



SECRETARY OF THE ARMY  
WASHINGTON

29 JAN 2007

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: Improved Management and Justification of Service Contract Requirements

1. Reference:

a. Memorandum, Secretary of the Army, 7 January 2005, subject: Accounting for Contract Services.

b. Memorandum, Secretary of the Army, 23 February 2006, subject: Army Policy for Civilian Hiring and Initiation/Continuation of Contracts for Service Personnel.

2. As we are now fully implementing Lean/Six Sigma and other Business Transformation initiatives across the Army, I expect to see significant reductions in the number of contracted services personnel during the remainder of FY07. To date we have made no progress in this regard. As a matter of fact, we have gone backwards. Army-funded contracted services (excluding Global War on Terrorism funded contracts) increased by 10 percent during Fiscal Year 2006 (FY06) when compared to FY05. Operations and Maintenance-funded contracted services (excluding GWOT) increased by 14.7 percent during the same period.

3. In this challenging fiscal environment, it is critical that we take measured steps to control costs and ensure our limited resources are applied to our most critical requirements. In the referenced memoranda, I have asked that you take measures to control the growth in our workforce, both contractor and civilian. Further, I have asked you to move aggressively to transform our organizations and business processes to reduce costs, eliminate waste and improve quality, using tools such as Lean/Six Sigma. Let us all remember that the objective of our Business Transformation initiative is to free up resources that can be applied to the operational Army that was significantly under-resourced for many years prior to 9/11. Furthermore, the decision to transform the force to a modular design with a corresponding increase in the Brigade Combat Teams, which are much better able to meet the challenges of the 21<sup>st</sup> century security environment, requires substantially more financial resources.

4. Solid progress has been made in the application of Lean/Six Sigma. Since we began deploying Lean/Six Sigma, you have identified 1,158 Lean/Six Sigma projects to date, and we have targeted 1,500 projects for completion during FY07. Additional savings will be realized by using the authority provided by Congress in the National Defense Authorization Act for Fiscal Year 2006, Section 343, to in-source or by hiring term or temporary employees. Through application of these tools, I expect you to take out unnecessary work with corresponding reductions in the workforce.

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5. I expect to see auditable reductions in contract service personnel across all of our program and corresponding budget. The HQDA staff will provide guidance to begin immediate implementation of the changes necessary to audit these reductions by funding source, organization, mission and contract vehicle in the program and budget. My point of contact for this audit trail and in-sourcing under section 343 is Dr. John Anderson, 703-692-1924, [John.Anderson@hqda.army.mil](mailto:John.Anderson@hqda.army.mil). My point of contact for Business Transformation assistance is Mr. Ronald Rezek, 703-697-3001, [Ronald.Rezek@hqda.army.mil](mailto:Ronald.Rezek@hqda.army.mil).

6. Finally, as I have stated on many occasions, my preference is to empower you with the authority to approve the initiation or continuation of contracts for service personnel. However, if sufficient progress is not made, I will be forced to reevaluate this delegation of authority.

  
Francis J. Harvey

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