

Recommendation 26: Convert the Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) from an indefinite demonstration project to a permanent personnel system.

Problem

Since February 1999, Congress, OPM, and DoD have strived to improve acquisition outcomes by providing DoD with greater control over personnel processes and functions that enable DoD to attract and retain employees who contribute most to successful organizational mission outcomes. The DoD Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) is a congressionally mandated endeavor DoD developed and implemented to achieve that end. AcqDemo administrators and DoD leadership have used the demonstration project's personnel flexibilities to improve the DoD AWF and reward high-contributing AcqDemo participants. The AcqDemo Program Manager has requested permanency each fiscal year since 2016. Although the FY 2018 request for permanency resulted in major program revisions, including transfer of management authority from OPM to the Secretary of Defense, AcqDemo remains a temporary authority. AcqDemo is exceeding its goals and should become the permanent, sole personnel system for the DoD acquisition workforce.

Background

In Section 4308 of the FY 1996 NDAA, as amended by Section 845 of the FY 1998 NDAA, Congress permitted DoD, with the approval of OPM, to conduct a personnel demonstration project within DoD's civilian AWF and supporting personnel assigned to work directly with that workforce.¹ The purpose was to enhance DoD's acquisition mission by "allowing greater managerial control over personnel processes and functions and, at the same time, expand the opportunities available to employees through a more responsive and flexible personnel system."² On February 7, 1999, DoD implemented AcqDemo, a contribution-based, broadband compensation and personnel system.³ Congress limited the covered workforce to 95,000 participants.⁴

When initially implemented, the AcqDemo project evaluation plan addressed how DoD would evaluate the project for the first 5 years and allowed for major changes and modifications through announcements in the *Federal Register*. At the 5-year point, Congress and DoD, with OPM approval, were to reexamine AcqDemo for "(a) permanent implementation; (b) modification and additional testing; (c) extension of the test period; or (d) termination."⁵ Since then, Congress has extended AcqDemo and increased the covered workforce size several times, except for an interruption from 2007

¹ OPM: Civilian Acquisition Workforce Personnel Demonstration Project; DoD; Notice, 64 Fed. Reg. 1426-1492 (Jan. 8, 1999).

Note: A version of this notice that includes several amendments can be accessed at <https://www.acq.osd.mil/dpap/ops/docs/ACQDEMO%20FedReg%20WAdmts.pdf>.

² DoD, *DoD Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) Operating Guide Version 2.2*, ii, accessed March 8, 2018, <http://acqdemo.hci.mil/docs/Operating%20Guide.pdf>.

³ A contribution-based system links pay and awards to mission contribution and value of a position. Broadbanding allows for more competitive hiring and compensation by using a larger pay range (band) than the GS system allows.

⁴ "Frequently Asked Questions," DoD Civilian Acquisition Workforce Personnel Demonstration Project, accessed March 8, 2018, <http://acqdemo.hci.mil/fag.html>.

⁵ OPM: Civilian Acquisition Workforce Personnel Demonstration Project; DoD; Notice, 64 Fed. Reg. 1426-1492 (Jan. 8, 1999).

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through 2010 when Congress directed DoD to implement the now defunct National Security Personnel System (NSPS).⁶

Congress has extended the temporary authority through December 31, 2023, and increased the number of covered AWF members to 130,000, and through Section 867 of the FY 2017 NDAA, enhanced AcqDemo by transferring management authority from OPM to the Secretary of Defense. Eliminating OPM oversight reduced bureaucracy and empowered DoD to execute demonstration project flexibilities more efficiently and effectively.⁷ In Section 841 of the Senate Armed Services Committee’s recommendations for the FY 2019 NDAA, the committee recommends making AcqDemo permanent. The panel concurs with this opinion.

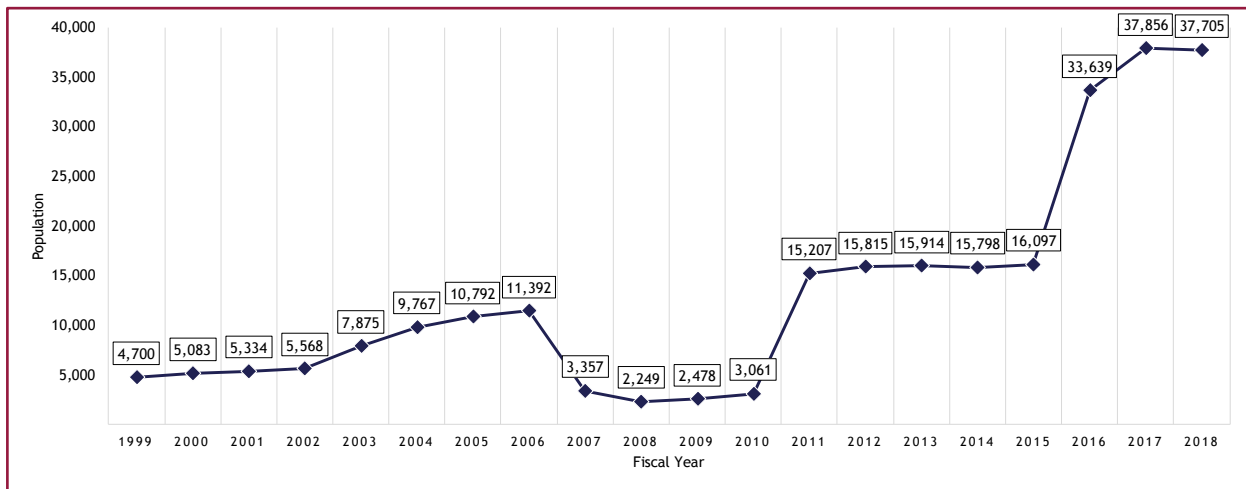
Discussion

In researching AcqDemo, the Section 809 Panel interviewed DoD AWF acquisition executives and members, acquisition career managers, human resources subject matter experts, AcqDemo Program Management Office personnel, and various labor union representatives. The panel also reviewed the November 9, 2017 *Federal Register Notice* (FRN) description of AcqDemo, the AcqDemo operating guide, AcqDemo annual evaluations, and the literature posted on the AcqDemo library.⁸

Demonstration Project Characteristics

Participation in AcqDemo is voluntary for eligible organizations and teams.⁹ When the demonstration project began in February 1999, the participating workforce population consisted of 4,700 participants, but as of February 2018, that population has grown to more than 39,000 participants.¹⁰

Figure 2-1. AcqDemo Participation from 1999 to 2018



⁶ NSPS was also a broadband system. AcqDemo differs in its design and management flexibilities and it garners union support as it requires local union bargaining agreements.

⁷ Demonstration project relating to certain acquisition personnel management policies and procedures, 10 U.S.C. § 1762.

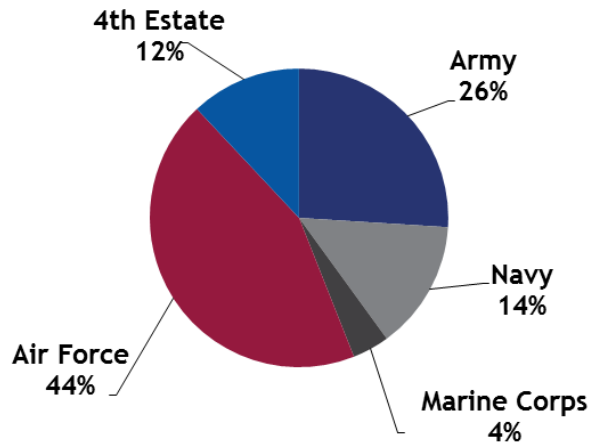
⁸ The AcqDemo Program Office staff is required to publish its project plan and any modifications in the Federal Register. The staff responds to public comments in Federal Register Notices (FRNs) and the most current FRN serves as the AcqDemo regulatory framework.

⁹ At least one-third of an AcqDemo participating organization must be AWF members and at least two-thirds of the organization must be AWF members and supporting personnel assigned to work directly with the AWF.

¹⁰ DoD, *DoD Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) Operating Guide Version 2.2*, ii, accessed March 8, 2018, <http://acqdemo.hci.mil/docs/Operating%20Guide.pdf>.

The current population distribution across DoD is shown in Figure 2-2:

Figure 2-2. Distribution of Acquisition Workforce Across DoD Components¹¹



The two most popular characteristics of AcqDemo that differentiate it from the General Schedule (GS) classification and pay personnel system under which the majority of federal civilian employees work are its use of broadbanding to classify employees and its use of a contribution-based compensation and appraisal process.¹² Broadbanding gives supervisors pay-setting flexibility for new personnel, which helps to make the DoD AWF more agile and improves its ability to compete for talent and meet changing mission requirements.¹³ Generally, organizations pay their AcqDemo employees higher salaries than they pay their GS counterparts when they are hired, but over time their salaries even out.¹⁴ The contribution-based compensation and appraisal process links employees' pay and awards to their contribution to mission outcomes rather than longevity, meaning within participating organizations, high-contributing AcqDemo employees increase their compensation at a faster rate than they would if they were in the GS system.¹⁵ In short, higher contributors have the ability to earn more, faster.¹⁶ Employees who are considered high contributors in terms of organizational outcomes are retained at greater rates than employees considered low contributors.¹⁷ Although there is not a statistically significant difference in retention rates, employee retention is slightly higher for AcqDemo participants than it is for GS employees in AcqDemo eligible organizations (ADEOs). Table 2-2 shows retention rates for employees hired on September 30, 2011.

¹¹ "Workforce Demographics," DoD Civilian Acquisition Workforce Personnel Demonstration Project, accessed March 8, 2018, <http://acqdemo.hci.mil/demographics.html>.

¹² DoD, *DoD Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) Operating Guide Version 2.2*, 3-4, accessed March 8, 2018, <http://acqdemo.hci.mil/docs/Operating%20Guide.pdf>.

¹³ RAND National Defense Research Institute, *2016 Assessment of the Civilian Acquisition Workforce Personnel Demonstration Project*, xxi, accessed May 7, 2018, http://acqdemo.hci.mil/docs/AcqDemo_Independent_Assessment_FY16.pdf.

¹⁴ *Ibid*, 73.

¹⁵ *Ibid*, 17.

¹⁶ *Ibid*, 83.

¹⁷ *Ibid*, x.

Table 2-2. AcqDemo Participant Retention Rate, 2011-2015¹⁸

Months Since September 30, 2011	AcqDemo Participants	GS Employees in ADEOs
12	94.4	93.9
24	89.3	88.5
36	83.5	82.7
48	78.4	77.5

The AcqDemo Program Management Office staff recognizes the necessity to improve DoD’s ability to compete with the private sector for talent. In November 2017, the AcqDemo Program Management Office staff incorporated into the demonstration project five external hiring authorities: Direct Hire Appointments for the Business and Technical Management Professional Career Path, Veteran Direct Hire Appointments for the Business and Technical Management Professional and Technical Management Career Paths, Acquisition Student Intern Appointments, Scholastic Achievement Appointment, and Expedited Hiring.¹⁹

Other key AcqDemo characteristics developed to help participating organizations meet their mission needs include the following:²⁰

- Mandated regular supervisor–employee interactions throughout the annual appraisal cycle.
- Opportunities for greater professional development.
- Career growth and development through use of sabbaticals.
- A voluntary emeritus program that allows separated or retired civilians and former military members an opportunity to keep working after retirement or a buyout.

AcqDemo Participant Views

Senior Leaders

Senior leaders interviewed by the Section 809 Panel expressed interest in increasing participation in the demonstration project because of the flexibilities it allows, and they indicated high performers want to be in AcqDemo. For example, one interviewee told the panel, “If we can move contracting positions into AcqDemo that could help significantly with retention.” Senior leaders also applauded improved communication between supervisors and their employees regarding expectations and performance. Under AcqDemo, supervisors are able to set clear contribution goals at the beginning of a rating period and offer meaningful feedback at the end. AcqDemo employees believe these communications result in

¹⁸ Ibid, Table 5.1, 55.

¹⁹ DoD, *DoD Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) Operating Guide Version 2.2, v*, accessed March 8, 2018, <http://acqdemo.hci.mil/docs/Operating%20Guide.pdf>.

²⁰ Ibid.

improved trust and confidence in appraisals.²¹ One DoD senior leader told the panel, “The strength of AcqDemo is that it forces regular conversations [between supervisors and employees] where previously conversations were not being had. It puts the ‘so what’ question back into the conversation.” A third person praised AcqDemo for its ability to refocus the AWF on mission performance and support warfighters while rewarding strong employees for their performance in a manner other than promotion.²²

DoD senior leaders also endorse making AcqDemo permanent, and they believe that if the project became permanent, more ADEOs would join. One interviewee explained that due to the disruption caused by moving in and out of NSPS, some ADEOs have resisted joining due to the temporary nature of the authority; however, these ADEOs are ready to join AcqDemo should it become permanent. Another interviewee told the panel, “because AcqDemo was not permanent, some employees were sitting back and waiting to see what happens.”²³

Labor Unions

Most of AcqDemo criticisms stem from labor unions, which are mistrustful of alternative personnel management systems. Labor unions prefer longevity-based systems like the GS system because longevity is a transparent, quantifiable metric, not subject to supervisor bias. The labor unions’ major objection is that AcqDemo is heavily subjective. Union complaints of this nature led to the upending of NSPS. Despite this overarching perspective, labor union representatives told the panel they generally are neutral with regard to AcqDemo. One local union president told the panel he believed individual members’ views vary based on their experience. “AcqDemo is popular when organizations are well funded and when employees feel they can trust management.” When managers in participating organizations are transparent about how they assess their employees and make data available to employees for review, the system works better than the GS system.²⁴ Another union leader, who represents employees in three participating organizations, told the panel, “It is 10 times better than the GS system,” and “even where things are bad, it is five times better than GS.” A third representative told the panel, “During the recent furlough, union members in AcqDemo were better off than those in the GS system.”²⁵

The facts support these assertions. AcqDemo administrators encourage union participation and unionized AcqDemo participants are achieving successful outcomes. They are generally paid higher salaries, are more likely to be promoted, and are retained at a higher rate than those in the GS system.²⁶

²¹ RAND National Defense Research Institute, *2016 Assessment of the Civilian Acquisition Workforce Personnel Demonstration Project*, xxi, accessed May 7, 2018, http://acqdemo.hci.mil/docs/AcqDemo_Independent_Assessment_FY16.pdf.

²² DoD senior leader interviews, conducted by Section 809 Panel, from October 2017 to March 2018.

²³ Ibid.

²⁴ Labor union representative and AcqDemo Program Office staff interviews, conducted by Section 809 Panel, from March to April 2018.

²⁵ Ibid.

²⁶ RAND National Defense Research Institute, *2016 Assessment of the Civilian Acquisition Workforce Personnel Demonstration Project*, 71, accessed May 7, 2018, http://acqdemo.hci.mil/docs/AcqDemo_Independent_Assessment_FY16.pdf.

Union leaders told the Section 809 Panel they like having the ability to choose between the two personnel systems; however, when their members trust management, and are compensated appropriately based on their contributions, they prefer AcqDemo.²⁷

AcqDemo works best when management makes pay pool data available to employees, so unions can verify that management rates its employees fairly and that all employees have an equal opportunity to be assigned special projects and meaningful work that will allow them to excel. This process instills confidence that management is not reserving plum assignments for supervisors' favorite employees. AcqDemo also works well when management is willing to talk to union representatives about their issues. The union representatives that talked to the Section 809 Panel explained they have been able to resolve their issues when given the opportunity.²⁸

Supervisors and Nonsupervisor Employees

Twenty-three percent of AcqDemo participants are supervisors. Supervisors' starting salaries were better, and their salaries rose faster in AcqDemo than in the GS system.²⁹ AcqDemo participating organizations have the option of paying cash differentials to incentivize and compensate supervisors and team leaders.³⁰ Accordingly, supervisors' perceptions of the project are generally positive, and the retention rates for supervisor participants in AcqDemo are high.³¹ Among nonsupervisory employees, there is a perceived lack of transparency regarding how employee ratings are calculated and translated to pay, how the pay pool process works, how management shares pay pool results, and the use of control points.³² This skepticism, coupled with the perception that supervisors fare better under AcqDemo than nonsupervisory employees, may result in a lack of confidence that could undermine AcqDemo goals. Some employees may believe management does not fairly link compensation to employee contributions; however, data does not support this perception.³³ An FY 2016 independent analysis of AcqDemo states, "we empirically assessed the relationship between contribution to organizational mission, as measured by [the difference between actual and expected employee overall contribution score], and the various career outcomes."³⁴ The independent analysis also indicates AcqDemo leadership may be able to combat this misperception through improved communication strategies.³⁵ In that vein, the AcqDemo Program Management Office has sought to improve transparency and dispel any misperception regarding biases and fairness by publishing and disseminating its business rules, providing training to new and existing AcqDemo participants,

²⁷ Labor union representative and AcqDemo Program Office staff interviews, conducted by Section 809 Panel, from March to April 2018.

²⁸ Ibid.

²⁹ RAND National Defense Research Institute, *2016 Assessment of the Civilian Acquisition Workforce Personnel Demonstration Project*, 75, accessed May 7, 2018, http://acqdemo.hci.mil/docs/AcqDemo_Independent_Assessment_FY16.pdf.

³⁰ Ibid, 167.

³¹ Ibid, 75.

³² "Control points are defined as compensation limits within a broadband level based on an organization's position management structure and assessment of the difficulty, scope, and value of positions developed to ensure equity and consistency within the organization. Compensation limits may be stated as a monetary value, internal pay range within the broadband level, or an overall contribution score and published in local business rules." DoD, *DoD Civilian Acquisition Workforce Personnel Demonstration Project (AcqDemo) Operating Guide Version 2.2*, v, accessed March 8, 2018, <http://acqdemo.hci.mil/docs/Operating%20Guide.pdf>.

³³ RAND National Defense Research Institute, *2016 Assessment of the Civilian Acquisition Workforce Personnel Demonstration Project*, 117, accessed May 7, 2018, http://acqdemo.hci.mil/docs/AcqDemo_Independent_Assessment_FY16.pdf.

³⁴ Ibid, 85.

³⁵ Ibid, 117.

requiring supervisors meet with employees regularly, requiring employee self-assessments, and creating a formal grievance process for employees.³⁶ The program management office staff also holds town hall meetings and maintains a website that provides program guidance, metrics, training, answers to frequently asked questions, and other programmatic information. AcqDemo proponents told the Section 809 Panel they designed the pay pool forum so that pay pool participants will hold one another accountable in ensuring equitable distribution of the pay pool.

Another characteristic of the project that has proven to be a challenge involves time. The time-consuming AcqDemo implementation process of writing appraisals, participating in feedback sessions, and administering pay pools might discourage both supervisors and employees from fully engaging in the system.³⁷ AcqDemo program management sought improvement in this area by modifying the project to reduce the six classification and appraisal factors to three factors, thus reducing the time for employee self-assessments, supervisor assessments, and pay pool administration.³⁸

Conclusions

AcqDemo has performed well since its implementation nearly 20 years ago. It has proven more flexible than the GS pay system, and retention is higher among high-contributing employees than among low-contributors. The managerial control that AcqDemo allows has improved DoD's ability to compete for talent, retain the most highly qualified AWF employees, and motivate those employees to maximize their contributions to the DoD mission. The AcqDemo Program Office has modified its program plan over time to improve the project. Even union leaders, who generally oppose implementation of alternative personnel management systems, believe AcqDemo works as long as employees can trust management.

Convert AcqDemo from an Indefinite Project to a Permanent Personnel System

Both SASC and DoD acquisition senior leaders unanimously agree the ability to control its own personnel processes and functions has yielded successful mission outcomes, and they endorse making AcqDemo permanent. Successful outcomes and increasing participant satisfaction throughout the lifespan of the temporary authority is sufficient evidence AcqDemo is a proven personnel system. Permanency would allow DoD to continue its efforts without the limitations that may serve as a deterrent for eligible participating organizations. As such, the panel recommends converting AcqDemo to a permanent acquisition personnel system and retaining the authorities applicable to the demonstration project as described below, along with other improvements.

Make AcqDemo the Sole Personnel System for the DoD Acquisition Workforce

As the project has evolved, the AcqDemo program office staff has worked to improve perceived shortcomings by improving transparency, offering training, reducing administration time, and incorporating processes to simplify the hiring process. Senior leaders, union representatives, supervisors, and employees agree AcqDemo works better for them than the GS system when

³⁶ Ibid, xxi-xxv.

³⁷ Ibid.

³⁸ OPM: Civilian Acquisition Workforce Personnel Demonstration Project; DoD; Notice, 64 Fed. Reg. 1426-1492 (Jan. 8, 1999).

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<https://www.acq.osd.mil/dpap/ops/docs/ACQDEMO%20FedReg%20WAdmts.pdf>.

participating organizations are transparent and work with local union representatives. Participating organizations would improve their ability to manage their staffs if they focused their attention on managing AcqDemo properly, rather than dividing their attention between the management of two or more different systems. AcqDemo participation should be mandatory for all members of the DoD AWF and nonacquisition supporting personnel if their rating chain is within the organizations using the new AWF personnel system. All members of the DoD AWF should be enrolled in the new DoD acquisition personnel system. For the purposes of this system, *acquisition workforce* means one of the following:

- Employees in positions designated under 10 U.S.C. § 1721
- Other DoD employees designated as members of the acquisition workforce by
 - The USD(Acquisition and Sustainment) for employees not assigned to a Military Service
 - The senior acquisition executive of a Military Service for employees assigned to them.

Expand AcqDemo Coverage by Eliminating the Limitation on the Number of AcqDemo Participants

As evidenced by a rise of the AcqDemo population from 16,000 to 39,007 when Congress extended the demonstration project in the FY 2016 NDAA, AcqDemo participation has increase as the program’s longevity has increased. ADEOs have communicated apprehension to participation in AcqDemo based on sunset dates in the past, but they are ready to join should it become permanent. Permanence would likely increase participation. Currently, Congress caps employee participation in the project at 130,000 employees; however, 147,000 civilian AWF employees would be eligible to participate should AcqDemo become permanent. The scope of supporting staff that could transition into the program varies. Eliminating the AcqDemo participation cap would have no effect on the participant eligibility criteria.

Allow AcqDemo Hiring Authority Policy to Continue Concurrent with Implementation of Section 809 Panel Hiring Authority Policy

The AcqDemo Program Management Office efforts to improve DoD’s ability to compete with the private sector for talent are commendable; however, the master list of primary hiring authorities set forth in the Section 809 Panel Recommendation 25, *Streamline and adapt hiring authorities to support the acquisition workforce*, goes a step beyond the capabilities currently available under AcqDemo. The master list will better afford DoD speed and flexibility required to address the evolving needs of the AWF. Because AcqDemo’s new hiring authority policy has not had sufficient time to be tested, those authorities should be maintained and used concurrently during the transition to the Section 809 Panel’s recommended hiring authorities for the broader AWF. In the future, Congress and DoD should assess the existing AcqDemo hiring authorities to determine whether they should continue to exist, or whether they are redundant in light of the hiring authorities currently available to the entire AWF.

Improve Transparency

The AcqDemo Program Office has taken steps to ensure AcqDemo is fair and transparent, yet mistrust from labor unions and a perceived lack of transparency related to the link between contribution scores and compensation still exists. This situation is generally limited to certain organizations that have less transparency. If the AcqDemo Program Office is not already doing so, it should consider implementing measures in the new AWF personnel system similar to the following:

- Establish a minimum criterion, consistent with the Privacy Act of 1974 and 5 U.S.C. § 552a Records Maintained on Individuals, that participating organizations post on an organizational website regarding the process by which ratings are calculated and how their employees compare with their peers in other organizations.
- Require participating organizations to allow labor unions to provide input into the development of business rules and to attend pay pool meetings.
- Develop a process that will allow labor unions to appeal to the AcqDemo Program Office when a participating organization is less than transparent with the union.
- Provide annual, or more frequent, AcqDemo training for the participating organizations.
- Perform an annual or more frequent, assessment of participating organizations business rules and pay pool process and post assessment outcomes on the AcqDemo home page.
- Regularly post on the AcqDemo home page data that explain when and how either the AcqDemo Program Office or participating organizations use AcqDemo professional development, sabbaticals, and the voluntary emeritus program opportunities.

Implementation

Legislative Branch

- Repeal 10 U.S.C. § 1762, Demonstration Project Relating to Certain Acquisition Personnel Management Policies and Procedures.
- Replace 10 U.S.C. § 1762 with 10 U.S.C. § 1763 Personnel System for the Acquisition Workforce.
 - Make the personnel system established pursuant to 10 U.S.C. § 1763 the sole, mandatory personnel system for the DoD AWF.
 - Do not include an expiration date.
 - Do not include a limitation on the number of AWF participants.
 - Allow a 5-year phase-in period from the effective date of enactment of the new AWF personnel system, to transition all DoD AWF employees into the new system.
 - Allow collective bargaining agreements between labor unions and participating organizations that are in place prior to the effective date to continue for the duration of their existence without options to extend.
 - Limit new collective bargaining agreements entered into between labor unions and participating organizations after the date of enactment to participation under the new AWF personnel system.

Executive Branch

- There are no Executive Branch changes required for this recommendation.

Implications for Other Agencies

- There are no cross-agency implications for this recommendation.