

Another Look at Sequestration Impacts

Written by Nick Sanders
Monday, 04 February 2013 00:00



We all understand that the last-minute sequestration compromise reached between Congress and the Obama administration on January 1, 2013 essentially resolved nothing. It simply kicked the can down the road a couple of months. The same parties still have to resolve the same budgetary issues by March 1, 2013, or else draconian automatic spending cuts will be implemented, affecting both defense and non-defense programs.

We've examined sequestration before. While we don't necessarily think that the automatic sequestration spending cuts are the economic nuclear bomb that others assert they are, we understand that the cuts will be painful.¹ And they will have a painful effect on government contractors, who rely on continued Pentagon funding to keep programs executing—and to keep employees employed. We've already noticed a downturn in capital investments at certain contractors, and at other contractors we've started to see hiring freezes being implemented, especially on indirect staff. When you combine that situation with increasing numbers of baby-boomer retirements, you start to see a looming problem in mission assurance. Sure, the top lines will be impacted, and perhaps the corporate bottom-lines as well. But we predict that the more subtle, and the more pervasive, impacts will be felt in domain of corporate learning and knowledge—the business “know-how” that is the real core competency of any contractor.

As we [wrote](#) back in September, 2012—

With the sequestration bogeyman looming large and baby-boomer retirements as a percentage

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of the workforce trending upwards, we think it's imperative for you to (a) move knowledge out of workers' heads into more permanent media, and (b) figure out how to develop your next generation of leaders.

Not that you heeded our Cassandra-like warning and, you know, actually *did something* about the situation.

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But that wasn't our only prediction. We [also wrote](#) a month later that—

We think the real impact is going to be felt on the [government side](#). It is likely that as many as 200,000 Executive Branch employees could be furloughed or laid-off in some sequestration scenarios—though President Obama has promised to protect military service personnel from cuts. If programs are going to be terminated, who's going to be left to administrate the termination or to process the Termination Settlement Proposals? Who's going to be left to audit contractors' claimed costs? Who's going to be exercising oversight on the remaining contract obligations? ... If you cut heads to the point where services can no longer be provided, then you've gone too far. Government contractors are very much reliant on their government contracting officers and quality assurance inspectors. If the Government can't inspect, then it can't accept. And if it can't accept, you can't get paid. If there is no Contracting Officer to obligate funds in MOCAS (or whatever system they're using these days), then DFAS isn't going to issue any payments. And if there are no DFAS payment clerks, there will be nobody to process contractor invoices and issue payments. So you may have a contractor with authorized funding, even after sequestration—but you still may not get paid.

We see no reason to change our assessment of the situation as of today's date. We continue to believe the Executive Branch is going to feel the pain of sequestration first, and we suspect that it's going to feel the most pain of all stakeholders. And we continue to predict it will be the domino effect of those Federal personnel cuts—and not actual program funding cuts—that will cause contractors to feel the most pain with respect to their ongoing operations.

In fact, we can already see the impacts starting, like the falling of the first few pebbles that start off an avalanche. Let's recap some of those early pebbles, shall we?

The Federal Times [recently published](#) a Q&A session with Dr. Ashton Carter, Deputy Secretary of Defense. Dr. Carter offered some insights into how the Pentagon is preparing for the looming sequestration cuts. He stated—

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We are now starting to freeze hiring civilians. We hire in the department 1,000 people a week in order to keep our numbers up, and we would like to continue to do that. However, if I worry that I'm going to run short of money later this year, I'd better stop hiring. Now, that's not a good thing.

The Federal Times [also reported](#) that—

The Defense Finance and Accounting Service on Jan. 27 will freeze hiring, stop nominating employees for performance awards, and slash travel, training and overtime to help it deal with budget cuts.

In a Jan. 17 e-mail obtained by Federal Times, DFAS Director Terri McKay said more stringent actions — such as furloughing employees — may be necessary if sequestration takes place or the current continuing resolution expires without another agreement in place to further fund the Defense Department. ...

The entire federal government is bracing itself for severe budget cutbacks if sequestration takes effect in March. The Army, Navy and Air Force have already frozen hiring and are warning employees that massive furloughs may be required — perhaps for as much as 22 days.

In addition to the foregoing, the Federal times added [another report](#) that discussed civilian workforce cuts at Naval shipyards. It stated—

The Navy will cut more than 3,000 employees — almost 10 percent — from its shipyard workforce through a civilian hiring freeze and by laying off temporary workers, Adm. Jonathan Greenert, chief of naval operations, said in a Thursday memo.

In the face of a potentially stiff funding shortfall this year, the Navy also plans to cancel all aircraft depot maintenance from April through September, halt the bulk of surface ship upkeep at private shipyards, and reduce spending on information technology support, conferences and travel, Greenert told flag officers and top executives in the memo. Also on the chopping block: repair and modernization of most piers, runways, buildings and other facilities through the end of fiscal 2013 in September.

So we think the evidence supports our rather grim predictions in this area. But that's not all we want to discuss.

Readers might recall that both DCMA and DCAA have complained that their staffing levels are inadequate to meet their requirements. As [we told](#) readers long ago, testimony before the Commission on Wartime Contracting

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indicated that inadequate staffing was “a root cause of poor ‘ground truth’ monitoring of contractors, incomplete contract files, and untimely or inadequate review of invoices”—according to the Department of State Inspector General.

In response to concerns raised by the CWC, DOD created a “Task Force on Wartime Contracting” (TFWC). We discussed the official TFWC report [here](#). The TFWC report noted that the Secretary of Defense had gotten involved in addressing inadequate acquisition resources at the DOD. It stated—

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In April 2009, the Secretary announced that the Department would invest the resources to add 20,000 new acquisition positions across the board, which goes beyond contingency contracting capability. For example, the Department will add auditors, program managers, and contract attorneys. It will also reinvest in developing the Department’s capability to perform cost analysis through the addition of cost and pricing experts.

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Section 852 funding, as well as the Human Capital Strategic Plan and planning process, provide the dollars and leadership attention to ensure that this growth in the acquisition workforce targets the skills and specialties needed to ensure mission success.

As recently as June, 2012, DCMA was still pushing forward on its “[expedited hiring](#)” process to fill open acquisition positions. Comments in internet chatrooms indicate that, as of mid-January 2013, DCMA hiring is still going strong.

In addition to DCMA’s ramping-up of acquisition resources, DCAA also announced it was committed to addressing its admitted shortfall in audit resources. In its GFY 2011 Report to Congress, DCAA leadership stated—

With support from DoD, DCAA has increased its audit staff, adding 700 new auditors in the past three years via the Defense Acquisition Workforce Development Fund. As stated above,

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based on DoD budget guidance to DCAA, staffing will increase from about 4,900 employees in FY 2011 to about 5,600 employees in FY 2016.

Indeed, as recently as January, 2013, GAO [reported](#) to Congress that DCAA had a plan to whittle away at its backlog of roughly 25,000 unperformed audits of contractor proposals to establish final billing rates. GAO stated that DCAA leadership had told its auditors the following

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DCAA officials stated they plan to increase their staffing levels from 4,900 employees in 2011 to 5,600 by 2016.

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By 2016, DCAA estimates it will reduce the backlog and reach a steady state of audits, which it defines as two fiscal years of proposals awaiting review.

So the tune has not change in official agency publications. DCMA and DCAA are committed to hiring up and increasing staffing levels, while at the same time senior Pentagon leadership is talking about hiring freezes.

What's the real story?

Obviously, we don't know the real story. But we stand by our predictions. We're no Nate Silver but, so far, we think we've got a pretty good track record on this particular issue.

What you do with this information is, of course, up to you.

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1□ Yes, we used to be among those equating sequestration with doomsday. No longer.

2 ** Sigh. **

3 Remember them?