze a smaller number of Navy activities and project infrastructure changes Navy-wide based on the results. Of all data fields, direct labor dollars was most complete. Further, direct labor dollars closely correspond to the cost to the Navy of contracting. Therefore, direct labor dollars were chosen for developing an analysis methodology. Based on the relative completeness of direct labor dollar submissions, a methodology was developed to extrapolate estimated direct labor dollars for the entire contracting workforce based upon those activities reporting as of 18 Oct 97. The test of the hypothesis and methodology used to quantify and analyze the Navy contracting workforce database was to take reported direct labor dollars for both the Hampton Roads and Northwest regions and to develop ratios and factors to project the remaining activities' direct labor dollars. If the selected regional data can be determined to be representative of the Navy's contracting workforce, we could reasonably conclude that the regional data could be projected Navy-wide. We used the hypothesis of two representative regions' labor dollars to extrapolate the worldwide Navy contracting labor base, in part, due to time restraints. These two regions were selected based upon their geographic locations - one East coast, one West coast; their level of concentration of Navy activities, Hampton Roads concentrated, Northwest less concentrated. In addition, total direct labor dollars for these regions include one larger and one smaller region, and represented within these regions are all variations of activities in terms of services/supplies,

dollars, actions, personnel, and customers of the Navy in general. While the direct labor dollar data field was the most complete data field on 18 Oct 97, it was not 100% complete. The labor dollar base for Hampton Roads and Northwest consisted of 65 records out of a total activities base of 113. From this data, NCOAST developed a mathematical modeling approach to project direct labor dollars for the worldwide Navy contracting workforce. The mathematical model developed ratios and factors for each region and the combined ratios and factors for the two regions combined.

3. Once the direct labor dollar ratios and factors were developed, a 1992 workload “queuing/consolidation” study theory by Center for Naval Analyses (CNA) was applied. The CNA study derived a 20% reduction in personnel to the smaller organization when a smaller “like” organization was consolidated into a larger organization. The consolidation of organizations theory was applied in each of the below scenarios:

- a. Within each HCA (“non-core” mission activities of SUP, FAC, MSC) within the region (i.e., “Field Consolidation within Each HCA”).
- b. Within each region’s largest HCA (“non-core” mission activities of SUP, FAC and MSC, i.e., “Regional Support”).
- c. For SYSCOM-retained (“core”) activities, they were consolidated within each region by SYSCOM (i.e., “SYSCOM Field Support”).
- d. Ultimately all SYSCOMs’ headquarters were consolidated into a single contracting organization (i.e., “SYSCOMs”).

These scenarios are identical to those described as “Realignment Cost Savings Scenarios” earlier in this document. Additionally, the definitions of “core” is also consistent with the definition of “core mission” detailed earlier in this document.

Another theory from the CNA study was applied which projected up to a 50% reduction in labor to the smaller organization based upon a 20% reduction in workload. This entire methodology was applied to purchase card holders, field activities, SYSCOM field activities, and SYSCOMs. This methodology supported regionalization efforts, eliminated redundant functions and eliminated HCA stovepipes.

In order to facilitate analysis of the direct labor dollars collected from all Navy contracting activities during the data call, the following data runs were used:

- stratify labor dollars by activity
- stratify labor dollars by HCA
- stratify labor dollars by Hampton Roads region

stratify labor dollars by Northwest region

4. Data used and calculations

a. Below are the data used from the data base (FY 96 information) as of 18 Oct 97 or other supporting documentation

**HQ DATAB
 ASE
 INFO
 (18OCT
 97)**

HSCs
NAVSEA 15.3
NAVAIR 22.7
SPAWAR 5.8
ONR 3.8
SSP 1.2
SUB 48.8
TOTAL

**Other
HQs**
NAVSUP 2.1
HQ
NAVICP 22.4
NAVFAC 1.5
MSC 4
SUB 30
TOTAL

**TOTAL 78.8
HQ**

FIELD
NAVSEA 38
NAVAIR 16.4
SPAWAR 13.4
ONR 2.3
SSP 0
SUB 70.1
TOTAL
NAVFAC 25.4
MSC 2.8
SUB 28.2

TOTAL
TOTAL 98.3
CORE
FIELD
 TOTAL 177.1
 SYSCOM
REGION 153.4
AL
FIELD
 TOTAL \$330.5
 LABOR

a Total Direct Labor Dollars for all reporting activities = \$330.5M consisting of:

- a1 SYSCOM Headquarters = 78.8M (24%)
- a2 SYSCOM Field "core" mission activities = 98.3M (30%)
- a3 "Non-core" Regional MSC, FAC, SUP activities = 153.4M (46%)
- a4 Total Direct Labor Dollars for Hardware Systems Commands (AIR, SEA, SPAWAR, ONR, and SSP, including their field activities = \$118M

b Total Number of Navy Contracting activities = 570

c Total Navy Contracting Workforce personnel = 10,000

d Total # of Activities in Hampton Roads (HR) = 70

e Total # of Activities in Northwest (NW) = 43

f Total # of Activities in HR and NW combined (70 plus 43) = 113

g Total # of Activities in HR that reported direct labor dollars = 49

h Total # of Activities in NW that reported direct labor dollars = 16

i Total # of Activities in HR and NW combined that reported direct labor dollars

(49 plus 16) = 65

j. Total # of Activities in HR which only make micropurchases = 11

k. Total # of Activities in HR which reported direct labor dollars (of the 49) as "\$0" = 12

l. Total # of Activities in NW which only make micropurchases = 0

m. Total # of Activities in NW which reported direct labor dollars (of the 16)

as

"\$0" = 0

m' Navy-wide Adjusted Purchase Card activities = 128
(570 times 11 divided by 49)

n. Total Direct Labor dollars reported for HR (49 activities) = \$42.5M

o. Error in Total Direct Labor dollars reported for Atlantic Fleet ILO = \$6.7M

p. Adjusted Total Direct Labor Dollars reported for HR
(\$42.5M less \$6.7M) = \$35.8M

q. Largest Field Office within HR = PWC Norfolk at \$10.8M

r. Total Direct Labor Dollars reported for NW (16 activities) = \$15.8M

s. Largest Field Office within NW = FISC Puget Sound at \$4.3M

- t. Total Combined Direct Labor Dollar Base for HR plus NW = \$51.6M
- t' Total Direct Labor Dollars for the largest activities within each HCA within the two regions = \$28.6M
- u. Workforce Consolidation Reduction Factor (CNA study) = 20% with no workload reduction
- v. Workforce Consolidation Reduction Factor (CNA study) = 50% with 20% workload reduction

b. Calculations:

(1). Determining “Contracting System Today” direct labor dollars:

(i) Calculate total direct labor dollar base = 10,000 employees at an annual salary of \$50K each ~ \$500M

(ii) Calculate the total number of Navy-wide contracting workforce. As of Aug 97, the totals from the DCPDS were:

Civilians	8,437	(GS-1101, 1102, 1103, 1105 and 1106)
Military	1,274	(CEC, LDO/CWO, SC, URL and Other)
Subtotal	9,711	

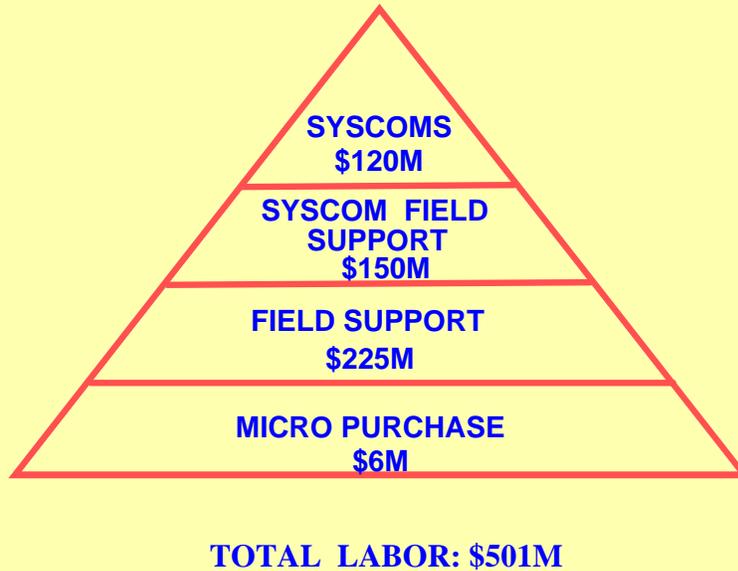
From this total, reductions for Marine Corps civilians (546) and non-Navy assigned military personnel (112) were required since the NCOAST Charter excluded these groups. The results in an adjusted total workforce of 9,053. To this adjusted workforce was added 10% (905) to account for administrative support personnel working in contracting offices that are not within the 1100 series or military officers and storekeepers. This results in a total estimated Navy-wide workforce of 9,958 (9,053 plus 905). We approximated the total workforce at 10,000.

(iii). Average annual salary for the 10,000 Navy-wide workforce was estimated at \$50K per employee and was based on judgment and considers that the typical contract employee is a GS-12 (or military equivalent) in the lower steps.

(iv) Based on the above, a visual representation of today’s contracting workforce distribution follows:



CONTRACTING SYSTEM TODAY



(iv) The “Contracting System Today” labor dollars were allocated as below.

	From 18 Oct 97		
	Data base	Percentage	Prorated to
SYSCOM HQs	\$ 78.8M	24%	\$120M
SYSCOM Field Support	98.3M	30	150M
Field Support *	153.4M	46	231M
Total	\$330.5M	100%	\$501M

* Field Support consists of \$225M exclusive of micropurchase activities plus \$6M for micropurchase only activities. See paragraph d. below for details for the micropurchase only calculation.

(2) Calculation of Savings of 20% Based on Consolidation:

$$\begin{aligned}
 \text{(i) total combined HR plus NW savings} &= [t - (q + s)] (u) \\
 &= [\$51.6M - (\$10.8M + \$4.3M)] (20\%) \\
 &= \$7.3M = w
 \end{aligned}$$

The methodology of this calculation is to remove the largest activity from each of the two regions (HR and NW) from the total combined direct labor dollar base for these regions. The remaining direct labor dollars become the savings base against which the CNA 20% factor can be applied.

$$\begin{aligned}
 \text{(ii). Extrapolate HR plus NW savings Navy-wide} &= [(b - m') / (i - k - j)] (w) \\
 &= [(570 - 128) / (65 - 12 - 11)] (\$7.3M) \\
 &= \$76.8M = x
 \end{aligned}$$

The methodology of this calculation is to extrapolate the above savings Navy-wide. Had our database been complete on 18 Oct 97, we would have factored the above regional saving by a factor of total number of Navy activities (570) divided by total number of activities reporting direct labor dollars in the combined regions of HR plus NW (65). However, adjustments were required to both numbers. The adjustment to the total number of Navy activities involves a reduction of those activities which only make micropurchases (128). Another adjustment involves a reduction to the number of activities in the combined regions that reported zero dollars (12) and a further reduction to the number of activities that only make micropurchases in these regions (11).

(iii). Allocation of Savings:

$$\begin{aligned}
 \text{(a). SYSCOM Headquarters savings} &= (a1)(x) \\
 &= (24\%)(\$76.8M) \\
 &\sim \$18M
 \end{aligned}$$

$$\begin{aligned}
 \text{(b) SYSCOM "Core" Mission Activities savings} &= (a2)(x) \\
 &= (30\%)(\$76.8M) \\
 &\sim \$23M
 \end{aligned}$$

$$\begin{aligned}
 \text{(c) "Non-Core" Regional MSC, FAC, SUP activities savings} &= (a3)(x) \\
 &= (46\%)(\$76.8M) \\
 &\sim \$36M = y
 \end{aligned}$$

(c1) The total "Non-Core" Regional MSC, FAC, SUP activities' savings consists of two parts. They are: "Regional Support" and "Field Consolidation within Each HCA." The \$36M savings is prorated based on an allocation of 63% for "Field Consolidation within Each HCA" and 37% for "Regional Support." This percentage allocation was based on the ratio:

Numerator: Calculated Navy-wide savings associated with consolidating to the three largest activities within each HCA within the two regions

Denominator: Calculated Navy-wide savings associated with consolidating to

the largest activity in each
of the two regions or "x".

$$\begin{aligned}\text{The numerator} &= (t - t')(u)(b - m') / (i - k - j) \\ &= (\$51.6\text{M} - \$28.6\text{M}) (20\%) (570 - 128)(65 - 12 - 11) \\ &= \$48.4\text{M}\end{aligned}$$

$$\begin{aligned}\text{The denominator} &= x \\ &= \$76.8\text{M}\end{aligned}$$

$$\begin{aligned}\text{Ratio} &= \$48.4 / \$76.8\text{M} \\ &= 63\% \text{ for "Field consolidation within Each HCA"}\end{aligned}$$

Remaining percentage of 37% is allocated to "Regional Support"

$$\begin{aligned}\text{(c2). Savings allocation to "Field Consolidation within Each HCA"} &= 63\% \text{ of } (y) \\ &= 63\% (\$36\text{M}) \\ &\sim \$23\text{M}\end{aligned}$$

$$\begin{aligned}\text{(c3) Savings allocation to "Regional Support"} &= 37\% \text{ of } (y) \\ &= 37\% (\$36\text{M}) \\ &\sim \$13\text{M}\end{aligned}$$

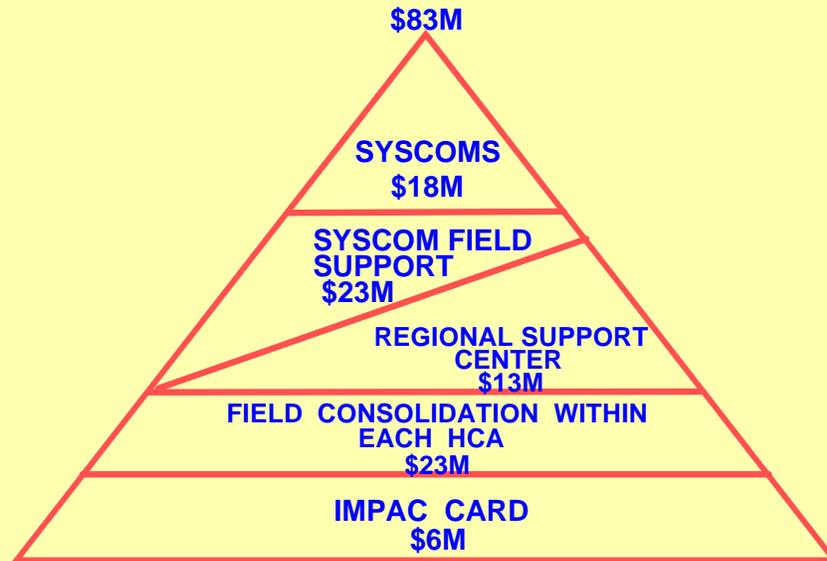
$$\begin{aligned}\text{Micro - Purchase (IMPAC Card) Savings} &= m' (1.5 \text{ employees per activity}) \text{ times} \\ &(\$30\text{K annual salary}) \\ &= (128) (1.5) (\$30\text{K}) \\ &\sim \$6\text{M}\end{aligned}$$

This calculation represents the estimated total direct labor dollars within the Navy-wide contracting organization devoted to making only micropurchases . This function could be transferred to requirements personnel within the Navy. These are smaller contracting activities that may have between one to two contracting employees dedicated to this function, and therefore, we estimated the quantity for each of the 128 activities at 1.5 staff-years each. The \$30K annual salary equates to the middle steps of a GS-7 employee.

A graphic representation of the above savings is as follows:



SAVINGS OF 20% BASED ON CONSOLIDATION



”

SYSCOMs	~ \$18M
SYSCOM Field Support	~ 23M
Regional Support	~ 13M
Field Consolidation	~ 23M
Micropurchase	~ 6M
Total Navy-wide Savings	\$83M(3).

The following is a graphic representation of the resulting future workforce based on consolidation savings of 20%:



FUTURE WORKFORCE BASED ON CONSOLIDATION SAVINGS OF 20%



15

Workforce	Current Direct Labor Dollars	Estimated Savings	Future
SYSCOMs	\$120M	\$18M	\$102M
SYSCOM Field Support	150M	23M	127M
Regional Support (37%)*	83M	13M	70M
Field Consolidation within Each HCA (63%)*	142M	23M	119M
Micropurchase	6M	6M	0
Resulting workforce	\$501M	\$83M	\$418M

The combined “Regional Support” plus “Field Consolidation within Each HCA” totals \$225M (identical with the “Field Support” amount on triangle above in paragraph 4.b.(1)(iv) entitled “Contracting System Today.” The amounts were allocated in the same manner as described in paragraph 4.b(2)(iii)(c1) into pro-rata shares of 37% and 63%.

(4). 50% Cumulative Savings Based on Consolidation Combined with 20% Workload Reduction

$$\begin{aligned}
 \text{(i) total combined HR plus NW savings} &= [t - (q + s)] \text{ (v)} \\
 &= [\$51.6\text{M} - (\$10.8\text{M} + \$4.3\text{M})] \text{ (50\%)}
 \end{aligned}$$

$$= \$18.3M =z$$

The methodology of this calculation is to remove the largest activity from each of the two regions (HR and NW) from the total combined direct labor dollar base for these regions. The remaining direct labor dollars become the savings base against which the CNA 50% factor can be applied.

$$\begin{aligned} \text{(ii). Extrapolate HR plus NW savings Navy-wide} &= [(b - m') / (i - k - j)] (z) \\ &= [(570 - 128) / (65 - 12 - 11)] (\$18.3M) \\ &\sim \$193M =aa \end{aligned}$$

The methodology of this calculation is to extrapolate the above savings Navy-wide [see paragraph 4.b.(2)(ii) for adjustments to the extrapolation].

(iii). Allocation of Savings:

$$\begin{aligned} \text{(a). SYSCOM Headquarters savings} &= (a1)(z) \\ &= (24\%)(\$193M) \\ &\sim \$46M \end{aligned}$$

$$\begin{aligned} \text{(b) SYSCOM "Core" Mission Activities savings} &= (a2)(z) \\ &= (30\%)(\$193M) \\ &\sim \$58M \end{aligned}$$

$$\begin{aligned} \text{(c) "Non-Core" Regional MSC, FAC, SUP activities savings} &= (a3)(z) \\ &= (46\%)(\$193M) \\ &\sim \$89M =bb \end{aligned}$$

(c1) The total "Non-Core" Regional MSC, FAC, SUP activities' savings consists of two parts. They are: "Regional Support" and "Field Consolidation within Each HCA." The \$89M savings is prorated based on an allocation of 63% for "Field Consolidation within Each HCA" and 37% for "Regional Support." This percentage allocation was based on the same ratio as enumerated in paragraph 4.b.(2)(iii)(c). The resulting calculations are below.

Numerator: Calculated Navy-wide savings associated with consolidating to the three largest activities within each HCA within the two regions

Denominator: Calculated Navy-wide savings associated with consolidating to the largest activity in each of the two regions or "x".

$$\begin{aligned} \text{The numerator} &= (t - t')(v)(b - m') / (i - k - j) \\ &= (\$51.6M - \$28.6M) (50\%) (570 - 128) / (65 - 12 - 11) \\ &= \$121M \end{aligned}$$

The denominator = aa
= \$193M

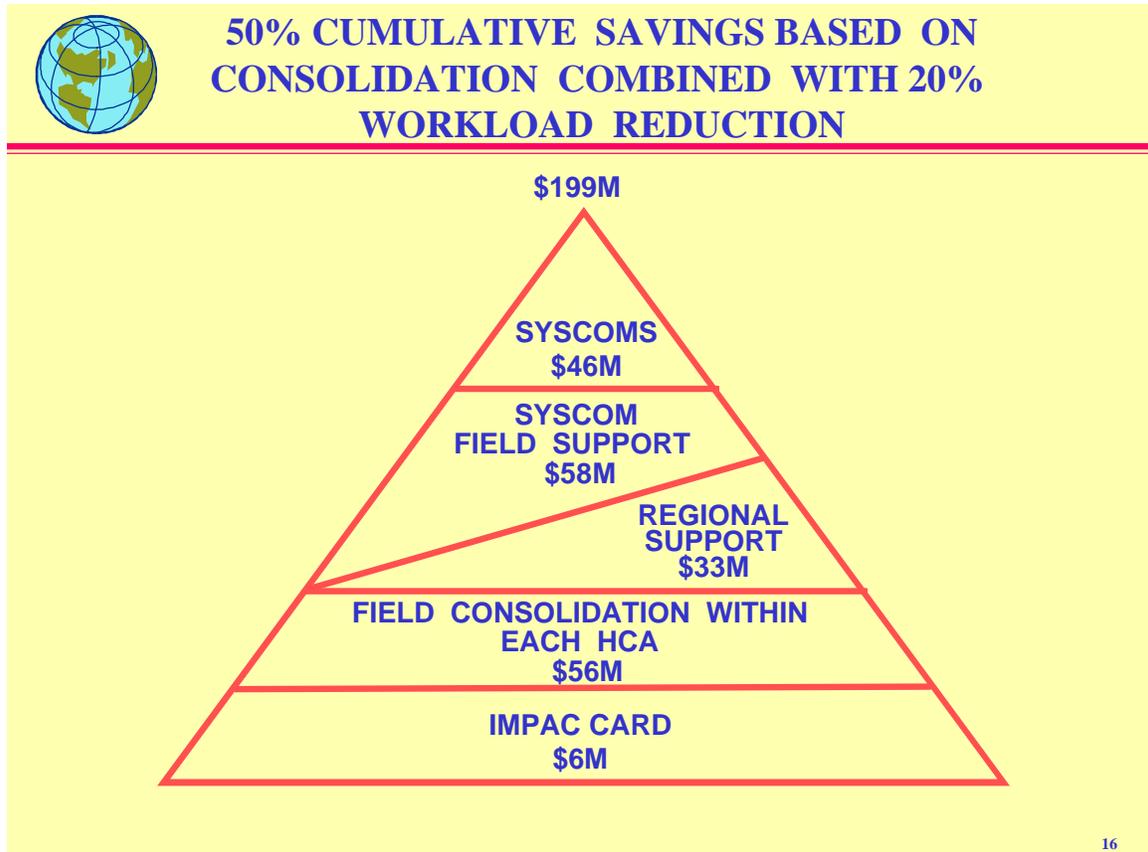
Ratio = \$121 / \$193M
= 63% for "Field consolidation within Each HCA"

Remaining percentage of 37% is allocated to "Regional Support"

(c2). Savings allocation to "Field Consolidation within Each HCA" = 63% of (bb)
= 63% (\$89M)
~ \$56M

(c3) Savings allocation to "Regional Support" = 37% of (bb)
= 37% (\$89M)
~ \$33M

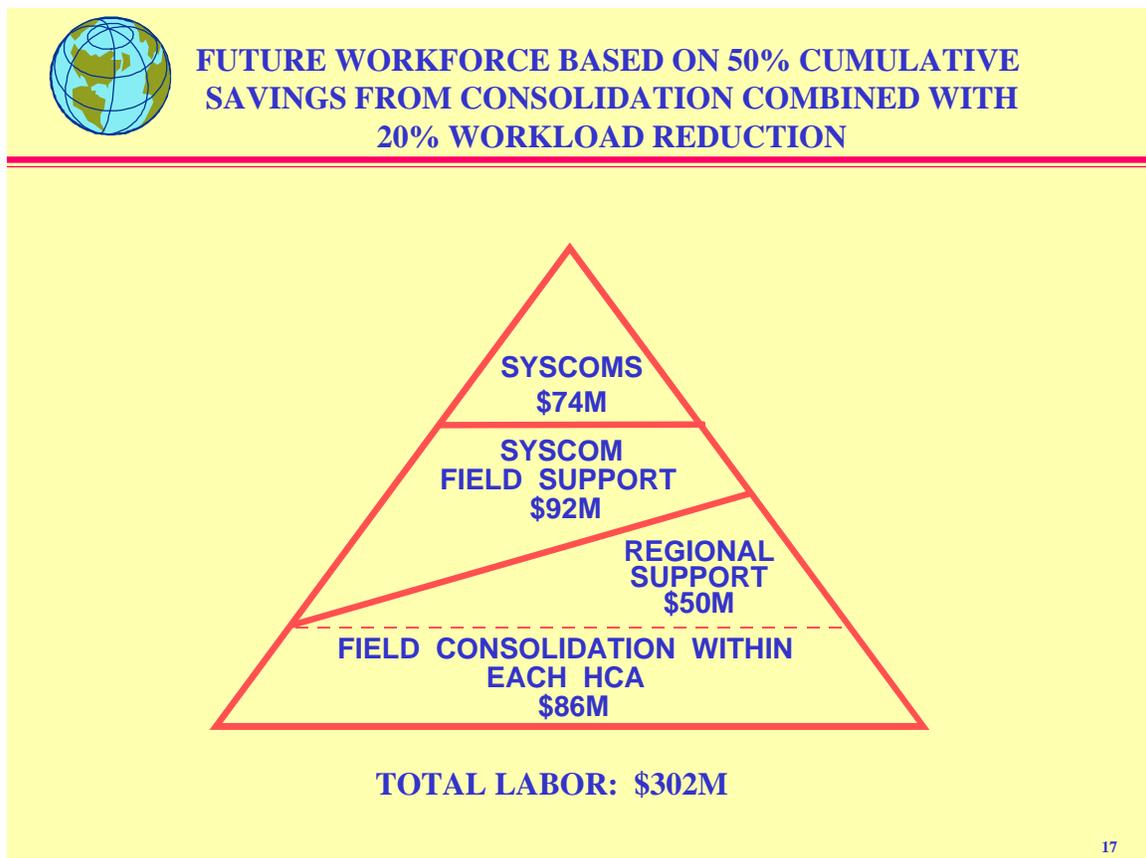
Micro - Purchase (IMPAC Card) Savings = m' (1.5 employees per activity) times (\$30K annual salary)
= (128) (1.5) (\$30K)
~ \$6M



TOTAL SAVINGS

SYSCOMs	~ 46M
SYSCOM Field Support	~ 58M
Regional Support	~ 33M
Field Consolidation	~ 56M
Micropurchase	~ 6M
Total Navy-wide Savings	\$199M

(3). Resulting future workforce based on 50% cumulative savings from consolidation combined with 20% workload reduction



	Current Direct Labor Dollars	Estimated Savings	Future workforce
SYSCOMs	\$120M	\$46M	\$74M
SYSCOM Field Support	150M	58M	92M
Regional Support (37%)*	83M	33M	50M
Field Consolidation within Each HCA (63%)*	142M	56M	86M
Micropurchase	6M	6M	0
Resulting workforce	\$501M	\$199M	\$302M

The combined “Regional Support” plus “Field Consolidation within Each HCA” totals \$225M (identical with the “Field Support” amount on triangle above in paragraph 4.b.(1)(iv) entitled “Contracting System Today.” The amounts were allocated in the same manner as described in paragraph 4.b(2)(iii)(c1) into pro-rata shares of 37% and 63%.

ANNEX C

DATA

This appendix addresses the data that is associated with the NCOAST's efforts to establish a baseline of Navy contracting organizations and to design the data collection tool and database that was utilized in the Study's analysis.

THE DATA CALL

The NCOAST Charter required that a baseline of the entire Navy contracting organization structure be established. Specifically, the following was requested:

Baseline the current organizational structure.

- Chart the current organizational structure
- Identify resources and workload belonging to each branch of the structure
- Identify overlapping functions, redundancies and inefficiencies
- Identify critical needs of our customer base.

When the NCOAST was chartered, there was no comprehensive data base of the Navy's contracting structure that could provide Navy decision-makers with information with which to make informed decisions. While the NCOAST wanted to gather as much information from existing sources as possible, the Team discussed establishing a data base to obtain missing data needed to meet the requirements of the Team's charter. Prior to release of the data call, the Team agreed to solicit only minimal information from those activities that were Purchase Card holders; specifically, their UIC, Activity name and address, number of cardholders, and series/grades/rates of cardholders.

Once the Team decided what data needed to be collected, the Team devised a spreadsheet which contained the needed data fields. The "Baseline" workbook consisted of three worksheets, HCA/Field Activity General Information, Actions and Dollars, and Staffing. The table below gives a general overview, by HCA, which activities were directly sent the data call.

HCA	ACTIVITIES DIRECTLY RECEIVING DATA CALL	NUMBER OF ORGANI- ZATIONS RECEIVING DATA CALL
NAVAIR	NAVAIRSYSCOM, Naval Air Warfare Centers	4
NAVSEA	NAVSEASYSCOM; SUPSHIPs, Warfare Center Divisions, and Shipyards	32
SPAWAR	SPAWARSYSCOM; NRaD; NISE EAST	3
NAVFAC	Each Engineering Field Division and Activity, Public Works Centers, NAVFAC Contracts Office	117

NAVSUP	Each Fleet and Industrial Supply Center, Navy Regional Contracting Centers, and Procurement Management Review Teams.	461
MSC	MSC Headquarters and four major field activities	13
ONR	ONR Headquarters	7
SSP	SSP Headquarters	1

The spreadsheet was transmitted via e-mail to the various activities beginning 24 July 97 with an initial due date of 11 August 1997.

To ensure NCOAST's data call reached as wide an audience as possible, the Team drafted a NAVADMIN message that was signed out by N4, VADM Hancock, with an extension in the due date until 22 August 1997.

RATIONALE FOR SELECTION OF DATA FIELDS FOR BASELINE

The tables below correspond to the three worksheets of the data call; general Information, actions and dollars, and staffing. The left column lists the data fields as they appear on the worksheets while the right column explains the NCOAST's reasons for including a specific data field and how the Team would use the data.

HCA/FIELD ACTIVITY GENERAL INFORMATION

DATA FIELDS	PURPOSE
HCA/Field Activity	Name of activities and sort capability by HCA
City, State, and Country	Location by city, state, country, and region.
Mission of Contracting Office	General overview of mission as well as ability to compare "mission" against "supplies and services and customers"
Point of Contact/Phone/POC E-mail	Provides person to contact for both baseline requirements and for future reference and accountability
Types of Services and/or Supplies Procured	Provides general information on what is procured. Compare with mission to determine correlation.
Geographic Region (Area of Responsibility)	Provides degree to which some offices are already "regionalized"
Top Ten Customers/POC Info	Provides POC for customer surveys . Provides for analysis of customers versus mission of contracting activity.
HCA restrictions	Indicates various authority levels at offices; indicates potential skill mix.
Type of \$\$ Obligated	Indicates mix of contracts and customers.

DATA FIELDS	PURPOSE
Percentage of Types of Contracts Awarded	Indicates skill mix and knowledge base.
Percentage of Contracts for which Contracting Office retained contract administration	Indicates skill mix and knowledge base
Funding Types of Payroll	Indicates mission funded or reimbursable
FY95 thru FY97 data	Used three years of data to establish baseline and trends
Budgeted and Actual Costs for Labor and Indirect Costs	Indicator of effectiveness of management of costs
Significant organizational cost drivers	Explains activities' experience in what actions affect their costs
Initiatives - Streamlining and Partnering	Provides information of on-going activities for cost reductions

HCA/FIELD ACTIVITY ACTIONS AND DOLLARS

One objective of the study was to determine workload baseline and capacity since contracting community workload is often calculated from numbers of contracting actions and dollars obligated. Several different sources were used to acquire this information including the DD 350 data base.

DATA FIELDS	REASON FOR INCLUSION
Procurement Management Reporting System/DD 350 Data	Provides numbers of actions and dollars for FYs 95, 96, and 97 as reported in the Navy's PMRS database.
Activity Data	Provides numbers of actions and dollars for FYs 95, 96, and 97 as reported in Activity Databases.
Difference	Provides amount of dollar and numerical differences between PMRS database and Activity data.

PERSONNEL STAFFING

Another objective of the study was to determine contracting activity actual civilian, military, and contractor staffing. This would allow the NCOAST to analyze staffing versus workload, labor dollars and cost of operations.

DATA FIELDS	REASON FOR INCLUSION
Grade	Indicates level of capabilities at each office as well as complexity of work

Series	Indicates mix of capabilities at each office
Supervisory Positions	Indicates number of personnel in supervisory positions in the various job series.

Lessons Learned and Recommendations for Data Collection/ Maintenance

CONTRACTOR SUPPORT

Contractor support was provided to the NCOAST after the initial decisions were made on what type of data and how to collect it were made. This caused some difficulties in manipulating that data later in the study effort. Contractor involvement from the beginning of the process would have been more efficient. The benefit of involving the contractor up front was particularly evident with our Customer Survey in which NCOAST wrote the questions and the contractor designed the collection tool.

A LIVING CONTRACTS DATABASE

The data that NCOAST collected and the baseline and data base designed from that data are useful tools to help manage the Navy's contracting community. These tools should be preserved. The NCOAST recommends that ASN(RDA)(ABM) maintain the data base unless or until it can be replaced by more standard data bases such as the DoD Standard Procurement System.

RECOMMENDATION

Establish a Project Manager in ASN(RD&A)ABM for the database. The database should be posted on the ABM Homepage. Each HCA should designate their own Project Managers with responsibilities to collect the Activity data on a quarterly basis and submit that data for update.

Descriptions of Supplies and Services used in the data collection process

The following definitions apply to the Services and Supplies column from the data call baseline. These definitions were derived from the FAR and DFARS and were used to normalize a myriad of descriptions that activities submitted.

AAS - Advisory Assistance Services includes those services provided under contract by non-governmental sources to support or improve: organizational policy development; decision-making; management and administration; program and/or project management and administration; or R&D activities. AAS includes management and professional support services, studies, analyses and evaluations, engineering and technical services.

A&E - Architect Engineering Services/Real Estate.

BOS - Base Operating Services includes those services necessary to keep a base functioning and to serve those tenants of the base e.g., housekeeping, laundry, facility maintenance, utilities, and vehicle leasing.

Construction - Construction, alteration, or repair (including dredging, excavating and painting) of bridges, structures, or other real property. The term “buildings, structures, or other real property” include but are not limited to improvements of all types, such as bridges, dams, plants, highways, parkways, streets, subways. Includes procurement of equipment (including cranes); environmental restoration, energy programs, and demolition.

ITE - Information Technology Equipment, Software, Licenses and Support Agreements

ITS - Information Technology Services.

Medical Services - Includes both personal and non-personal medical services.

Medical Supplies - Includes medical equipment.

Misc. Services - Includes services that are not contained in the above categories.

Misc Supplies - Includes anything that is not contained in the above categories.

O&M - Operation and Maintenance Services includes maintenance, overhaul, repair, servicing, rehabilitation, salvage, and modernization.

Petroleum Products - Fuel and lubricating oils.

R&D - Research, Development, Test and Evaluation

Spares - Non-standard stock items, such as, repair and replacement parts, initial provisioning, etc.

Spares (ICP) - Standard national stock number items.

Transportation Services - Local drayage from rail, motor (including bus), domestic water (including inland, coastwise, and intercoastal) carriers, stevedoring, storage, packing, marking, ocean freight forwarding, ship husbandry.

Weapon Systems - Manufacture, production, furnishing, construction, alteration, repair, processing or assembling of vessels, aircraft or other kinds of personal property.

RECOMMENDED DATA FIELDS TO BE INCLUDED ON ABM HOMEPAGE

The following data fields correspond to those from the original Excel spreadsheets. Those marked with a  are recommended for inclusion in the ABM database; those with an **X** are recommended as non-critical and should not be maintained; those with an  should be included on the ABM Homepage.

General Information - Headquarters and Field Activities

Field/HCA Activity  
City  
State  
Country  
Major Claimant  
Mission of Contracting Office  
Point of Contact  
Phone  
POC E-mail  
Services and/or Supplies Procured  
Geographic Region (Area of Responsibility)  
Top Ten Customers  
Customer Name  
Customer % of Contracting Office's FY96 award dollars 
List restrictions on contracting authority 
Type of \$\$ Obligated 
Percentage of Types of Contracts Awarded 
Fixed Price 
Cost Reimb 
Incentive 
Indef Del 
T&M/Labor 
Agreements 
Other 
% of Contracts for which Contracting Office Retained Contract Admin 
Funding Types of Payroll 
FY95 budgeted costs for Contracts Dept 
Labor Costs 
Non-labor Costs 
FY95 actual costs for Contracts Dept 
Labor Costs 
Non-labor Costs 
FY96 budgeted costs for Contracts Dept 

Labor Costs 
Non-labor Costs 
FY96 actual costs for Contracts Dept 
Labor Costs 
Non-labor Costs 
FY97 budgeted costs for Contracts Dept 
Labor Costs 
Non-labor Costs 
FY97 actual costs for Contracts Dept 
Labor Costs 
Non-labor Costs 
FY98 budgeted costs for Contracts Dept 
Labor Costs 
Non-labor Costs 
Significant organizational cost drivers 
Initiatives (Yes or No) **X**
Streamlining **X**
Partnering **X**

Actions and Dollars for FY95, 96, and 97

DD350 PMRS Data **X**
Activity Data 
Actions and Dollars stratified as follows: 

\$0-\$2,500
\$2,501 - \$25,000
\$25,001 - \$100,000
\$100,001 - \$500,000
\$500,001 - 5,000,000
\$5,000,001 - \$10,000,000
\$10,000,001 and above

Staffing

Function/Series 
Lists of applicable job series with designations of supervisory positions 
Grades/Ranks of Employees 

ANNEX D

NCOAST CUSTOMER SURVEY SUMMARY

PART A. CUSTOMER SATISFACTION

1. Level of satisfaction from supporting contracting activity:

% of Respondents
40% - Extremely satisfied
34% - Highly Satisfied
18% - Satisfied
6% - Less Satisfied
2% - Dissatisfied

PART B. CUSTOMER SUPPORT

1. Importance of contracting office proximity to requirements/technical personnel:

% of Respondents
42% - Extremely important
30% - Very important
13% - Important
10% - Not very important
5% - Unimportant

2. Importance of contracting officer's knowledge of requiring activity mission:

% of Respondents
60% - Extremely important
29% - Very important
8% - Important
2% - Not very important
1% - Unimportant

3. Importance of contracting officer's ability to provide advice and potential solutions to requirements/technical personnel:

% of Respondents

52% - Extremely important
32% - Very important
13% - Important
2% - Not very important
1% - Unimportant

4. Importance of the requiring activities' ability to purchase supplies from regional contracts:

% of Respondents

35% - Extremely important
30% - Very important
22 % - Important
11% - Not very important
2% - Unimportant

PART C. CUSTOMER NEEDS

1. Significant needs in reinventing a contracting office:

Decentralized contracting support
Mission funded versus fee-for-service
Technology enhancements

PART D. GENERAL COMMENTS

Provide direct customer support
Promote integrated team approach
Increase use of purchase card

ANNEX E

SPECIAL ISSUES AFFECTING THE REALIGNMENT OF CONTRACTING FUNCTIONS

1. Reimbursable versus mission-funded contracting activities.

There are significant differences in the funding structures of the Navy's organizations - reimbursable and mission-funded. These structures result in fundamental differences in the management of these organizations. Mission-funded, or Operations and Maintenance (O&M) funded, activities are centrally funded and do not charge their customers for their services. These O&M funds are derived from "taxes" that are applied against the majority of the Navy's program accounts; the funds are then provided to various support activities for operational execution. In essence, these O&M activities are provided with annual appropriations and they manage their accounts accordingly.

Reimbursable, or Navy Working Capital Fund (NWCF), contracting activities derive their operating funds from their customers. The amounts charged are usually based on a percentage of the contract's value or a set fee. As with all NWCF activities, the goal is to have expenses equal revenues, thus breaking even at the end of each fiscal year. The rates charged are based on revenue and expense projections; therefore, any significant reduction in revenues will adversely affect the balance sheet of the activity. Because the NWCF accounting rules require a continual recovery of previous years' losses, the NWCF activities have no choice but to continue to charge rates that recover these losses.

These accounting differences play a key role in contracting organizations and often place them in competition with each other and centrally funded activities for potential customers' work requirements. The issue is probably most prevalent in the NAVFAC and NAVSUP communities of the Fleet and Industrial Supply Centers (FISCs) and the Public Works Centers (PWCs); however, the issue also applies to other HCAs, particularly in the procurement of advisory and assistance services. These situations do not create a level playing field nor are they advantageous for the Navy.

The team recognizes the reasons for the different accounting structures. The impact of these structures must be considered in any regionalization efforts. While combining O&M and NWCF activities will pose significant challenges, such mergers are possible but need to be approached with a full understanding of the differences.

2. Legal matters

a. Goldwater-Nichols Act impact on Navy Contract Realignment.

Legal advice was sought from Navy Office of General Counsel concerning how the Goldwater-Nichols Act might impact decisions to transfer field resources and/or HCA authority from NAVSUP, NAVFAC, and MSC to CINCLANTFLT and to CINCPACFLT. The legal guidance received is summarized below:

The Goldwater-Nichols Act (GNA) specifically reserves the authority and responsibility for Navy acquisition functions to the Office of the Secretary of the Navy (the Secretariat). SECNAV designated the Assistant Secretary of the Navy (RD&A) as the Navy Acquisition Executive, with exclusive authority and responsibility over the Navy acquisition function. Navy acquisition authority and responsibility cannot be assigned to an office outside of the Secretariat.

This exclusive assignment of authority and responsibility for acquisition does not preclude elements of the office of the CNO, or the offices of CINCPAC or CINCLANT, from being assigned to assist with the acquisition function, provided their participation is under the clear authority, direction, and control of ASN(RD&A), SECNAV's Acquisition Executive. Thus, for example, an official on a CINC staff could be designated as a Head of a Contracting Activity (HCA) for that CINC, provided that as HCA the official acts subject to the authority, direction and control of ASN(RD&A).

Such assignments would comply with GNA statutory language. In addition, execution of the assignments must ensure that the Navy complies with a significant Congressional purpose underlying GNA: that the acquisition function be managed and executed in a professional, consistent manner by a civilian executive authority. Clear reporting lines to ASN(RD&A) from acquisition professionals assigned to manage and execute field contracting functions for the CINCs would be essential to maintain this level of consistency, professionalism, and civilian authority over the acquisition function

b. Statutory designation of NAVFAC responsibility for military construction and family housing

The Team asked for legal guidance concerning statutory considerations related to responsibility and authority for NAVFAC functions. We were advised that 10 USC 2851, Supervision of military construction projects, designates the Commander, Naval Facilities Engineering Command, as the individual responsible for military construction and family housing projects within the Department of the Navy and for such other projects as the Secretary of Defense may direct. The statute provides the following:

(a) Each contract entered into by the United States in connection with a military construction project or a military family housing project shall be carried out under the direction and supervision of the Secretary of the Army (acting through the Chief of Engineers), the Secretary of the Navy (acting through the Commander of the Naval Facilities Engineering Command), or such other department or Government agency as the Secretary of Defense approves to assure the most efficient, expeditious, and cost-effective completion of the project.

(b) A military construction project for an activity or agency of the Department of Defense financed from appropriations for military functions of the Department of Defense shall be accomplished by or through a military department designated by the Secretary of Defense.

This statute states that military construction and family housing projects shall be carried out by one of three activities: the Army Corps of Engineers, the Naval Facilities Engineering Command, or such other department or agency as the Secretary of Defense approves. It also states that Department of the Navy projects “shall be carried out under the direction and supervision of the Secretary of the Navy (acting through the Commander of the Naval Facilities Engineering Command).”

“Military construction” includes any construction, development, conversion, or extension carried out with respect to a military installation. 10 U.S.C. 2801(a). A “military construction project” includes all military construction work, or any contribution authorized by 10 U.S.C. Chapter 169, necessary to produce a complete and usable facility or a complete and usable improvement to an existing facility. 10 U.S.C. 2801(b). The authority to carry out a military construction project includes authority for the following, as provided in 10 U.S.C. 2802(b):

- surveys and site preparation;
- acquisition, conversion, rehabilitation, and installation of facilities;
- acquisition and installation of equipment and appurtenances integral to the project;
- acquisition and installation of supporting facilities (including utilities) and appurtenances incident to the project; and
- planning, supervision, administration, and overhead incident to the project.

Section 2851 of 10 U.S.C. is a codification of section 2(a) of the Military Construction Codification Act, PL 97-214, 96 Stat. 163, enacted into law on July 12, 1982. The legislative history of the Act identifies the first sentence of section 704 of the Fiscal Year 1982 Military Construction Authorization Act, P.L. 97-99, as the primary source of 10 U.S.C. 2851. See H.Rpt. 97-612 at 24, 1982 U.S. Code Cong. and Adm. News at 464. Section 704 of the 1982 Military Construction Act provides in pertinent part the following:

Construction Supervision

Sec. 704. Contracts for construction made by the United States for performance within the United States and its possessions under this Act shall be executed under the jurisdiction and supervision of the Corps of Engineers, Department of the Army, the Naval Facilities Engineering Command, Department of the Navy, or such other department or Government agency as the Secretaries of the military departments recommend and the Secretary of Defense approves . . . [Emphasis supplied.]

This predecessor to 10 U.S.C. 2851 emphasizes that contracts for construction made by the United States shall be executed “under the jurisdiction and supervision” of one of three activities only, including the Naval Facilities Engineering Command.

The legislative history of 10 U.S.C. 2851 notes that Congress intended there to be two primary construction agents for military construction and family housing projects. It also notes that it would be rare for the Secretary of Defense to designate a different construction agent for military construction and family housing projects. H. Rpt. 97-612 at 24, 1982 U.S. Code Cong. and Adm. News at 464, provides the following in this regard:

Section 2851. Supervision of military construction projects.-The sources of this section are the first sentence of section 704 of the Fiscal Year 1982 Military Construction Authorization Act, Public Law 97-99 and section 2682 of title 10. The provisions of the source section would be incorporated in the new chapter without change.

Subsection (a) designates the Army and the Navy as construction agents and where appropriate such other department or agency as the Secretary of Defense approves. The committee expects that designations of construction agents other than the Army and Navy would be rare.

Within the general statutory designation of the Army and the Navy as the two primary military construction and family housing agents, there is a specific statutory designation of individual agents, the Army Chief of Engineers and the Navy Commander, Naval Facilities Engineering Command. Accordingly, the Secretary of the Navy is required by law to act through the Commander, Naval Facilities Engineering Command for Department of the Navy military construction and family housing projects. A new public law would be required to change this requirement.

ANNEX F

HCA RESPONSIBILITIES

Cite	Responsibility	Limitation on Delegation
NAPS 5201.201-1(d)(i)	Receive proposed revisions to the FAR, DFARS, or NAPS and forward to ABM.	Assigned to Deputy/Assistant Commander for Contracts*
NAPS 5201.301(a)(2)	Issue internal activity guidance.	
NAPS 5201.304(4)(C)(b)(1)	Receive proposed new component clauses or changes to existing component clauses requiring USD(A&T) approval; forward to ABM.	
NAPS 5201.304(4)(C)(c)	Approve changes to standard component clauses that do not constitute deviations from FAR/DFARS/NAPS.	
NAPS 5201.402(2)(i)(A)	Grant deviations from maximum fee limitations for cost-plus-incentive-fee or cost-plus-award-fee contracts.	Not below Deputy/Assistant Commander for Contracts*
NAPS 5201.402(2)(i)(B)	Grant deviations from FAR/DFARS contract clauses in the case of a purchase or contract by an offshore contracting activity with a foreign contractor made outside the United States.	
FAR 1.602-3(b)(2) NAPS 5201.602-3	Ratify unauthorized commitments.	Not lower than CCO*
FAR 1.603-1 NAPS 5201.603-1	Select and appoint contracting officers, and terminate their appointments.	
NAPS 5201.690(b)	Establish written procedures for the review and approval of business clearances.	
NAPS 5201.691-2(b)	Responsible for oversight and review of subordinate contracting organizations.	

NAPS 5201.691-2(f)	Nominate senior contracting personnel to serve on ABM PPMAP teams. Provide annual summary of relevant PPMAP findings to ABM.	
FAR 3.104-6(b)	Receive written notice of disqualification from agency official who must disqualify himself/herself from further participation in a procurement.	
FAR 3.104.6(c)(2)	Authorize reinstatement of disqualified agency official to participate in a procurement, either immediately or following additional period of disqualification determined necessary; take other actions regarding reinstatement or disqualification.	
FAR 3.104-10	Review information/documentation and take various actions regarding violations of Section 27 of the Office of Federal Procurement Policy (OFPP) Act.	At least one level above the PCO and be of General Officer, Flag, SES or equivalent rank
FAR 3.602 NAPS 5203.602	Authorize exception to policy which precludes awarding contract to Government employee or organizations owned by them.	Non-delegable
FAR 3.704(c)	Consider taking certain actions in response to offenses under subsection 27(e) of the OFPP Act.	
FAR 3.905(b) & (c)	Receive notification from the Inspector General that a contractor employee whistleblower complaint merits further investigation, and receive the Inspector General's report of findings.	
FAR 4.506(a)	Exempt classes of procurements from interim FACNET implementation after written determination that FACNET processing of those procurements is not cost-effective or practicable.	
NAPS 5205.404-I(a)	Release long-range acquisition estimates.	
FAR 5.502(a) DFARS 205.502(a)(i)	Approve publication of paid advertisements in newspapers for other than civilian personnel purposes.	

FAR 206.202(b)(1) NAPS 5206.202(b)(1)(i)	Approve D&F for exclusion of source(s), for a proposed contract not exceeding \$50 million, in order to establish or maintain alternative sources.	Not below General/Flag officer or if civilian, in grade 16 or above
DFARS 206.302-1(a)(2)(i)(1)	Make determination to contract for studies, analyses or consulting services without providing for full and open competition on the basis of an unsolicited proposal.	Not lower than CCO*
DFARS 206.302-4(c)(i)	Prepare a document in lieu of the requirement for a Justification and Approval (J&A) for International Agreement acquisitions.	
DFARS 206.303-1 NAPS 5206.303-1(b)	Specify the review and approval levels that technical and requirements personnel must obtain before submitting a recommendation for other than full and open competition.	
NAPS 5206.303(90)	Establish J&A review procedures for field purchasing activities without assigned counsel.	
FAR 6.304(a)(3)	Approve J&As for contracts over \$10 million but not exceeding \$50 million.	Not below General/Flag officer or if civilian, in grade 16 or above
NAPS 5207.103(h)	Approve acquisition plans.	
DFARS 207.470	Determine that award or extension of a contract for a vessel, aircraft, or vehicle through a lease, charter, or similar agreement with a term of 18 months or more is in the best interests of the Government.	
FAR 9.202(a)(1) NAPS 5209.202(a)(1)	Prepare justification for establishing qualification requirement before award.	
FAR 9.202(b)	Waive certain requirements associated with the establishment of a qualification requirement.	

NAPS 5209.406-3	Sign reports initiated by contracting officers for contractor debarment and suspension investigation referral to be forwarded to the Office of General Counsel, Procurement Integrity Office (PIO).	
FAR 9.503 NAPS 5209.503	Waive organizational and consultant conflict of interest rules and procedures.	Non-delegable
FAR 9.504(c)	Receive recommendation from a contracting officer before the solicitation is issued for a contract that may involve a significant potential organizational conflict of interest.	
FAR 9.506(d)(3)	Provide direction regarding contracting officer recommendation to resolve an organizational conflict of interest.	
DFARS 211.273-3(c)	Determine that a single process initiative (SPI) process is not acceptable for a specific procurement.	Non-delegable
FAR 12.302(c) DFARS 212.302(c)	Approve waiver to include a term or condition in a solicitation or contract for commercial items inconsistent with customary commercial practice.	
FAR 14.201-7(b)(2) & (c)(2)	Waive requirement to include certain clauses when contracting by sealed bidding with a foreign government or agency of that government.	
FAR 14.407-3(a),(b), & (d) NAPS 5214.407-3(e)(1)	Make determinations regarding mistakes in bids alleged after opening of bids and before award.	Non-delegable
FAR 15.607(c)(3) DFARS 215.607(c)(3)	Make determination permitting correction of a mistake in a proposal.	Not lower than CCO*
DFARS 215.611(c)(i)(A)	Approve request for additional (second or subsequent) best and final offers (BAFOs) for competitive negotiated acquisitions under formal source selection.	Non-delegable

DFARS 215.611(c)(i)(B)	Approve request for additional (second or subsequent) BAFOs for competitive negotiated acquisitions other than formal source selections.	Not lower than CCO*
DFARS 215.611(c)(ii)	Establish a system for reporting and documenting additional requests for BAFOs.	
DFARS 215.611(c)(iii) NAPS 5215.611(c)(iii)(C)	Take actions to ensure additional requests for BAFOs are used only when necessary and unavoidable, including providing annual additional BAFO summary reports to the NSPE.	
DFARS 215.613-70(h)(2)(iv)	Determine that final selection of a single source should not be made in an acquisition following four-step source selection procedures until the prospective contracts for two or more offerors have been tentatively negotiated.	
FAR 15.804-1(b)(4)	Waive requirement for submission of certified cost or pricing data if price can be determined to be fair and reasonable without such data.	Non-delegable
FAR 15.804-2(a)(2)	Authorize contracting officer to obtain cost or pricing data for pricing actions below pertinent threshold in 15.804-2(a)(1) and justify the requirement for cost or pricing data.	Non-delegable
DFARS 215.809(e)(i)	Waive use of forward pricing rate agreement (FPRA) rates on a case-by-case basis for pricing contractual actions.	
DFARS 215.810-3(b)(ii)	Request an overhead should-cost review for a business unit which does not meet the criteria in 215.810-3(b)(i).	
DFARS 215.903(b)(3)(ii)	Approve use of alternate structured approach for developing profit/fee objective.	

FAR 16.206-3(d)	Approve use of fixed-ceiling-price contract with retroactive price redetermination.	
NAPS 5216.505(b)(4)	Review complaints from contractors on task order and delivery order contracts for settlement or before contractors take complaints to the Navy Competition Advocate General.	Assigned to Command Competition Advocate
FAR 16.603-2(c)	Approve contracting officer's unilateral price or fee determination on a letter contract.	
FAR 16.603-3	Determine that no other contract, other than a letter contract, is suitable.	
DFARS 217.103-1(b)(iii)	Make determination to use multiyear contract for services.	
FAR 17.106-3(f)	Authorize the use of a solicitation requesting only multi-year prices, instead of obtaining both annual and multi-year offers.	
FAR 17.106-3(g)	Approve the use of variable unit prices in lieu of level unit prices when using multi-year contract procedures.	
DFARS 217.7404-1	Approve entering into an Undefined Contractual Action (UCA); including requirements for non-urgent spare parts and support equipment in a UCA; modifying the scope of a UCA when performance has already begun.	
DFARS 217.7503(d)(2)	Authorize use of reverse engineering.	
DFARS 217.7504(b)	Accept contracting officer's certification to award a sole source contract for a replenishment part when the price of the part has increased by 25% or more over the most recent 12-month period.	
FAR 19.201(b)	Responsible for effectively implementing the small business programs within the activity, including achieving program goals.	

DFARS 219.201(c)(7)	Assign small business technical advisors.
FAR 19.502-3(a)(5)	Authorize a partial small business set-aside notwithstanding that there is a reasonable expectation that only two concerns (one large and one small) with capability will respond with offers.
FAR 19.505(b) & (c)	Review/render decision on Small Business Administration (SBA) Procurement Center Representative (PCR) appeal of contracting office's rejection of SBA PCR's recommendation.
FAR 19.505(d) NAPS 5219.505(d)	Forward justification to agency head, via the Director SADBU, for contracting activity's decision to reject SBA PCR's recommendation.
FAR 22.101-1(e)	Designate programs/requirements which require contractors to notify the Government of actual or potential labor disputes that are delaying or threatening to delay timely contract performance.
DFARS 222.101-3(1)	Receive contract administration office's notice that potential or actual labor disputes will likely interfere with contract performance.
DFARS 222.101-3-70(b) & (c)	Submit labor dispute impact reports.
DFARS 222.406-13	Receive semiannual construction labor standards enforcement reports and forward to agency headquarters labor advisor.
FAR 22.805(a)(7)	Approve contract award without preaward Equal Employment Opportunity (EEO) clearance.
FAR 23.104(c) DFARS 223.104(c) NAPS 5223.104(c)	Receive requests for exemptions to requirement that contracts shall not be entered into with firms proposing to use facilities listed by EPA which violate the Clean Air Act and the Clean Water Act; forward requests to ABM.
DFARS 223.370-4(a)(1)(i)(B)	Approve omission of "Safety Precautions for Ammunition and Explosives" clause from solicitations or contracts or waive mandatory requirements of the DoD safety manual.
FAR 23.506(e) NAPS 5223.506(e)	Receive requests for waiver of determination to suspend contractor payments, terminate a contract for default, or debar or suspend a contractor, and forward to ABM.

FAR 23.906(b)	Approve determination that it is not practicable to include "Certification of Toxic Chemical Release Reporting" in a solicitation.	Non-delegable
FAR 23.906(e)	Consider EPA's recommendation and determine if termination or other action is appropriate if a contractor is not filing necessary forms or is filing incomplete information regarding toxic chemical release reporting.	
DFARS 225.102(a)(3)(C)(2)	Determine whether to grant a public interest exception to the Buy American Act for acquisitions valued at \$100K or more but less than \$1M.	
FAR 25.102(b)(2) DFARS 225.102(b)(ii)(A),(B),(C), & (D) NAPS 5225.102(b)(ii)(D)	Make a nonavailability determination of domestic end products for an acquisition: (A) not exceeding \$25K; (B) not exceeding \$250K; (C) not exceeding \$2M; (D) exceeding \$2M.	(A) Level above the contracting officer (B) CCO (C) No lower than immediate deputy to HCA (D) Non-delegable
FAR 25.202(a)(2) DFARS 225.202(a)(3)	Make a nonavailability determination of domestic construction materials.	Levels are specified in DFARS 225.102(b)(ii).
DFARS 225.402(c)(iii)(A)	Approve a national interest waiver for a purchase of nondesignated country end products subject to the Trade Agreements Act by an overseas purchasing activity.	
DFARS 225.872-4(c)(1)(iii)	Sign determination and findings (D&F) for exemption of Buy American Act/Balance of Payments Program for acquisitions of \$2 million or less.	
DFARS 225.7002-2 NAPS 5225.7002-2	Determine that foreign purchases of food, clothing, fabrics, specialty needs, and hand or measuring tools are not subject to certain restrictions.	
DFARS 225.7005(b)(1)	Waive restrictions on certain foreign purchases.	
DFARS 225.7011-2(b) & 3(b)	Certify that a contract for RDT&E on the Ballistic Missile Defense Program cannot be competently performed by a U.S. firm at a price equal to or less than the price of a foreign government or firm.	

- DFARS 225.7019-3(a)** Waive restriction from acquiring ball and roller bearings or bearing components not manufactured in the U.S. or Canada.
- FAR 27.404(h)** Concur with contracting officer's determination that contractor data contains unauthorized markings.
- FAR 28.105** Approve using types of bonds other than performance and payment bonds in connection with acquiring particular services or supplies.
- FAR 28.106-2(a)** Approve the substitution of a new surety bond for an original bond
- NAPS 5228.301-91(b)** Receive contracting activity's assessment of claim arising out of performance of a contract in which the government assumes the risk of liability to third parties & such liability is not covered by insurance; forward to ABM for liability determination.
- DFARS 228.311-1** Waive the requirement to use the "Insurance--Liability to Third Persons" clause in solicitations and contracts when a cost-reimbursement contract is contemplated.
- DFARS 228.370(a)(2)** Decide not to allow contractor to buy insurance for war-hazard losses.
- FAR 32.202-1(d)** Approve unusual contract financing.
- FAR 32.501-2(a)(3)** Approve contractor's request for unusual progress payments.
- DFARS 232.703-1(1)(iii)** Approve the use of incremental funding for either base services or hazardous/toxic waste remediation fixed-price contracts.
- NAPS 5232.908(a) & (b)** Approve deletion of invoicing requirements in "Submission of Invoices" clauses for subline item number (SLIN) and Accounting Classification Reference Number (ACRN) data. No lower than one level above the contracting officer

- FAR 33.102(b)(3)(ii)** Review contracting officer's determination to seek reimbursement for the Government's protest costs where a postaward protest is sustained because of an awardee's intentional or negligent misstatement, misrepresentation, or miscertification.
- FAR 33.104(b) & (c)(2)** Authorize contract award notwithstanding a GAO pre-award protest, or authorize contract performance notwithstanding a GAO post-award protest. Non-delegable
- FAR 33.104(g)**
NAPS 5233.104(g) Report to GAO of failure to implement GAO's recommendation on a protest with respect to a solicitation for a contract, or an award, or a proposed award. Consult with ABM before any final decision is reached not to implement GAO's recommendations.
- NAPS 5233.203** Determine that application of the Disputes Act to a contract with an international organization or subsidiary body of that organization would not be in the public interest.
- DFARS 233.215** Authorize use of Alternate I to "Disputes" clause by determining that continued performance is necessary pending resolution of any claim that might arise under or be related to the contract.
- NAPS 5233.9001(a)** Specify how proposed claim settlements up to \$25M and final decisions of the contracting officer involving payments up to \$25M shall be reviewed and approved.
- NAPS 5235.015-70(b)(4)** Approve increases greater than 15% in the amount subject to special use allowances for research facilities acquired by educational institutions.
- DFARS 235.015-70(c) & (d)** Approve special use allowances for research facilities acquired by educational institutions; consent to putting a research facility to any significant use other than that which justified the special use allowance.
- FAR 36.201(a)(4)** Establish procedures which ensure that fully qualified personnel prepare and review performance reports for construction contracts.
- FAR 36.208** Approve concurrent performance of firm-fixed-price and other types of construction contracts at the same work site.

FAR 36.213-2(a)	Waive requirement for contracting officer to send presolicitation notices to prospective bidders on any construction requirement for a proposed contract \$100K or greater.
NAPS 5236.271	Receive requests for use of cost-plus-fixed-fee construction contracts which require ASD(P&L) approval and forward to ABM.
DFARS 236.272(b)	Authorize the use of prequalification procedures for critical construction projects.
DFARS 236.273	Approve procedures for preparing and using network analysis systems (construction contracts).
FAR 36.301(b)(3)(vi)	Establish additional criteria for using two-phase design-build selection procedures for awarding construction contracts.
DFARS 236.570(b)(2)	Approve use of a separate bid item for mobilization and preparatory work (construction contracts)
FAR 36.602-3	Provide general direction to the evaluation board for functions related to selection for award of architect-engineer services contracts.
FAR 36.604(a)(5)	Establish procedures which ensure that fully qualified personnel prepare and review performance reports for architect-engineer services contracts.
FAR 36.609-1(c)(1)	Determine that cost limitations are secondary to performance considerations & additional project funding can be expected, in connection with not using "Design within Funding Limitations" clause in fixed-price architect-engineer services contracts.
NAPS 5237.204(d)(i)	Determine that personnel with the required training and capabilities needed to evaluate or analyze proposals for an initial contract award for advisory and assistance services are not readily available within the agency or other Federal agencies.
DFARS 237.7401(c)	Determine that the services being acquired under contract with the local government are in the best interests of the Department of Defense.

FAR 41.202(c)(2)	Approve determination that a written contract cannot be obtained and that the issuance of a purchase order is not feasible prior to acquiring utility services without executing a tendered contract.	
FAR 41.204(c)(ii)	Determine that use of a GSA areawide utility services contract is not advantageous to the Government.	
NAPS 5242.191(b)	Establish procedures for accomplishing resolution of contract audit reports other than pre-award advisory audits. Ensure that the semiannual contract audit follow-up status report is submitted to ABM in the required timeframe.	
FAR 42.202(c)(2)	Approve delegation to the contract administration office (CAO) to issue orders under provisioning procedures in existing contracts and under basic ordering agreements for items and services identified in the schedule.	
DFARS 242.7101(b)	Approve the solicitation of voluntary refunds from a contractor.	
FAR 45.309(a)	Determine that the installation or construction of Government production or research property on land not owned by the Government is necessary.	
DFARS 245.407(a)(ii)	Approve non-Government use of industrial plant equipment (IPE) exceeding 25%.	Non-delegable unless approved by the Office of the Deputy Under Secretary of Defense (Industrial Affairs and Installations)
DFARS 245.603-70	Approve CAOs authorizing selected contractors to perform certain plant clearance functions if volume of plant clearance warrants performance by the contractor.	
DFARS 247.572-1(d)(3)	Receive report from a contracting officer regarding excessive or otherwise unreasonable freight charges by U.S.-flag carriers for ocean transportation incidental to a contract for supplies, services, or construction; forward to Commander, MSC.	

- DFARS 247.572-2(f)** Receive report from contracting officer regarding excessive or otherwise unreasonable freight charge by U.S.-flag carrier for ocean transportation services, when ocean transportation is the principal purpose of the contract; forward to Commander, MSC.
- FAR 48.104-2(a)** Determine that the cost of calculating and tracking collateral savings resulting from a value engineering proposal will exceed the benefits to be derived.
- NAPS 5250.104** Submit annual reports covering extraordinary contractual actions to ABM.
- NAPS 5250.105(1)(iii)** Prepare and submit all records required by DFARS Part 250 regarding extraordinary contractual actions; forward records to ABM.
- FAR 50.201** Approve P.L. 85-804
DFARS 250.201(b) extraordinary contractual
DFARS 250.201-70 actions \$50,000 or less.
NAPS 5250.201-70(a) Non-delegable

ATTACHMENTS:

- 1. Charter**
- 2. BOA Brief 27Oct 97**



THE ASSISTANT SECRETARY OF THE NAVY
Research Development and Acquisition
1000 Navy Pentagon
Washington D.C. 20350-1000

JUN 6 1997

MEMORANDUM FOR DISTRIBUTION

Subj: DEPARTMENT
OF THE NAVY CONTRACTING ORGANIZATIONAL ALIGNMENT STUDY

Encl: (1) Team Charter

Enclosure (1) is the charter for the Department of the Navy contracting organizational alignment study team. This team will conduct an evaluation of existing contracting organizational structures, relationships and processes to identify alternatives that will enable us to better support our contracting customers, streamline our processes, reduce infrastructure, and eliminate inefficiencies. With decreasing budgets, the implementation of acquisition reform, and the emergence of technology that will improve information processing and sharing capabilities, there has never been a more appropriate time for this review than the present. We intend to implement changes that will result in a more effective and efficient contracting system.

The Assistant Secretary of the Navy (Research, Development & Acquisition), Deputy for Acquisition and Business Management, will lead a board of advisors to oversee the study team. This board comprises senior representatives of the service providers, customers and partners in the contracting process.

This study is a major step in the ongoing effort to improve the way we do business. Important changes will result from this undertaking, therefore, it is imperative that the stakeholders in the process shape the outcome of this study.

John W. Douglass
Assistant Secretary of the Navy
(Research Development &
Acquisition)

Donald L. Pilling
Vice Admiral, USN
DCNO (Resources, Warfare
Requirements & Assessments)

William J. Hancock
Vice Admiral, USN
DCNO (Logistics)

ATTACHMENT 1

Distribution:
CINCPACFLT

CINCLANTFLT
CNO (6)
COMNAVAIRSYSCOM
COMNAVFACECOM
COMNAVSEASYSYSCOM
COMNAVSUPSYSCOM
COMSPAWARSYSCOM
COMSC
CMC (DC/S I&L)0
COMMARCORSYSCOM
COMNISMIC
CNR
DIRSSP
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DC/S I&L HQMC (MC-LB)
COMMARCORSYSCOM (02)
COMNISMIC (02)
CNR (02)
DIRSSP (SPN)
PDASN(RDA)
DASN(MR)
DASN(SHIPS)
DASN(C41)
DASN(MUW)
DASN(EFP)
ABM
ARO
DACM
PEO(A)
PEO(CLA)
PEO(CU)
PEO(JSF)
PEO(T)
PEO(USW)

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PEOCUAD)
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PEO(SCS)
PEO(SC-AP)
DRPM(AAA)
DRPM(ACQ)
DRPM(SSP)
DLA
DCMC
DFAS

Charter

Department of the Navy Contracting Organizational Alignment Study Team

Background:

A key element of the Naval Research, Development and Acquisition Team's 1996-1997 Strategic Plan is the Organizational Management goal of creating an adaptable, responsive and affordable organization. In an era of declining budgets there have been a number of initiatives launched both within the Defense Department and the Navy Department to improve the efficiency and performance of various functions. Among the major trends resulting from these initiatives have been efforts to regionalize and flatten the chain of command. Decreasing budgets, the implementation of acquisition reform within the Government, the emergent deployment of the DoD Standard Procurement System, and the overall rationalization of the DoN's fleet and shore infrastructure make it incumbent upon the contracting community to take the lead in identifying ways to provide the most effective and efficient contracting support to our customers worldwide. The present contracting organizational structure contains redundancies and overlapping functions. In recognition of these factors we must consider new ideas to better support our customers, streamline our processes, reduce infrastructure, and eliminate inefficiencies. The DoN contracting system must be organizationally aligned to meet these challenges.

Strategic Goal:

Identify a DoN contracting organizational structure capable of furnishing the best value to our customers, considering the services provided, and cost. The aim is not simply to achieve the lowest cost contracting infrastructure.

Terms of Reference:

Baseline the current organizational structure.

- *chart the current organizational structure
- *identify resources and workload belonging to each branch of the structure
- *identify organizational cost-drivers

- *identify overlapping functions, redundancies and inefficiencies
- *identify critical needs of our customer base

Examine effects of changes in the pipeline.

- *consider planned BRAC moves not yet completed
- *consider technology enhancements such as the Standard Procurement System which will change the way contracting services are provided in the future
- *consider the effects of acquisition reform on our business processes
- *consider the influence of EDI on our business processes
- *consider the effects of IMPAC purchase card on business processes
- * consider the impact of privatization initiatives

Develop and evaluate alternative contracting structures or modifications to the present structure.

- *improve customer service
- *maximize economy and efficiency
- *eliminate redundancies and overlapping functions
- * leverage technology enhancements
- * leverage consolidation physical, functional, or both)
- *maintain full accountability
- *capitalize on BRAC moves

Desired Outcome:

An objective evaluation of alternative DoN contracting organizational approaches that will allow key decision makers to select an option for implementation to achieve the strategic goal. The time period under consideration for evaluation is the next 10 years. Evaluation criteria include:

- *top-level costs, including capital, operating and payroll costs (a detailed cost

benefit analysis of the alternatives is beyond the scope of this study, the results of this study may provide the foundation for such a study)

- * overall responsiveness to customers/customer satisfaction
- *other significant advantages and disadvantages of each approach

Team Membership:

Study team membership will be determined by the Board of Advisors. The study team report will be completed by 30 September 1997



N C O A S T
NAVY CONTRACTING
ORGANIZATIONAL
ALIGNMENT STUDY TEAM

Final Briefing 27 October 1997
Phase I

1

ATTACHMENT 2



NCOAST BOARD of ADVISORS

BOARD MEMBER

ORGANIZATION

RADM Hickman

Naval Supply Systems Command

RADM Ruble

Commander-In-Chief, Atlantic Fleet

RADM Vincent

Commander-In-Chief, Pacific Fleet

RADM Smith

Chief of Naval Operations, N44

Mr. Branch

**Assistant Secretary of the Navy
(Research Development & Acquisition)
Acquisition & Business Management**

Mr. Blickstein

Chief of Naval Operations, N8

Mr. Boyer

Naval Facilities Engineering Command

Mr. Brown

Naval Sea Systems Command

Dr. Uhler

Space and Naval Warfare System Command

CAPT Defibaugh

**Bureau of Medicine and Surgery Naval
Medical Logistics Command**



NCOAST TEAM MEMBERS

TEAM MEMBERS

Mona L. Baños, ASN RD&A(ABM)
Joel Brandzel, SPAWAR
Mike Canales, NAVAIR
Jack Clarkin, NUWC
Tauna Delmonico, BUMED
Joe DiGiacomo, MSC*
Shari Durand, NAVFAC
CDR David Fitzgerald, CINCLANTFLT
Jonathan Hall, NAVSEA
Nancy Heimbaugh, NAVSUP
Patricia Holleran, NAVFAC
Frank O'Day, ONR*
Deidre Rumsey, MSC
Carole Wieszek, MSC
Al Winston, ASN RD&A(ABM) Team Leader*

ADJUNCT MEMBERS

John Bell, CINCPACFLT
CAPT Mac McKenzie,
CINCLANTFLT

***Joined team since 4 Sep 97**



TASK

- **BASELINE CURRENT ORGANIZATIONAL STRUCTURE**
- **DEVELOP AND EVALUATE ALTERNATIVES**
 - **TOP LEVEL COSTS**
 - **OVERALL RESPONSIVENESS TO CUSTOMERS**
 - **ADVANTAGES AND DISADVANTAGES**



ACCOMPLISHMENTS

- **DEVELOPED NAVY-WIDE DATABASE QUANTIFYING THE NAVY CONTRACTING FUNCTION**
- **DEVELOPED ALTERNATIVE CONTRACTING ORGANIZATIONAL STRUCTURES**
- **DEVELOPED METHODOLOGY FOR QUANTIFYING POTENTIAL COST SAVINGS**



GUIDING PRINCIPLES

- **OPERATE WITHIN STATUTES**
- **MAINTAIN/ IMPROVE CUSTOMER SERVICE**
- **LEVERAGE TECHNOLOGY**
- **REDUCE CONTRACTING INFRASTRUCTURE**
- **BALANCE INFRASTRUCTURE WITH WARFIGHTING CAPABILITY**
- **ALIGN CONTRACTING PERSONNEL WITH CORE MISSION**
- **CONTRACTING STRUCTURE SHOULD COMPLEMENT NAVY
REGIONALIZATION**
- **MAXIMIZE PURCHASE CARD USAGE**

5



STRATEGY

- IDENTIFY POSSIBLE STRUCTURAL CHANGES
- IDENTIFY COST SAVINGS METHODOLOGY
 - CNA STUDY
- COLLECT DATA
- CONSIDER CUSTOMER SURVEY
- USE TEAM'S KNOWLEDGE AND EXPERIENCE TO VALIDATE LOGIC AND RATIONALE
- USE DATA TO QUANTIFY PROPOSED CHANGES
- EXTRAPOLATE COST DATA TO ESTIMATE SAVINGS



INTERIM BOARD OF ADVISORS BRIEFING (4 SEP 97)

- **MANY OPTIONS PRESENTED**
 - **DEPICTED VARIOUS COMBINATIONS OF REGIONALIZED CONTRACTING AND HCA REALIGNMENT**
- **FURTHER REVIEW DISCLOSED RECURRING THEMES**
- **NCOAST APPROACH EVOLVED TO FOCUS ON THE THEMATIC ISSUES OF THE VARIOUS ALTERNATIVES**



COMMON THEMES

REGIONALIZATION:

- FIELD ALIGNMENT TO BETTER SUPPORT CUSTOMERS

CONSOLIDATION:

- WITHIN ACTIVITIES
- WITHIN REGIONS
- WITHIN SYSCOMS

HCA AUTHORITY:

- VIA FLEET
- VIA SYSCOMS



FY 96 DATA

Activities: 570

Actions : 1.3M

Personnel: Approx. 10,000

Dollars : \$39B

Obligated

Total Labor Costs: Approx. \$500M



CUSTOMER SURVEYS

- **APPROXIMATELY 300 SURVEY RESPONSES RECEIVED**
- **MAJORITY INDICATE HIGH TO EXTREME SATISFACTION WITH CURRENT CONTRACT SUPPORT**
- **MAJORITY CONSIDER THE FOLLOWING IMPORTANT:**
 - **CONTRACTING OFFICE PHYSICAL PROXIMITY TO TECHNICAL PERSONNEL**
 - **REQUIRING ACTIVITIES' ABILITY TO PURCHASE SUPPLIES FROM CENTRALIZED CONTRACTS**
 - **“DEDICATED” CONTRACTING SUPPORT**
 - **USE OF PURCHASE CARDS**



REGIONAL ANALYSIS

- **SELECTED HAMPTON ROADS AND NORTHWEST REGION**

**REPRESENTATIVE OF NAVY CONCENTRATION AREAS
EAST AND WEST COAST**



ANALYSIS METHODOLOGY

1) IDENTIFIED CANDIDATES FOR CONSOLIDATION

- WITHIN HCAs
- ONE COMMON HCA

2) USED LABOR DOLLAR DATABASE

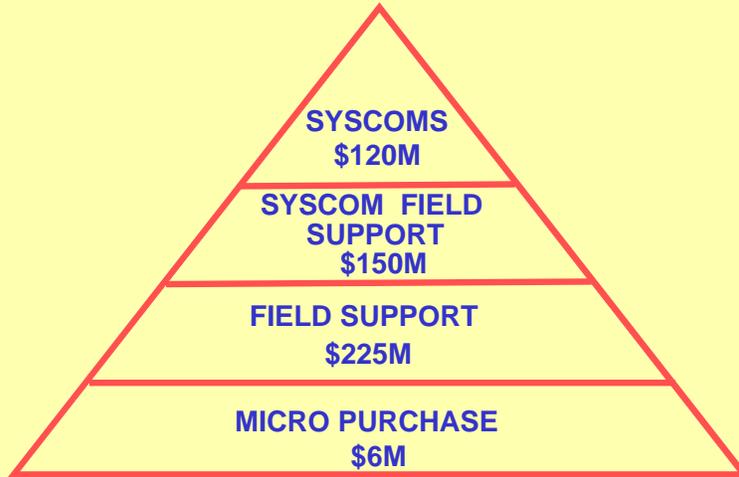
3) CONSOLIDATED SMALLER ORGANIZATIONS INTO LARGEST

**4) ASSUMED 20% SAVINGS OF SMALLER ORGANIZATION
BASED ON ECONOMIES OF SCALE PER CNA STUDY**

**5) ALSO CHARTED 50% SAVINGS BASED ON DECLINING
WORKLOAD, AUTOMATION, SUPERVISORY RATIOS,
IMPROVED CONTRACTING RULES, VIRTUAL
CONTRACTING, ETC.**



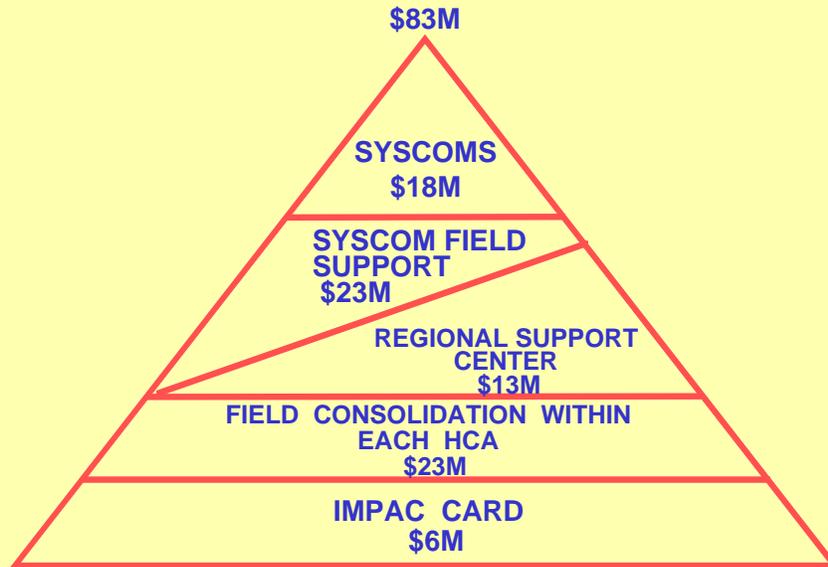
CONTRACTING SYSTEM TODAY



TOTAL LABOR: \$501M



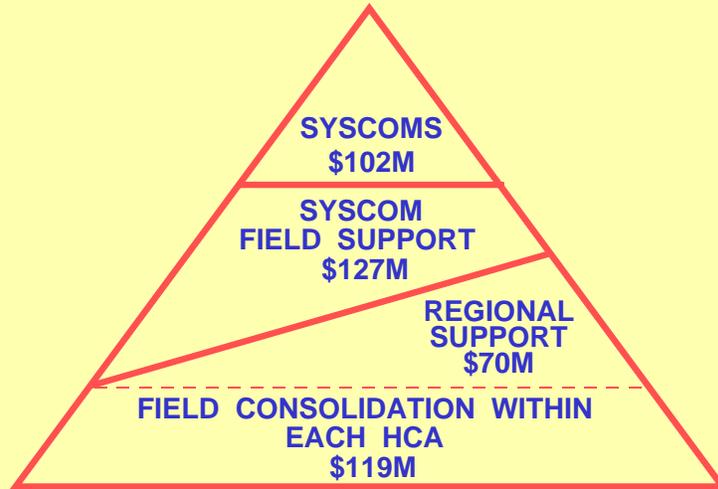
SAVINGS OF 20% BASED ON CONSOLIDATION



14



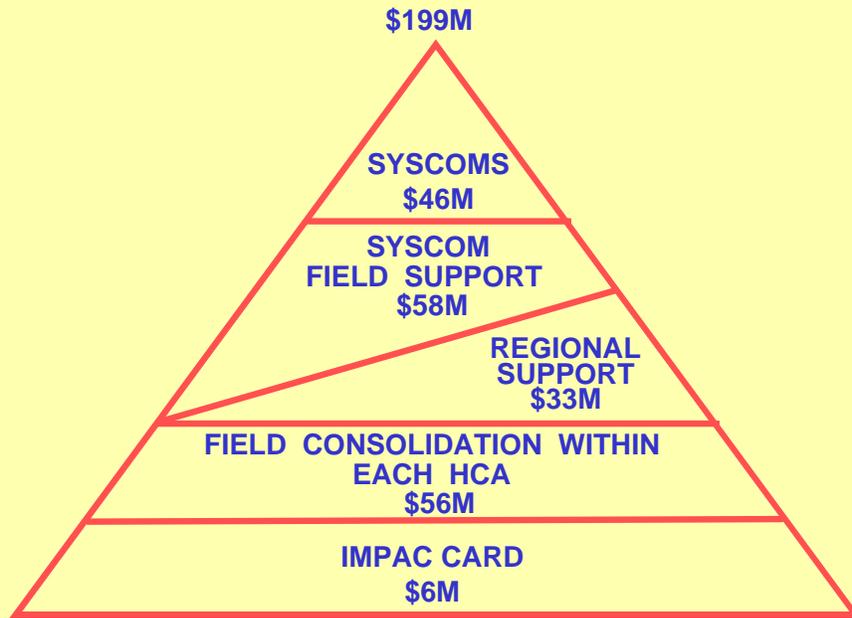
FUTURE WORKFORCE BASED ON CONSOLIDATION SAVINGS OF 20%



TOTAL LABOR: \$418M

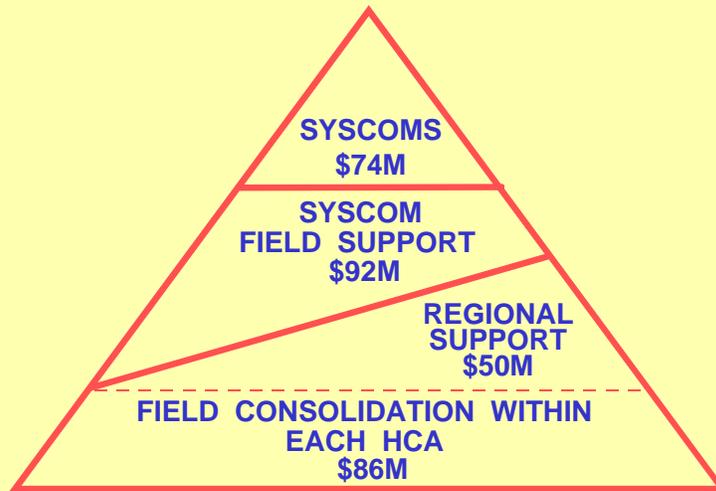


50% CUMULATIVE SAVINGS BASED ON CONSOLIDATION COMBINED WITH 20% WORKLOAD REDUCTION



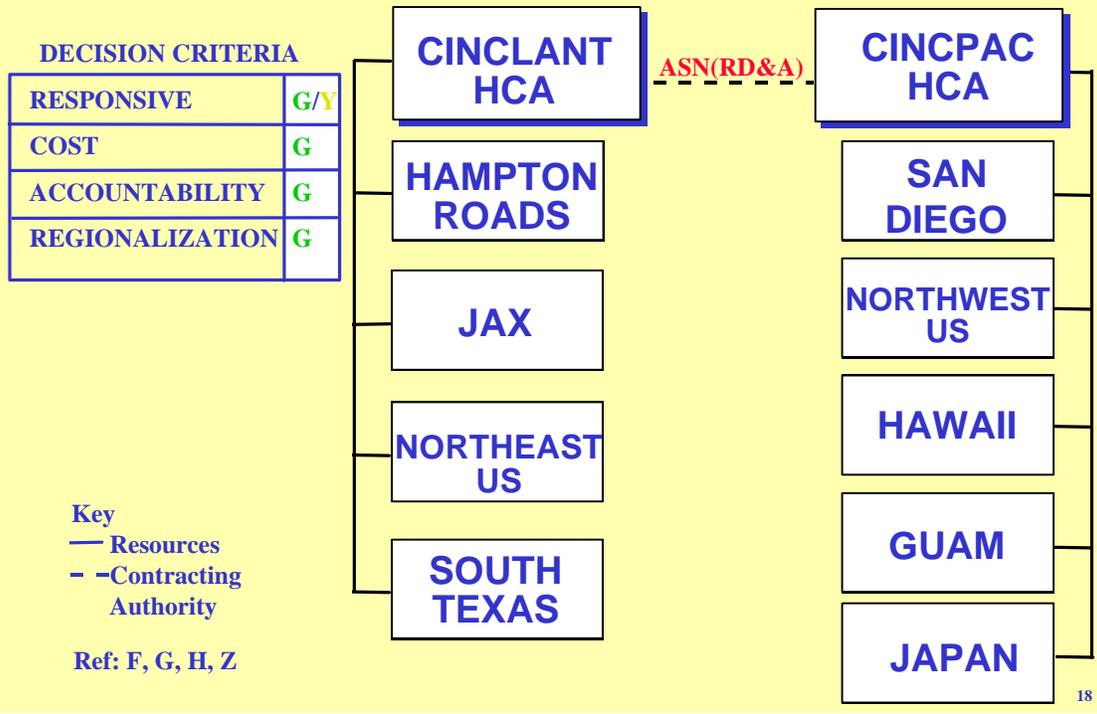


FUTURE WORKFORCE BASED ON 50% CUMULATIVE SAVINGS FROM CONSOLIDATION COMBINED WITH 20% WORKLOAD REDUCTION

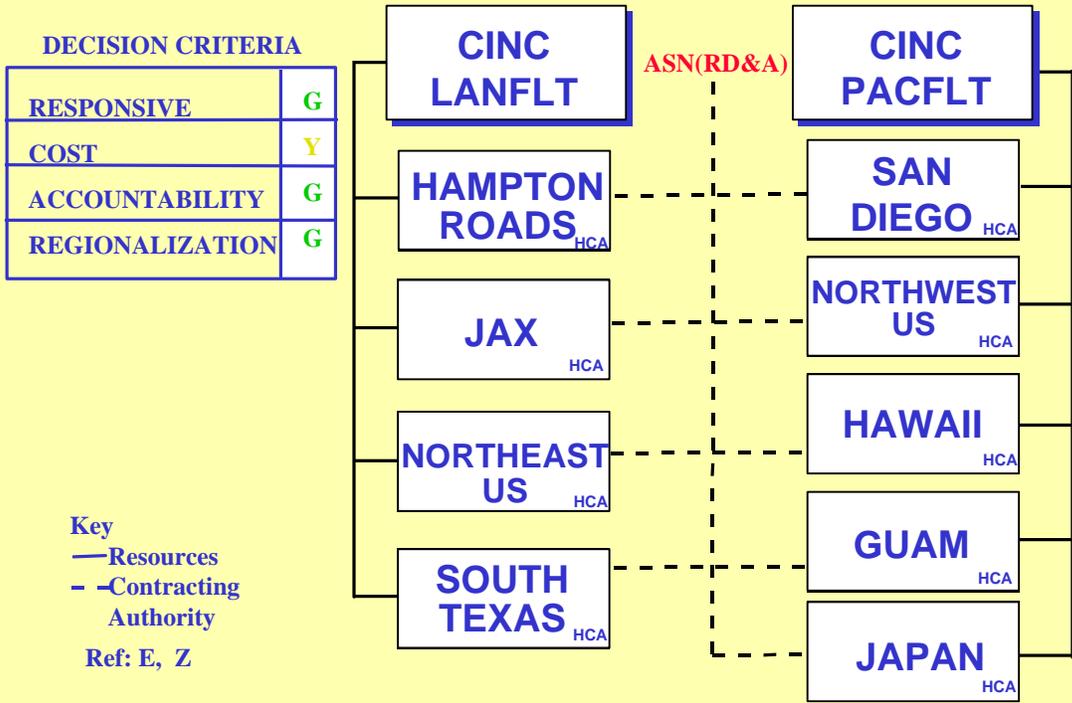


TOTAL LABOR: \$302M

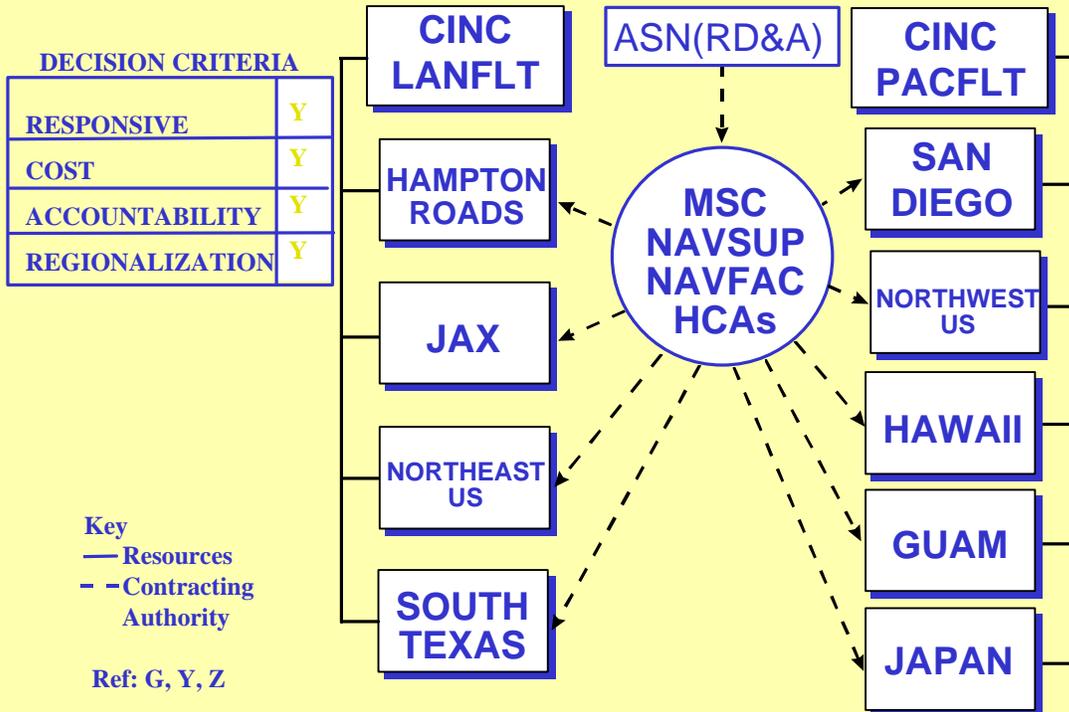
FLEET CONTRACTING REGIONALIZATION CENTRALIZED AT CINCS



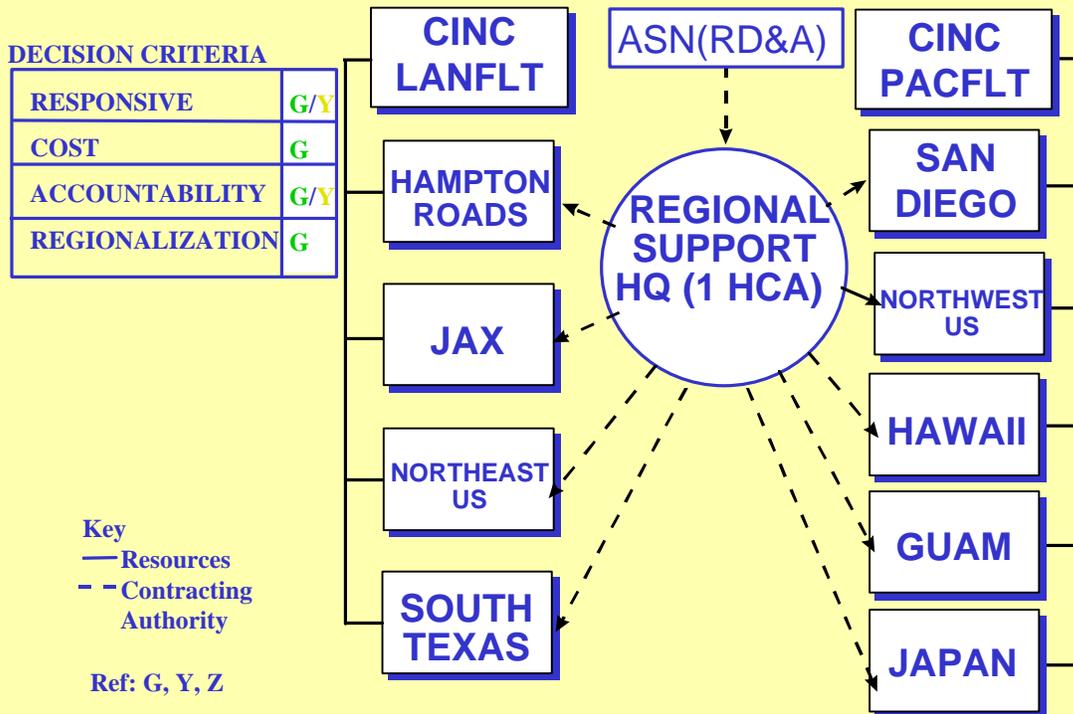
FLEET CONTRACTING REGIONALIZATION DECENTRALIZED HCAs AT REGIONS



FLEET CONTRACTING REGIONALIZATION HCAs RETAINED BY SYSCOMS

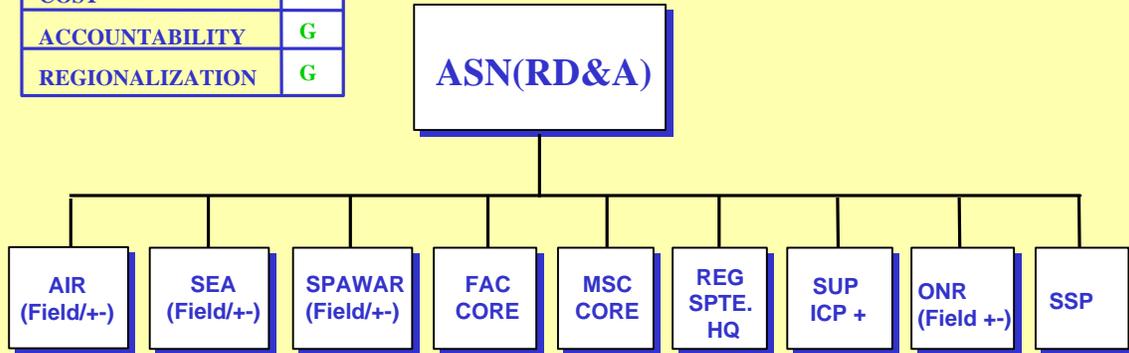


FLEET CONTRACTING REGIONALIZATION SUPPORT COMMAND AS HCA



DECISION CRITERIA

RESPONSIVE	G
COST	G
ACCOUNTABILITY	G
REGIONALIZATION	G





RECOMMENDATIONS

- **NCOAST COMPLETE FINAL REPORT**
- **ESTABLISH FOLLOW-ON TEAM TO:**
 - **PERFORM IN-DEPTH ANALYSIS PRIOR**
 - **TO REALIGNMENT/REORGANIZATIONS**
- **ABM MAINTAIN DATABASE**