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CAPTURING INDUSTRIAL SECURITY COSTS
Standardization of Terminology and Procedures
for Tracking Security Costs Within Industry

Peter Conway

December 31, 1994

Prepared for: Defense Personnel Security Research and Education Center
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Abstract

PURPOSE:

The purpose of this study is to validate a Security Cost Questionnaire developed by the Resources Working Group of the National Industrial Security Program. The Security Cost Questionnaire is intended to be used to gather data to establish an industrial security cost baseline and which can be used as a metric to validate changes brought about by the implementation of the National Industrial Security Program

SCOPE:

This report summarizes a research study of the voluntary participation of Defense contractors in the collection of security costs within industry. This information was collected during individual interviews with financial managers and security professional and from comments and discussion to scheduled presentations to professional groups. The study encompasses all programs that fall under the Defense Industrial Security Program as well as special programs for the Department of Defense, and The Central Intelligence Agency. The Department of Energy, the remaining signatory to the National Industrial Security Program, has a congressional mandate to report security costs, and therefore is not addressed in this study.

FINDINGS:

The research finding reveal that there exists a general objection among industrial security professional associations, contractors, specific security working groups concerning the necessity for the collection of industrial security costs, skepticism

concerning the validity of any cost data collected, and strong concern over the sue to which such data may be put. Voluntary participation in future cost surveys under current methodology would at best be sporadic and result in failure to establish a valid cost baseline

RECOMMENDATIONS:

Several recommendation are made that should be considered prior to any formal cost collection effort. Recommendations are intended to promote a methodology to gather valid, pertinent data and obtain the highest levels of corporate interest and cooperation.

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CAPTURING INDUSTRIAL SECURITY COSTS

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INTRODUCTION

A primary reason for the implementation of the National Industrial Security Program (NISP) was to realize a security cost savings through an efficient and cost effective security program. The NISP was implemented with the signing of Executive Order 12829 (Federal Register, January 8, 1993, PP. 3479-3483). Executive Order 12829 mandates the collection of security costs for government, but not for industry. Historically, it has been generally held both in government and industry that to effectively measure the success of the NISP an accurate industrial security cost baseline would have to be established. The Resources Working Group, one of eleven working groups of the NISP Steering Committee, was charged with developing procedures to capture the baseline industrial security costs. As a result of these efforts several cost surveys have been undertaken to develop a usable metric for future changes in security requirements. As an attempt to further improve the methodology for determining more specific cost data related to the NISP implementation, a new Security Cost Questionnaire was developed. As there is no requirement for any contractor to participate in any cost collection effort, we relied on voluntary participation in validating this new questionnaire was sought. The objective of this study is to report industry's acceptance to a Security Cost Questionnaire, and to make recommendations concerning any further industrial security cost collection effort.

page 5, December 1993).

Based upon the findings of the prior surveys and the study (Industrial Security Costs, J. San Miguel, 1993) that security labor and computer/facilities costs generally account for 90% of industrial security costs a new Security Cost Questionnaire was developed (Exhibit A). The questionnaire asks for cost data for security labor and for computer and facilities related costs. In addition, data is requested concerning the total square footage of the physical plant, the number of employees and other statistics of the company that would be used to interpret the cost data.

Executive Order 12829 does not require the collection of industrial security costs within industry. Therefore, participation in this study was elicited on a voluntary basis. Since polling the entire population of defense contractors would be prohibitively time consuming and expensive (circa 15,000), the "80/20" rule (Page 22, Industrial Security Costs, J. San Miguel, 1993) was applied. The "80/20" rule suggests that 20% of the largest defense contractors account for 80% of the defense contracts. To reduce this 20% population to a more manageable number only a small sampling of the 20% of the contractor population was targeted for this study.

ORGANIZATIONS CONTACTED

In order to gain support for this study briefings were prepared for professional associations and specific industrial security working groups whose members were among the senior security managers/directors of "Corporate America". In attendance at the professional association conference were the representatives from over twenty five of the largest defense contractors in the United States. Briefings presented to specific industrial security working groups were attended by the corporate security professionals who were in positions to influence policy both in industry and in government. One group that received the briefing were security professionals who represented the major professional security

organizations in the United States. The support of these associations is recognized as mandatory for success of the NISP. During these briefings materials concerning the background of the security cost collection efforts, the objectives, and questionnaire were presented to all participants for comment and recommendations.

Ten senior security representatives from major corporations participating in the DISP were contacted individually and their voluntary, in depth, participation in this study was solicited. Background material as well as the new cost questionnaire was mailed to each individual. They were requested to review the questionnaire with a member of the corporation's financial staff with the objective of determining whether or not the definitions provided were clear and understandable, and if the questions asked and background data requested, was readily retrievable. Their comments, suggestions, and recommendations on any item in the questionnaire were also solicited.

Individuals interviewed, corporations represented, and professional groups who participated in this study requested anonymity and confidentiality. Accordingly, sources of comments, suggestions, recommendations received during this study are not identified.

RESULTS

Comments from security professional and corporate managers shared unanimous agreement that the proposed questionnaire, as designed, could not provide valid data to establish an industrial security cost baseline. The consensus of opinion is that the three items related to security:

What is your best estimate of the cost of security as a percentage of total FY 9__ revenues from government contracts? _____%

For FY 9____ please enter the total amount (in thousands) of security personnel costs: \$_____K.

For FY 9____ please enter the total amount (in thousands) of security facilities and equipment costs:
\$_____K.

are too general, and the other information requested is considered irrelevant. Many individual contacted expressed a strong mistrust of the motives for such a survey, and, consequently were reluctant, or refused to provide the data requested. Generally, questions and concerns raised in this area were:

"Who will distribute the questionnaire?"

"To whom will it be distributed?"

"How will the responses be documented?"

"How will the material (proprietary material) be protected?"

"What is the possibility it could be used adversely against their organization in a government audit?"

Basically, there is an overall unwillingness to provide the data requested on a voluntary basis especially as the Executive Order specifically does not require it.

There was also a general agreement that previous such surveys, extrapolating data from a relatively minor segment of the industry were invalid. There were two principle reasons expressed; one, that the approved cost accounting procedures inextricably intertwined security and non security related costs, and, accordingly, reliable data regarding the former were difficult to extract; and, two, the extrapolation procedure used, since it was not based on precise information, tended to magnify any errors in the original data base.

Another question posed by several individuals is that advantage is there for industry to participate in any survey that will subject them to additional scrutiny.

On the positive side, there was some interest in capturing security costs. However, the recommended approach is somewhat different than those attempted in the past. The first step would be an attempt to get top managers from key industries to agree to work with government representatives to design the form that they can use to capture their true security costs. This would be an Industry dominated forum. In addition, there would have to be reasonable guarantees that any information or data provided "would not come back to bite them". The composition of such a work group would primarily be comptroller and other finance and accounting professionals. Many persons contacted agreed that the security professional, while they should have some input, are not the people to ask. The accounting professionals are more likely to be able to retrieve the requested data; especially in those organizations where Security is not a separate "line item".

The suggested approach would be for the working group to determine specific key indicators in the NISP, and gather data only on those specific items. After analysis, another survey could be undertaken in a reasonable time (two years) to compare costs. Surveys conducted on an annual basis were felt to be entirely too burdensome.

While there was some agreement that such a survey would provide some data on the impact of the NISP, this would have to be tempered with the reductions in cost already being accomplished under improved quality management. Cost citing innovations cited included industry mergers and internal consolidations, resulting in fewer middle management and lower level positions.

There were some comments that the work group, rather than be organized on an ad-hoc basis, could be formed from a committee of

an already established professional association.

The question concerning whether or not the charging of the time needed to complete any voluntary cost survey would be an allowable charge by government auditors was also raised. Additional comments expressed over this issue were of the nature that most in industry felt that they had devoted sufficient "free time" in completing other surveys, and that their management would not be favorably inclined to participate in yet another "voluntary" survey.

Finally, there was considerable concern that this survey could cause some unwelcome attention from top corporate management regarding the cost of security in an environment already felt to be "cut to the bone".

CONCLUSION

As predicted by an earlier study (Industrial Security Costs, J. San Miguel, August 31, 1993), this questionnaire was not acceptable to contractors. It appears that voluntary participation by industry in any cost survey, under current methodology, will not be successful. However, comments from industry representatives, indicate that an attempt to obtain this kind of data could be feasible if the effort was seen as industry driven. That is, if a true "Partnership with Industry" concept could be implemented, where the government representative would be viewed as a peer rather than a threat. In addition, for this effort to be successful, it appears from comments and discussion with industry representatives, that there will have to be some advantage to both participants; Government and Industry. Industry participants will have to understand why the data is needed and "What's in it for them".

The three alternatives to this approach would be:

- To continue the frustrating and time consuming practice

of trying to capture data under current methodology.

- To discontinue working with industry to capture the data.
- To mandate the reporting of security costs by regulatory changes.

It is noted that past studies have also shown that the cost of security (1% and 9%) remain generally constant. The costs within those percentages for security labor and facilities and computer costs also generally remain constant. There is presently a surplus of defense contractor facilities or space. It was voiced that these should be not significant facilities cost within the foreseeable future. Any cost savings, other than for downswing due to the decline in defense contracting and quality management initiatives, will be realized from the "embedded" costs of security.

RECOMMENDATIONS

Establish the office that will be responsible for the distribution of the cost questionnaire, receipt of the data, and dissemination of the product. The charter for this office should detail how the data will be protected and how it will be disseminated to protect the confidentiality of the data and the organizations providing the data.

Through a joint industry/government working group, encompassing top management in both finance and security, establish a list of those areas felt to be the cost drivers in the industrial security program. These cost drivers will be the basis for any subsequent cost survey. A possible body to undertake this effort is the Resources Working Group of the NISP.

Eliminate questions in the survey that are irrelevant to cost collection, i.e., square footage in a plant.

Design and address any future efforts to comptroller and financial professionals as well as security professional in industry.

Consider establishing a "Award" for industry participants. In order to be effective this would have to be a prestigious recognition, similar for Total Quality Management award, possibly presented by the Secretary of Defense to the Chief Executive Officer of the corporation.

Make no further efforts to distribute or utilize the present Security Cost Questionnaire.

REFERENCES

Executive Order 12829, The President, **National Industrial Security Program**, Federal Register, January 8, 1993, pp. 3479-3483.

Mattice, Lynn, **Security Cost Survey**, Aerospace Industries Association, 1989.

NISP Resources Working Group, **National Industrial Security Program Security Cost in Industry Survey for Fiscal Year 1990**, June 1991.

Secret of Defense, **The National Industrial Security Program: A Report of the President**, Washington, DC, November 1990.

San Miguel, Joseph G., **Industrial Security Costs: AN ANALYSIS of Reporting Practices**, Naval Postgraduate School, Monterey, CA August 31, 1993.

Resources Working Group, **Capturing Security Costs in Industry: Final Report and Recommendations of the National Industrial Security Program Resources Working Group**, December 1993.

Exhibit A

SECURITY COST SURVEY

The purpose of this survey is to gather cost information on security costs related to work performed for the federal government. This information is necessary for identifying the total amount of industrial security costs that is being incurred annually by the private sector. In addition, background information on your company's operations is requested.

DEFINITIONS

Fiscal Year (FY) Please indicate the calendar dates (a current twelve month period) used in your company's accounting year.

Personnel Costs This includes salary and/or other payments related to those personnel who are hired for security and whose primary functions are security related. The total dollar amount given for the year should be the burdened figure (i.e., includes overhead, G&A, fringes, etc.).

Facilities & Equipment Costs List only that equipment and/or facility improvements for which a valid security requirement exists (e.g., a stand-alone personal computer had to be purchased for accounting that could not be performed on an unclassified system or on a normal corporate network due to a security requirement). For capitalized assets, include the annual depreciation or amortization costs. For non-capitalized facilities and equipment include lease, rent or purchase costs. Installation and maintenance costs should be included.

COMPANY BACKGROUND

Total FY 9__ sales revenue_____. Total FY 9__ number of employees_____.

Total FY 9__ federal government payment to your company on government contracts_____.

For FY 9__, of the total level of labor in your company, what

percentage was funded by government contracts in FY 9__? ____%.

How many square feet of space (regardless of use) is currently available to support government activities? _____Sq. Ft.

What percentage of your company's government contracts is service oriented ____%, and what percentage is manufacturing ____%

What is your best estimate of the cost of security as a percentage of total FY 9__ revenues from government contracts? ____%

REPORT OF COSTS

For FY 9_____ please enter the total amount (in thousands) of security personnel costs: \$_____K.

For FY 9_____ please enter the total amount (in thousands) of security facilities and equipment costs: \$_____K.

COMMENTS AND SUGGESTIONS

Please provide any comments, suggestions, questions, explanations or additional information.

EXHIBIT B

COLLATERAL SECURITY COSTS AS A PERCENTAGE OF TOTAL OPERATING COSTS

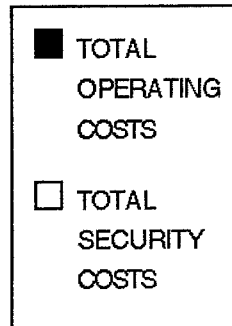
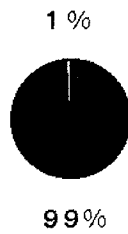


EXHIBIT C

COLLATERAL SECURITY COSTS AS A PERCENTAGE OF TOTAL OPERATING COSTS

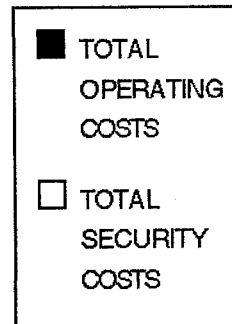
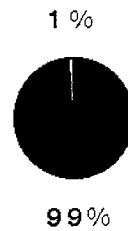


EXHIBIT D

BLACK SECURITY COSTS AS A PERCENTAGE OF TOTAL OPERATING COSTS

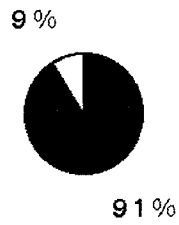
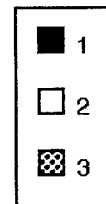
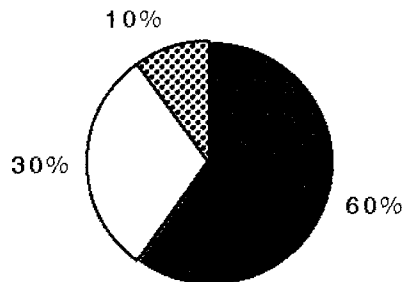


EXHIBIT E

SECURITY COSTS (BLACK)



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