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AIR COMMAND AND STAFF COLLEGE

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COMPETITIVE SOURCING AND SAVINGS:
ARE WE ON TARGET?

by

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Abstract

Faced with limited budgets and aging weapon systems, the Department of Defense (DoD) is pursuing competitive sourcing (CS) as a way to reduce operating costs and free up resources for its modernization programs. The military has high expectations for its re-energized CS program and programmed over \$6.2 billion of savings to procure new aircraft, helicopters, warships, and upgrades to Army ground combat vehicles. However, Congress and the General Accounting Office have criticized this approach and claim the savings are not achievable.

An examination of CS programs indicates competition does create savings; however, the timing and magnitude of the savings are not guaranteed. Based on a review of “lessons learned” from CS programs, savings are influenced by (1) increased work requirements, (2) mandated wage increases, (3) problems with performance work statements, (4) inflexible pricing arrangements, (5) oversight issues, and (6) limited visibility into government cost accounting systems. This paper highlights specific examples where the services encountered difficulties in each problem area and provides recommendations to avoid future problems.

While some of these factors are outside of its immediate control, the DoD can better manage the CS process by (1) establishing well-trained, multi-functional teams, (2) hiring independent firms to develop the cost baseline for current operations, (3) soliciting early contractor involvement, (4) seeking flexible pricing arrangements, (5) improving budgeting for CS efforts, and (6) re-competing functions even if they remain in-house. The CS program presents the military with one of its most challenging tests, and we cannot afford to fail.

Part 1

Introduction

We have been able to draw down our forces and maintain our readiness without bringing on new equipment. That day is coming to an end. We must proceed with our modernization efforts now, and sustain them for the years to come, to meet our requirements.

— Former Secretary of the Air Force Sheila Widnall

Pick up any newspaper or magazine and you will see headlines such as “IBM Consolidates Plants; Lays Off 7,000 Workers” or “Motorola Outsources Data Processing Facility.” In its bid to become more competitive in the marketplace, corporate America slashed costs and increased efficiencies by downsizing workforces, consolidating facilities, and outsourcing non-core functions. While most citizens are familiar with private industry’s outsourcing initiatives, few are aware of the mammoth Department of Defense (DoD) competitive sourcing program and its role in U.S. national military strategy.¹

The end of the Cold War marked a significant shift in the international strategic environment and led to changes in the U.S. military's responsibilities and force structure. Over the past ten years, the DoD reduced its active military personnel by over 700,000 members and eliminated eight Army divisions, eleven Air Force fighter wings, four Navy aircraft carriers and 232 battle force ships.² Despite these combat force reductions, support costs have climbed to \$170 billion a year and now consume nearly 70 cents of each defense dollar compared to 50 cents prior to the military drawdown.³ More importantly, the DoD has been forced to use funds earmarked for

modernization programs to cover unplanned operating expenses resulting in delayed, and more costly, acquisition programs. These actions divert resources from the military's core warfighting mission and impact its short and long-term readiness.

To counter this trend, the DoD is pursuing competitive sourcing (CS) to reduce operating costs and free up resources for its modernization programs. Past history indicates CS can yield significant savings. According to a recent study by the Center for Naval Analyses, cost savings from prior CS studies amount to \$1.5 billion annually or approximately 30 percent compared to baseline costs.⁴ The military has high expectations for its re-energized CS program and programmed over \$6.2 billion of additional savings into its Fiscal Year 1999 - 2004 budgets to procure new aircraft, helicopters, warships, and upgrades to Army ground combat vehicles.⁵ However, Congress and the General Accounting Office have criticized this approach and claim the projected savings may not be achieved due to contract cost growth and related factors.

Research Question

What factors contribute to cost growth in CS contracts, to what extent do these factors impact projected savings, and how can the DoD better manage the CS process?

Research Objective

A firm grasp of the causes of contract cost growth is the key to formulating successful outsourcing strategies, developing effective contracts, and achieving maximum efficiencies and savings. If we fail to achieve projected savings from these initiatives, the DoD will be unable to maintain its day-to-day readiness or continue critical modernization programs without seeking additional funding from Congress. This will prove to be a challenging, and painful, process for future military leaders as the battle for the taxpayer's dollar escalates.

Notes

¹ The Department of Defense uses the term **competitive sourcing** in lieu of outsourcing.

² Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2000* (Washington, D.C.: Government Printing Office, 1999), 152.

³ Thomas G. McInerney and Erik R. Pages, "Bolstering Military Strength by Downsizing the Pentagon," *Issues in Science and Technology* 14, no. 2 (Winter 1997): 79.

⁴ R. Derek Trunkey, Robert P. Trost, and Christopher M. Snyder, *Analysis of DoD's Commercial Activities Program*, CRM 96-63 (Alexandria, Va.: Center for Naval Analyses, December 1996), 2.

⁵ General Accounting Office, *Future Years Defense Program: How Savings From Reform Initiatives Affect DOD's 1999 - 2003 Program*, NSIAD-99-66 (Washington D.C.: Government Printing Office, February 1999), 2.

Part 2

Background

In order to be able to afford capabilities sufficient to support our existing military strategy and provide adequate investments to prepare for the future, the Air Force must find ways to become more efficient...it is time to focus on freeing up excess resources committed to our support functions.

— General Michael Ryan

Before addressing the issue of cost growth in competitive sourcing contracts, this paper will identify the goals of the military's CS program; preview the statutory requirements and guidelines associated with outsourcing activities; provide an overview of the cost comparison process; and examine results from previously completed studies. This section introduces the reader to key concepts and issues associated with competitive sourcing and forms the foundation for the analysis and recommendations presented in subsequent parts of this paper.

Goals of the Military's CS Program

As defense budgets dwindle, the military departments are struggling to maintain current mission readiness, fund quality-of-life and pay reform initiatives, and modernize its aging weapon systems. The services have also been challenged by Vice President Gore's National Performance Review to streamline its operations and to improve the quality of services provided to its customers. As Figure 1 illustrates, defense budgets as a percent of national gross domestic product (GDP) have been on a downward trend since the mid-1950s and are unlikely to increase

significantly in the near future. To ensure current and future readiness in this fiscally constrained environment, DoD turned to competitive sourcing as a way to free up resources for its highest priorities.

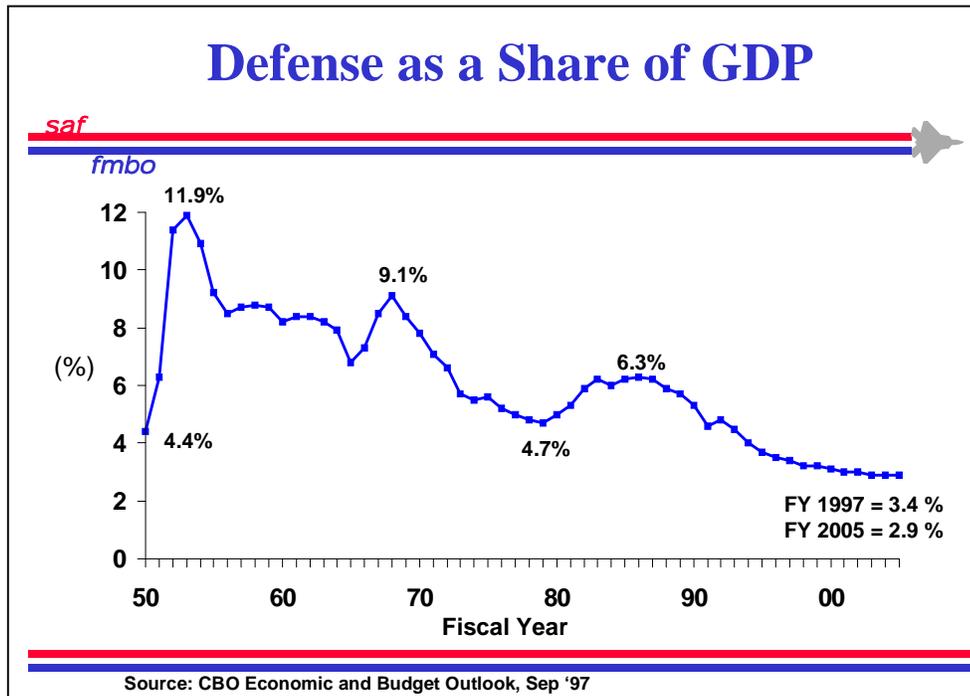


Figure 1. Defense Budgets as a Share of Gross Domestic Product, 1950-2002¹

The Air Force's primary competitive sourcing goals are to: 1) improve performance, quality, and efficiency, 2) focus on core activities, and 3) generate savings for modernization.² These goals are quite similar to those of our civilian counterparts. A survey of business leaders at over 1,200 private sector companies indicated that outsourcing initiatives are undertaken because they result in lower operating costs, provide access to new resources and world-class capabilities, and improve overall management.³ These cost reductions and improvements come through the competitive process and not solely from outsourcing the functions. When competing in-house commercial activities with private industry, the government examines existing

manpower requirements, processes, and capital requirements and proposes a new way of doing business. The government's proposal is compared to the best private sector bid sector to determine the most cost-efficient provider. This competition generally leads to lower costs, improved performance, and streamlined operations regardless of who wins the competition.

Outsourcing also allows the DoD to focus on its core competencies. The U.S. military is responsible for the nation's defense and it accomplishes this mission with a mix of core warfighting skills such as flying strike sorties, deploying armor assets, and intelligence operations. However, DoD personnel also perform non-core tasks such as food services, engineering, maintenance, overhaul, repair, and training functions. The military can refocus its limited resources, both human and investment capital, on its core warfighting mission by outsourcing these functions. Considering the recruiting difficulties that the services are currently facing, competitive sourcing offers a potential force management tool which can release military members from non-core functions and reassign them to unfilled warfighting billets.

While these other goals are important, the primary objective of the military's competitive sourcing program is to free up scarce budget dollars and realign them to its modernization accounts. Everyone is familiar with the stories about aircraft that are older than the pilots flying them; however, few realize these weapon systems become increasingly expensive to maintain as they age which further saps limited defense budgets. Moreover, acquisition programs for advanced aircraft, warships, and vehicles will most likely be more expensive in the future and the procurement holiday has come to its end. By one account, the Joint Chiefs of Staff are facing a \$20 billion annual shortfall between the current procurement budget and the funding they need to modernize its aging weapon systems. However, the estimated shortfalls may be even higher, reaching nearly \$55 billion per year by 2004.⁴ The military's ability to maintain battlespace

dominance may be put into jeopardy in the near future if this trend of under-funding and delaying modernization programs continues.

Opportunities to reduce costs within the DoD exist and these funds can be used to recapitalize our aging force structure. For example, the Navy reduced the average cost of overhauling an F-14 airframe from \$1.69 million to \$1.29 million---a 24 percent reduction---by conducting a public-private competition.⁵ Defense Printing Office saved \$70 million annually by implementing an aggressive competitive sourcing and re-engineering program which reduced its staff by 43 percent, reduced the number of facilities by 30 percent and square footage by 700,000 square feet, and disposed over 4,000 items of obsolete or traditional printing equipment.⁶ Part 3 of this paper will examine other CS success (and failure) stories.

Statutory Basis and Guidelines For Competitive Sourcing

If cost studies are time-consuming and potentially disruptive to your in-house workforce, why would you even consider outsourcing a function? The simple answer is because the law requires it! According to longstanding national policy, the Government will not compete with its citizens and should rely on commercial sources for the goods and services it needs---provided these goods can be procured more economically from commercial sources. This policy was first publicized through Bureau of the Budget Bulletins issued in 1955 and subsequently revised and codified in various public laws.⁷ Public Law 105-270, the Federal Activities Inventory Reform Act of 1998 ("FAIR Act"), outlines the most recent statutory requirements for identifying, tracking, and reporting commercial activities and Office of Management and Budget (OMB) Circular A-76 provides instructions for conducting competitions and preparing cost estimates.

The FAIR Act requires all executive and military departments to review commercial activities and determine if they should be performed under contract with commercial sources or

in-house with government personnel and facilities. If an agency head considers contracting with private industry, they must use a competitive process and ensure the cost comparisons reflect all costs.⁸ To aid in this process, Circular A-76 and its supplemental handbook provides instructions for preparing cost comparisons and conducting public-private competitions.

However, not all functions within the Department of Defense are subject to outsourcing. Certain activities are so integral to the command and control of military operations or governance that they cannot be contracted out; whereas, other functions are easily transferable to the private sector. Circular A-76 and OFPP Policy Letter 92-1 classify functions as either commercial activities or inherently governmental functions. Commercial activities are those functions performed by in-house personnel that could be obtained from commercial sources such as health services, data processing, or real property maintenance. As such, commercial activities may be suitable for performance by contract and are subject to cost comparisons under the Circular A-76 program. Conversely, Circular A-76 defines an inherently governmental function as one "which is so intimately related to the public interest as to mandate performance by Government employees," and, therefore, cannot be outsourced.⁹

This distinction is significant since only 29 percent of all DoD civilians and 9 percent of DoD military billets listed in the 1995 Commercial Activities Inventory were classified as commercial activities and subject to competitive sourcing.¹⁰ Potential CS savings could increase significantly if DoD reclassified more billets as commercial activities and competed them (or decrease if more billets are reclassified as inherently governmental functions). One study estimates savings will increase by two percent for every additional one percent of civilian billets competed and nearly five percent for every additional one percent of military billets competed.¹¹

Overview of the A-76 Cost Comparison Methodology

OMB Circular A-76, Performance of Commercial Activities, was not designed to simply outsource functions. As highlighted in its supplemental handbook, this program was designed to:

1. balance the interests of the parties to a make or buy cost comparison,
2. provide a level playing field between public and private offerors to a competition, and
3. encourage competition and choice in the management and performance of commercial activities. It is designed to empower Federal managers to make sound and justifiable business decisions.¹²

To this end, Circular A-76 provides specific guidelines for conducting competitions and preparing cost comparisons. Once an activity is identified as a candidate for a CS study, there are two ways to compete the activities within the A-76 program: direct conversion or cost comparison. If the activity has ten or fewer appropriated fund (APF) civilians, the local commander may directly contract out the function without developing an in-house bid. This is a streamlined approach with few reporting requirements. If there are more than ten APF civilians, a formal cost comparison is required. If more than 50 APF civilians will be affected, then Congress must be notified prior to announcing the initiative.¹³ Commercial activities performed by an all-military workforce can also be directly converted to contract without a cost comparison. At his or her discretion, the local commander may opt to compete small activities (less than ten APF civilians) using the more comprehensive cost comparison option.

The A-76 cost comparison is perhaps one of most talked about and least understood programs within the government. In its simplest form, an A-76 study develops a statement that describes what work needs to be done, compares the in-house cost estimate for performing this work with a contractor proposal, and selects the lowest cost provider. Figure 2 provides an overview of the cost comparison process and is followed by a discussion of the key activities as described in the “Commander’s Handbook On Competitive Sourcing.”¹⁴

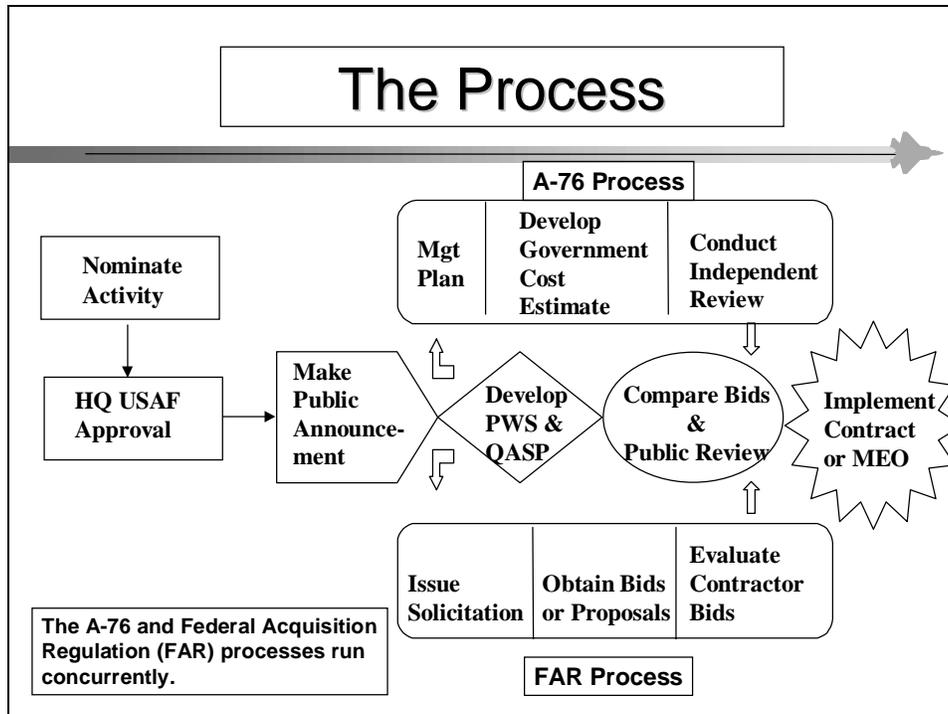


Figure 2. Overview of A-76 Cost Comparison Process¹⁵

Write the performance work statement (PWS) and quality assurance surveillance plan (QASP). The PWS is the most important document in the entire process since it serves as the basis for both the in-house and contractor cost estimates. It clearly identifies the workload in terms of performance standards and answers the questions of "what, when, where, how many, and how well." It is important to note that the PWS describes *what* work needs to be accomplished, but not *how* to do it. The *how* will be described in the offeror's proposal. The QASP is derived from the performance standards and is used to determine if the services rendered meet the PWS standards. The organization performing the function is responsible for developing the PWS and QASP with assistance from base contracting and manpower units.

Conduct a management study and create the in-house bid. The management plan is a comprehensive package consisting of the most efficient organization (MEO), QASP, in-house

cost estimate (IHCE), and transition plan. The objective of the MEO is to find new ways to perform the work in the most cost efficient manner. The MEO describes *how* the in-house team will perform the work as well as manpower, budget, and facility requirements. The MEO should take advantage of this opportunity and propose innovative work processes and streamlined manpower requirements for performing the tasks specified in the PWS. A QASP, similar to the one described above, is developed to monitor in-house performance and the IHCE identifies how much it will cost to establish and operate the MEO. Finally, the transition plan explains how the organization will transition to the MEO or contract.

Solicit contractor bids. Once the PWS is developed, the contracting office prepares and issues a solicitation to the private sector. Contractors will review the work requirements outlined in the PWS and develop proposals based on the work described in the performance work statement. This step generally runs concurrently with the proceeding step.

Compare bids and decide on a winner. The contracting office will evaluate all contractor proposals, select the best bid (based on the acquisition strategy), and compare it to the IHCE. To ensure the government does not convert activities with marginal returns, the in-house proposal automatically wins unless the private sector's direct personnel costs are at least 10 percent lower than the in-house bid or saves more than \$10 million over the performance period.

Transition to the MEO or contractor and monitor post-award performance. After the final decision is made, the workload transitions to the MEO or contract according to the transition plan. The government is still responsible for monitoring contract performance regardless of who wins the competition. If the contractor wins, the contracting office implements the post-award contract administration plan and uses the QASP to measure compliance with the performance standards. If the workload remains in-house, a government team conducts a post-

MEO performance review to verify that the MEO was properly implemented, completed all work requirements specified in the PWS, and did not exceed the in-house cost estimates submitted during the competition. Should the MEO's performance or costs fail to meet the PWS standards, the contracting officer may award the contract to the best contractor proposal.

Historical Results From Previously Completed CS Studies

Circular A-76 and the competitive sourcing program is nothing new to the Department of Defense. The military has conducted thousands of A-76 competitions, simplified cost comparisons, and direct conversions over the past thirty years and plans to pick up the pace in the future. Between 1978 and 1994, DoD conducted 2,131 A-76 competitions involving more than 80,000 military and civilian billets and generated more than \$1.5 billion in recurring annual savings.¹⁶ The in-house team won roughly 50 percent of the competitions and savings averaged 31 percent. Table 1 is a breakout of A-76 competitions by service and agency.

Table 1. Savings By Military Service/Agency For Completed A-76 Competitions

Command	Completed Competitions	Baseline Civilians	Baseline Military	Total Annual Savings (\$M)	Percentage Savings
Army	466	21,530	3,728	443	28%
Air Force	760	18,147	8,633	571	36%
Marine Corps	44	1,291	157	25	31%
Navy	807	20,793	4,821	413	30%
Service Total	2,077	61,761	17,369	1,452	31%
DeCA	39	418	5	6	39%
DMA	1	68	0	.02	1%
DLA	14	1,080	0	11	18%
Agency Total	54	1,566	5	17	22%
Grand Total	2,131	63,327	17,344	1,469	31%

Source: *An Examination of the DoD Commercial Activities (CA) Inventory Data*, CIM 472 (Alexandria, Va.,: Center for Naval Analyses, December 1996), 11.

Based on the military downsizing that occurred during the 1980s and early 1990s, it seems logical to assume all of the "easy" targets have been outsourced and future savings will be more difficult to find. However, studies by the Center for Naval Analysis and the General Accounting Office indicate otherwise. The Center for Naval Analysis studied the average savings per billet from 1977 to 1995; the savings consistently averaged between \$10,000 and \$20,000. To the extent there was a trend, it was an increase in the savings per billet.¹⁷ This upward trend in projected savings was also evident in a more recent review of DoD's competitive sourcing program. The GAO audited 53 A-76 competitions completed between October 1995 and March 1998 and reported the average projected savings had increased from 30 to 42 percent and the contractor won 60 percent of the bids. All of this evidence suggests the military has not "cherry-picked" all of the easy candidates.

Most of A-76 competitions to date involved relatively small functions, while DoD's largest commercial activity---depot maintenance---has been largely exempted from the A-76 process. This workload represents the crown jewel of potential outsourcing candidates since the DoD spends roughly \$15 billion for depot maintenance work such as repair, overhaul, modification, and upgrade to aircraft, ships, tracked vehicles, and other systems and equipment.¹⁸ The DoD Appropriations Act for FY 1985 allowed a test program to compete ship overhauls, and this program was later expanded to include public-private competitions for Army, Air Force, and Navy depot maintenance workloads.¹⁹ The 1995 Commission on Roles and Missions (CORM) claimed the DoD could save 20 percent by privatizing depot maintenance activities and not adversely impact military readiness and sustainability. Subsequent base realignment and closure decisions lead to the closure of two Air Force depots; however, this research paper will not include these efforts since data is not available at this time to assess actual savings.

These savings do not come without a price. A-76 competitions are manpower-intensive undertakings: the government team must develop the performance work statement, quality assurance surveillance plan, and most efficient organization; conduct source selection boards; compare bids; and award contracts. Each of these activities require time, material, and in some cases, assistance from support contractors to complete. For example, a recent A-76 competition for the operation of fuel facilities spent over \$5,000 per billet for their contractor support---and this figure does not include the cost of government personnel or travel.²⁰ Another source estimates that it costs between \$2,000 and \$6,000 per billet competed.²¹ This data seems to support the old adage, "you don't get something for nothing"; therefore, organizations must plan, and receive, adequate funding to support A-76 cost studies.

Although the Congress and GAO hotly contest the magnitude of DoD's projected savings, they do agree the competitive sourcing program offers significant opportunities to reduce costs and improve efficiencies.²² Unfortunately, it is not clear exactly what level of savings will actually be achieved. They criticize the military's ability to substantiate the savings and claim:

1. The DoD did not know the extent to which expected savings were realized since cost information was not routinely collected and analyzed after a cost study was done.
2. Savings estimates represent projected, rather than realized savings.
3. Actual savings were not tracked.
4. Baseline cost estimates were lost over time and did not include the costs of competition.
5. And most importantly, where audited, projected savings have not been achieved.²³

Given these criticisms, Part 3 analyzes activities that were contracted out or turned over to a MEO and determines which factors contributed to cost growth in CS contracts, and to what extent, these factors impacted projected savings.

Notes

¹ Maj Gen George Stringer, "Budget Outlook" briefing to the Professional Military Comptroller Class, Maxwell AFB, Ala., 30 March 1998.

² "Competitive Sourcing and Privatization," Air Force Innovation Center; on-line, Internet, 10 February 2000, available from <http://www.afcqmi.randolph.af.mil>.

³ "What Companies Say," *Journal of Accountancy*, June 1998, 29.

⁴ Thomas G. McInerney and Erik R. Pages, "Bolstering Military Strength by Downsizing the Pentagon," *Issues in Science and Technology* 14, no. 2 (Winter 1997): 83.

⁵ General Accounting Office, *Defense Depot Maintenance: Commission on Roles and Mission's Privatization Assumptions are Questionable*, NSIAD-96-161 (Washington D.C.: Government Printing Office, July 1996), 13.

⁶ "National Public Review," n.p.; on-line, Internet, available from http://www.npr.gov/cgi-bin/print_hit_bold.pl/library/nprprt.html.

⁷ OMB Circular No. A-76, *Performance of Commercial Activities*, 4 August 1983 (revised 1999).

⁸ Implementation of the Federal Activities Inventory Reform Act of 1998 (Public Law 105-270) ("Fair Act"), 14 June 1999.

⁹ OMB Circular No. A-76, *Performance of Commercial Activities*, 4 August 1983 (revised 1999).

¹⁰ R. Derek Trunkey, Robert P. Trost, and Christopher M. Snyder, *Analysis of DoD's Commercial Activities Program*, CRM 96-63 (Alexandria, Va.: Center for Naval Analyses, December 1996), 3.

¹¹ Christopher M. Snyder, Robert P. Trost, and R. Derek Trunkey, *Bidding Behavior in DoD's Commercial Activities Competitions*, CRM 97-68 (Alexandria, Va.: Center for Naval Analyses, January 1998), 2.

¹² OMB Circular No. A-76, *Revised Supplemental Handbook*, March 1996.

¹³ "Competitive Sourcing and Privatization," Air Force Innovation Center; on-line, Internet, 10 February 2000, available from <http://www.afcqmi.randolph.af.mil>.

¹⁴ "Commander's Handbook on Competitive Sourcing," (Randolph AFB, Tex.: Air Force Manpower and Innovation Agency, undated), 8-12.

¹⁵ "Competitive Sourcing and Privatization," Air Force Innovation Center; on-line, Internet, 10 February 2000, available from <http://www.afcqmi.randolph.af.mil>.

¹⁶ Christine H. Baxter, Angela M. Rademacher, and R. Derek Trunkey, *An Examination of the DoD Commercial Activities (CA) Competition Data*, CIM 472 (Alexandria, Va.: Center for Naval Analyses, December 1996), 11.

¹⁷ Christine H. Baxter, Angela M. Rademacher, and R. Derek Trunkey, *An Examination of the DoD Commercial Activities (CA) Competition Data*, 50.

¹⁸ General Accounting Office, *Defense Depot Maintenance: Commission on Roles and Mission's Privatization Assumptions are Questionable*, 4.

¹⁹ General Accounting Office, *Defense Outsourcing: Challenges Facing DoD As It Attempts to Save Billions In Infrastructure Costs*, NSIAD-97-110 (Washington D.C.: Government Printing Office, March 1997), 9.

²⁰ Capt Stu Funk, "Lessons Learned on A-76 Competitions for Fuel", 23 June 1999; on-line, Internet, available from http://www.fo.hq.dla.mil/A-76/A76_Lessons_Learned_Navy.doc.

Notes

²¹ "Congress, DoD At Odds Over Savings From Privatization," National Journal's Congress Daily AM, 13 May 1999, 25.

²² General Accounting Office, *Defense Outsourcing: Challenges Facing DoD As It Attempts to Save Billions In Infrastructure Costs*, 1.

²³ General Accounting Office, *Defense Outsourcing: Challenges Facing DoD As It Attempts to Save Billions In Infrastructure Costs*, 9.

Part 3

Analysis of Selected Competitive Sourcing Programs

Outsourcing and privatization is a pass-fail item if we are to remain the force that this nation needs in the decades to come.

— Former Secretary of the Air Force, Sheila Widnall

This section examines a number of competitive sourcing programs to determine what factors contributed to cost growth and how these factors impacted projected savings. To accomplish this objective, the author relied heavily upon reports published by the DoD Inspector General, Air Force Audit Agency, Army Audit Agency, and Center for Naval Analyses. This methodology introduces bias into the sample selection since the audit reports focus on situations requiring corrective action---and are silent regarding those without discrepancies. This limitation is recognized and the reader should not be misled into thinking all CS efforts experience cost growth, delays, or implementation difficulties. There are many well-managed, cost-effective CS contracts in place today; however, we can glean many useful "lessons learned" by studying programs that encountered problems in the past. The ultimate goal is to learn from these experiences and, hopefully, avoid similar pitfalls in the future.

Causes, Causes, and More Causes

Just as there are no simple solutions for resolving our involvement in Bosnia, Kosovo, or Iraq, there are no simple answers to the question, "What causes cost growth in CS efforts?". The

A-76 process is relatively complex and the entire process is impacted by a number of internal and external factors. Figure 3 illustrates some of the key factors identified during this research effort. For example, the government team may have difficulty assembling and retaining skilled

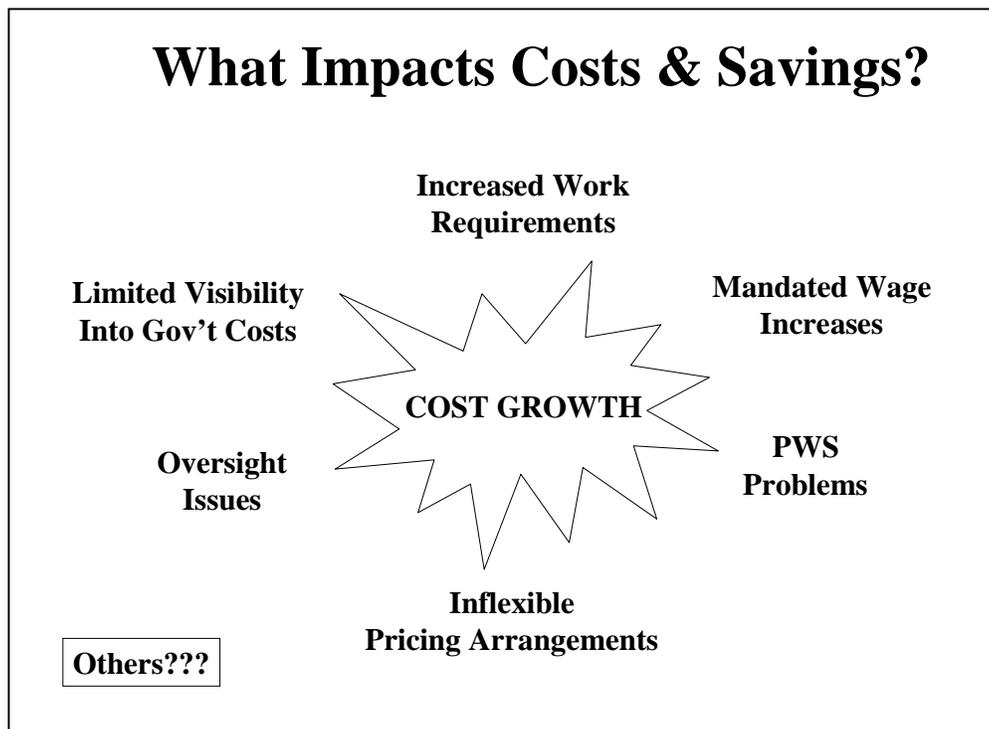


Figure 3. Factors Impacting Costs and Savings

personnel responsible for determining workload requirements; writing the performance work statement (PWS) and quality assurance surveillance plan (QASP); developing the most efficient organization (MEO) and in-house cost estimate (IHCE); and conducting post-competition quality assurance reviews. Shortcomings in any of these areas will adversely impact the outcome of an A-76 cost study--not to mention complications associated with accounting system limitations, Federal Acquisition Regulation (FAR) requirements, and other downward directed mandates. As a result, it is often difficult to determine if the government actually achieves the projected savings from its competitive sourcing program. The following case studies examine these internal and external factors and how they impact the overall CS process.

Increased Contract Requirements and Mandated Wage Increases

Contract cost growth is perhaps the most misunderstood phenomenon associated with competitive sourcing contracts. Many people assume contractors take unfair advantage of the government by low-balling their initial bid (buying-in) and then passing on substantial price increases once they win the contract. While this may happen in isolated cases, a DoD Inspector General (DODIG) review of commercial activity contracts indicates most cost growth results from mandated wage increases and increased within-scope work requirements.¹

The DODIG reviewed 20 Army, Navy, and Air Force CS contracts to determine the extent to which costs exceeded the original negotiated prices and reasons for the cost growth. These contracts, which had been in place for at least three performance periods, covered a wide range of functions including food service, custodial service, base operations support, transportation, and aircraft maintenance. After reviewing the original cost comparison, PWS, contract files, and amendments, they determined cost growth occurred in all 20 contracts and observed:

1. The contracts, which were originally negotiated for \$522 million, experienced net cost growth of \$108 million (21%).
2. \$31 million of this cost growth was due to mandated Department of Labor wage increases under the Service Contract and Davis-Bacon Acts.
3. The remaining \$77 million was attributed to changes in within-scope work requirements (\$111 million of increased work requirements offset by \$34 million of decreased within-scope work requirements).²

At first glance, it appears CS contracts should be avoided since they exhibit a tendency to increase in cost. However, contract cost growth does not necessarily equate to problems with the contract. For example, \$31 million of the cost growth was due to federally mandated wage increases---these are "known" annual increases that occur to all service contracts and they should have been anticipated during the cost comparison process. Closer examination of the data also indicates a majority of increased work requirements were associated with non-recurring costs

from contingency operations or mission changes. For example, non-recurring costs from Operations Desert Shield and Desert Storm accounted for nearly \$45 million of the \$111 million of increased work requirements and the addition of a new T-1 aircraft mission at Reese AFB increased operating costs by \$8.5 million. As a senior Air Force leader commented, "In-house operations would have experienced similar cost increases...many GAO audits exist to support this statement." ³

The overall impact of contract cost growth is that it may invalidate the original cost comparisons and make it difficult to determine actual savings since the current workload differs significantly from the baseline cost estimate. Additionally, unanticipated cost increases can also cause budgetary problems since the installation may have to divert funding from other programs to pay for these changes. But, most importantly, the reader should now recognize that cost growth---in isolation---does not automatically equate to poor cost discipline or poorly written contracts. It may simply be the by-product of federal mandates or shifting military requirements.

Problems with Performance Work Statements

The entire cost comparison process hinges upon the performance work statement---a well written PWS contributes to a dispute-free competition and post-award success; whereas, a poorly developed PWS often leads to customer dissatisfaction, contractor default, and reduced efficiency and effectiveness. In theory, it should be relatively easy to develop a good PWS. The government team simply describes what it wants (provide food services, conduct security investigations, or perform programmed depot maintenance); however, in practice, this step is often more manpower-intensive, time-consuming, and difficult than it first appears.

The government team walks a fine line when developing the PWS. It must ensure all essential tasks are included, yet avoid the temptation to incorporate every possible contingency

into the PWS which ultimately drives costs up. There are numerous examples where the PWS failed to include all the required tasks to be performed and other cases where the PWS contained tasks that were not currently performed by the in-house workforce and would not be performed even if the function remained in-house. The following examples illustrate opportunities where the government can improve its CS process by developing accurate, comprehensive performance work statements.

In May, 1998, the Air Force Audit Agency reviewed the mess attendant contract at McConnell AFB to determine if this outsourced function was effectively and efficiently managed.⁴ Their review of the existing contract and the Invitation for Bid (IFB) for the follow-on contract found the contract requirements were overstated and included work which was no longer needed. For example, the PWS overstated the monthly meal count by nearly 7,000 meals (20,000 monthly meals vice 13,000 historical usage) and the IFB included provisions for short order cooks even though cooking duties were not part of the mess attendant contract. The PWS also indicated that the contractor was responsible for watering live plants, dusting silk plants, and dry-cleaning the drapes within the dining facilities. However, a separate contractor receives \$2,400 a year to maintain the live plants, there are no silk plants in the dining facilities, and the drapes were replaced with venetian blinds nearly five years ago. By revising the PWS to better match anticipated workload requirements with its actual needs, the Air Force can reduce its operating costs by \$381 thousand annually.

The Marine Corps' efforts at outsourcing base operating support (BOS) functions at Parris Island were also plagued by problems with a poorly developed PWS. According to a study by the Center for Naval Analyses (CNA), the Parris Island initiative was the first Marine Corps base to hire contractors to operate government-owned utilities (water, sewage, and power plant

operations).⁵ The MEO bid \$27 million for this workload; however, the winning contractor bid \$19 million and was awarded the initial contract in 1988. Although the A-76 process leading up to the contract award took nearly five years, the CNA characterized the performance work statement as "very rough" with incomplete or missing data. The PWS was unclear regarding responsibilities for maintenance and operation of the steam plants and sewage treatment facilities and each side blamed the other for poor operating results. The contractor requested upgrades and improvements to keep the plant equipment in good condition and the government claimed contractor failed to operate or maintain the facilities properly.⁶ The initial contractor went bankrupt and new contractor was found. However, the PWS problems persisted and the government declared the second contractor in default and brought the workload back in-house. Fortunately, nearly 160 of the 200 contractor employees stayed on and transitioned to the in-house workforce. However, this particular situation never generated the savings projected by the A-76 cost study and also resulted in lower quality service throughout this seven year ordeal.

Each of these examples illustrates the importance of accurate, comprehensive performance work statements. Clearly defined work requirements and performance standards help avoid misunderstandings between the organization receiving the services and the organization performing the function. These oversights could have been avoided by involving the technical experts with the contract specialists earlier in the process and by working with potential bidders throughout the solicitation phase. The government and contractor teams would have both benefited by this increased interaction since it offers more opportunities to communicate expectations and clarify misunderstandings before the effort is outsourced.

Inflexible Pricing Arrangements

The contracting process has a certain degree of "built-in" conflict due to the competing self-interests of each party. The government seeks the best service, highest quality, and minimal risk at the lowest cost; whereas, the contractor generally seeks ways to fulfill its contract requirements while maximizing profit. Although this observation obviously does not fit all situations, it helps set the stage for examining how the contracting process impacts potential costs and savings associated with competitive sourcing contracts.

The government typically uses fixed-price or fixed-price incentive contracts to acquire services under the A-76 program. Depending on the specific pricing arrangements selected by the contracting officer, the pricing structure may be classified as flexible or inflexible. According to one study, a flexible contract pricing structure contains predetermined factors that allows the government to increase or decrease contract payments in proportion to changes in the workload requirements.⁷ In contrast, an inflexible contract pricing structure includes standard variations in workload, changes, or termination for convenience clauses. In these instances, the government may be put at a disadvantage since it must negotiate workload changes with the contractor in a sole source environment. The following examples illustrate the potential advantages the government gains by maximizing the use of flexible contract pricing structures.

The Air Force Audit Agency evaluated 18 installation-level service contracts resulting from prior competitive sourcing initiatives and determined eleven contracts lacked the flexibility to respond to workload reductions.⁸ For example, demand for Air Education and Training Command's (AETC) command-wide simulator contract dropped from 16 hours per day to 8 hours. Despite this 50 percent reduction in requirements, the contractor would only agree to a price reduction of \$170 thousand, or 3.3 percent. Similarly, the workload for the fuels

management contract at Williams AFB dropped by 45 percent after its T-37 aircraft were transferred to other locations and the contractor would only agree to a price reduction of \$50 thousand, or 1.7 percent. According to this audit report, the Air Force paid over \$3 million a year for unneeded services.

Inflexible pricing arrangements were not limited to AETC. The Air Combat Command (ACC) experienced a similar situation with its Gila Bend range management contract. In this case, the Air Force paid for 350 aircraft inspection services and over 1,300 hours of environmental services as specified in the PWS---even though it used only 164 air inspection services (53 percent) and 239 hours of environmental services (18 percent).⁹ This contract did not contain provisions to allow for periodic comparisons of contracted services to actual services, and an audit determined contract payments could be reduced by \$806 thousand over six years by adjusting the transient alert, environment, and billeting services to match actual requirements.

On the other hand, the Army successfully incorporated flexible pricing arrangements into its pilot training contract at Fort Rucker. The Army has contracted out the primary phase of its pilot training for over 30 years and received high quality results with few problems. Contract flexibility is one factor contributing to this success. According to the Center for Naval Analyses, the contract allows the Army to respond quickly to changes in its training workload since it may request additional instructors by giving the contractor a 60-day notice and reduce the number of instructors with a 30-day notice.¹⁰

As these examples demonstrate, flexible pricing arrangements offer the potential for improved cost effectiveness; however, they are not a "cure-all solution" and may not be appropriate in all cases. For example, certain workloads have a large fixed cost component and are not conducive to proportional reductions since the contractor cannot easily shift idle

resources to other revenue generating activities. This is often the case when dealing with workloads that require significant investment in plant equipment and dedicated workforces, such as those performing depot maintenance and other capital-intensive functions. As a result, the contracting officer must work with his private sector counterparts when contemplating these types of arrangements and identify an approach that minimizes risk to both the government and the contractor.

Oversight Issues

The CS process is not finished once the winning decision is announced. It does not matter if the in-house MEO or contractor wins the contract, the government is still responsible for monitoring post-award performance to ensure performance requirements are met, quality standards are maintained, and costs are reasonable. Evaluators must assess performance using the quality assurance plans developed during the A-76 cost study; however, problems are often encountered in this area. As a result, the government may not always receive all required services in the most economical manner which jeopardizes projected savings and potentially increases costs. Oversight issues range from inadequate surveillance of contractor performance to inefficient MEO operations.

When I left the audit career field nearly a decade ago, quality assurance programs were routinely identified as problem areas and it doesn't appear much has changed. According to one review, the following problems with contractor surveillance were noted:

1. Functional area chiefs did not prepare required quality assurance surveillance plans, and some key tasks were not included in the plans.
2. Quality assurance evaluators did not always receive required surveillance training.
3. Contracting officers did not complete QA checklists or take proper random samples.
4. Contracting personnel did not always validate, process, or follow-up on discrepancy reports for substandard performance.¹¹

Effective contractor surveillance is necessary to ensure the government actually receives what it pays for, and it also allows the organization to evaluate workload requirements. The quality assurance evaluator can discern changes in contractor performance and identify trends in workload requirements by actively managing the surveillance program and analyzing contractor performance reports. These actions allow him or her to address these areas before they become "showstoppers".

Quality assurance reviews are not limited to functions that are contracted out. If the in-house team wins the competition, it is also subject to post-award performance reviews. These reviews determine if the in-house activity satisfactorily performed all tasks identified in the PWS and operated within the manpower and resource requirements proposed in the MEO plan. This is another area where projected savings may be impacted, particularly if the MEO exceeds resource requirements or fails to adjust to workload changes. For example, a post-performance review of the training services function at Lackland AFB noted the MEO reflected 19 authorizations, however, 31 personnel were actually assigned to the function.¹² Even if the cost of each additional workyear is conservatively estimated at \$30,000, this function costs at least \$360 thousand more than the MEO proposal submitted during the cost study.

The post-performance review of the communications-information flight at Patrick AFB identified potential problem areas as well. The evaluation team was unable to determine if the MEO fulfilled all PWS requirements since workload estimates were vague, not always measurable, and actual workload data was not tracked to substantiate services provided.¹³ For example, the PWS identified the workload to monitor and analyze system reports at "1 per day" or the workload to coordinate and process digging permits at "125 per year"; however, these activities were not tracked or documented. As a result, it was impossible to determine actual

work completed. As this report noted, "tracking actual workload data will help evaluate compliance with the management plan and original cost estimates, ensure services are efficiently provided and facilitate required post-MEO reviews."¹⁴ It will also make it easier to refine the PWS for future competitions, identify tasks that can be eliminated or scaled-down, and better link contract performance with actual workload requirements. Each of the preceding examples offer good "lessons learned" regarding areas where cost growth may occur and personnel contemplating future CS efforts should be aware of these factors.

Limited Visibility into Government Costs

Despite its proficiency in acquiring and employing advanced weapon systems in Operation Desert Storm or the air war over Yugoslavia, the Department of Defense comes under intense fire from all corners when it comes to its financial management and cost accounting systems. Many of these systems were developed decades ago and do not reflect the latest advances such as activity-based accounting (which is essential for accurately estimating the cost of performing specific tasks). As a result, the DoD's competitive sourcing program suffers the slings and arrows of critics such as Norman Sisisky, D-Va., who remarked, "Who's kidding who? I mean, if they can't even balance their books, how in the world can they estimate what they're going to save?"¹⁵ Shortcomings exist in DoD's workload cost collection systems as well as the master database it uses to track the results of all commercial activities---the commercial activities management information system (CAMIS).

If you asked fifty military leaders what it costs to operate their vehicle maintenance program or billeting operations, it is unlikely any of them could even begin to answer your question. While they might be able to identify their annual O&M budget for travel and supplies, it is unlikely they would even consider other costs such as military and civilian payrolls, fringe

benefits, rents, facility maintenance, plant equipment, or other capital investments. This is not their fault; with the exception of certain functions such as depot maintenance and research laboratories, few military organizations are established as cost centers and even fewer routinely collect data to track these costs. As a result, many people are surprised when they see the in-house cost estimate and contractor proposals during a cost study---a small function involving 10 civilians can easily result in a \$500 thousand contract or more! According to a "lessons learned" report issued by the Army, many organizations had to put together several versions of its workload requirements since the data was not readily available, accurate, or supported. These delays can be avoided if the organization begins refining their data collection systems soon after, or even before, they announce an activity as an A-76 candidate.¹⁶

DoD's credibility is also called into question due to difficulties in tracking and reporting actual savings in the CAMIS database. The GAO has repeatedly identified problems with the CAMIS database claiming it contains inaccurate or incomplete data since the savings, once entered into CAMIS, are not modified and these inaccurate projections are continuously used to support budget submissions.¹⁷ In some instances, the database incorrectly identified competitions as completed when they had not been started and other cases where savings projections were not removed from the system when bases closed or were realigned. More importantly, the baseline cost estimates were often lost over time, the costs of conducting the cost studies were not included, and actual savings were not tracked or entered into the CAMIS database. Given that DoD's outyear budgets are based on projected savings from CS competitions, it is critical organizations accurately track these costs so senior leadership can determine if we are on track to achieve these savings---or need to request additional funds from Congress for our future modernization efforts.

Notes

¹ DoD Inspector General, *Audit of Cost Growth in Commercial Activity Contracts*, Report no. 95-162, 31 March 1995, 5.

² DoD Inspector General, *Audit of Cost Growth in Commercial Activity Contracts*, 5.

³ DoD Inspector General, *Audit of Cost Growth in Commercial Activity Contracts*, 16.

⁴ Air Force Audit Agency, *Dining Hall Operations and Food Service Mess Attendant Contract*, Report no. 24698015, 21 May 1998, 1-7.

⁵ Carla E. Tighe et al., *Case Studies in DoD Outsourcing*, CAB 96-62 (Alexandria, Va.: Center for Naval Analyses, January 1997), 59.

⁶ Tighe et al., 55.

⁷ Air Force Audit Agency, *Management of Commercial and Contracted Activities Within Air Education and Training Command*, Project no. 92075001, 25 February 1994, 11.

⁸ Air Force Audit Agency, *Management of Commercial and Contracted Activities Within Air Education and Training Command*, 13.

⁹ Air Force Audit Agency, *Range Contract, Gila Bend Air Force Auxiliary Field*, Report no. WNO98014, 2 July 1998, 2.

¹⁰ Tighe et al., *Case Studies in DoD Outsourcing*, 55.

¹¹ Air Force Audit Agency, *Management of Commercial and Contracted Activities Within Air Education and Training Command*, 27.

¹² Air Force Audit Agency, *Management of Commercial and Contracted Activities Within Air Education and Training Command*, 7.

¹³ Air Force Audit Agency, *Most Efficient Organization Performance Review, 45th Space Wing*, Report no. EB000012, 10 November 1999, 3.

¹⁴ Air Force Audit Agency, *Most Efficient Organization Performance Review, 45th Space Wing*, 3.

¹⁵ "Congress, DoD At Odds Over Savings From Privatization," *National Journal's Congress Daily AM*, 13 May 1999, 24.

¹⁶ U.S. Army Audit Agency, *Observations and Lessons Learned on A-76 Cost Competition Studies*, AA 98-340, 22 September 1998, 6.

¹⁷ General Accounting Office, *DoD Competitive Sourcing: Results of Recent Competitions*, NSIAD-99-44 (Washington D.C.: Government Printing Office, February 1999), 14.

Part 4

Conclusions and Recommendations

The hardest thing to change is organizations that have been successful and need to change anyway.

— John White, Former Deputy Secretary of Defense

With the future of our national defense hanging in the balance, will competitive sourcing prove to be the military’s budgetary savior or scapegoat? The jury is still out. Despite vigorous attacks by the Congress, GAO, and internal audit organizations, most people agree DoD’s competitive sourcing program will generate significant savings. The real question is “how much and when will the savings occur.” Based on insights gained from this research effort, the following recommendations should allow the DoD to better manage the CS process and, hopefully, achieve more savings sooner.

Recommendation 1 – Establish a well-trained, multi-functional team. A well-trained, multi-disciplinary team is absolutely essential for creating an accurate, comprehensive PWS, developing the government’s management plan, and conducting the pre- and post-award selection and monitoring tasks. Based on the increasing number of studies and specialized skills needed during cost studies, each major command should assemble full-time “tiger teams” to assist installations during this process. Where possible, the A-76 team should tailor existing performance work statements and quality assurance plans rather than developing them from

scratch. This should improve the timeliness and accuracy of the PWS, QASP, MEO, and IHCE, reduce contract lead-time, and minimize potential post-award disputes.

Recommendation 2 – Budget for and hire an independent firm to determine the cost baseline for current operations. As this research effort shows, part of the problem with validating savings is a poor cost estimate of current operations. Determining the current cost of operations is one of the most difficult and time-consuming tasks associated with A-76 studies; however, it is also one of the tasks which government employees may be least qualified to perform due to unfamiliarity with cost accounting procedures, financial management systems, and cost estimating methodologies. This does not necessarily imply an in-house team cannot develop an accurate baseline cost estimate, but it may be more cost-effective to budget for and hire an independent firm to complete this task. An independent estimate may also foster “buy-in” from potential offerors since it was developed by a third party.

Recommendation 3 – Solicit early contractor involvement. The government should solicit early contractor involvement in potential outsourcing situations and build partnering agreements with the goal of strategic versus tactical alliances. This approach will avoid the traditional “arms-length” relationship between the government and contractor, improve communication, and promote a better understanding of each party’s expectations and capabilities. It also provides opportunities to tailor the contract requirements in such a way as to minimize the costs and risks to both parties.

Recommendation 4 – Seek flexible pricing arrangements. The contracting officer should aggressively seek ways to incorporate flexible pricing arrangements into CS contracts. This will allow the government to increase or decrease contract payment based on shifting workload requirements; however, the contractor should also be allowed input as to the best way to achieve

this flexibility. For those workloads with significant variability, the government may be better off to pay slightly higher prices at contract award in return for predetermined contract adjustments. If this option is pursued, a pricing analyst should conduct a cost-benefit analysis to ensure the government pays a fair and reasonable price for this “flexibility option”.

Recommendation 5 – Improve budgeting for A-76 studies and contracts. The DoD should fully fund A-76 studies and ensure budget plans properly account for the impact of CS contracts. An A-76 cost study can be a large undertaking and, in many cases, installations may need contractor support to develop the PWS and management plan. Installations should not be expected to pay for these studies "out of hide" since these studies are often downward-directed and major commands should provide adequate funding to cover these expenses. More importantly, DoD budget plans should recognize that CS contracts are "must-pay bills" which are subject to Department of Labor and Service Contracting Act mandates. As a result, budget plans should anticipate and reflect funding increases for known labor increases; this should resolve some of the perceptions and funding problems associated with contract cost growth. Major commands should be aware across-the-board cuts in contract funding will unduly penalize those installations that aggressively pursued competitive sourcing. Both MEOs and CS contracts are based on the tasks outlined in the PWS, and reduced funding will necessitate commensurate reductions in services.

Recommendation 6. Recompete functions even if they remain in-house. Savings result from competition; therefore, the government should periodically reassess commercial activities to determine if it is receiving the highest quality services at the lowest price. These "re-looks" encourage innovation and efficiencies and offer the opportunity to further improve government operations and reduce costs.

Although this research effort did not identify any “silver bullets” which will easily resolve all competitive sourcing problems, it does provide lessons learned and recommendations which should improve future efforts. Any improvement, no matter how marginal, is important since it will enhance the likelihood of increased savings and reduced costs. As Secretary Widnall claimed, this is a pass-fail test, and the DoD cannot afford to fail.

Glossary

Commercial Activity. The term commercial activity is used in the governmental context to identify those activities that the government performs with its employees or resources but could obtain from private-sector sources. Commercial activities are in contrast to "inherently governmental" activities.

Contracting-Out. Contracting out is the hiring of private-sector firms or nonprofit organizations to provide goods or services for the government. Under this approach, the government remains the financier and has management and policy control over the type and quality of goods or services to be provided. Thus, the government can replace contractors that do not perform well.

Cost Comparison Process. The process of competing an in-house commercial activity with the private sector. After a functional performance work statement is developed, two separate and independent processes evolve. First, Contracting proceeds with soliciting private sector proposals to select the contractor to compete with the in-house bid. Second, Manpower and the functional OPR proceed with developing the Most Efficient Organization (MEO) and in-house bid, which is then independently reviewed by Financial Management. The contract and in-house bids are competed (known as the cost comparison) to determine the most cost-effective method of performance for the Air Force.

Direct Conversion. The process of converting an in-house commercial activity to contract performance without the cost comparison process. An estimate of the current in-house operating cost is compared to an estimate of the maximum acceptable contract bid prices to justify the cost effectiveness of directly converting the in-house commercial activity to contract performance. This process may be applied to commercial activities performed by military, ten or less civilians, or a combination of the two.

Inherently Governmental. An "inherently governmental function" is a function that is so intimately related to the public interest as to mandate performance by Government employees. These functions include activities that require either the exercise of discretion in applying Government authority or the application of value judgments in making decisions for the Government. Governmental functions normally fall into two categories: (1) the act of governing, i.e., the discretionary exercise of Government authority, and (2) monetary transactions and entitlement. (For a full discussion of the definition of "inherently governmental" see OFPP Policy Letter 92-1, Inherently Governmental Functions dated September 23, 1992.)

In-house Cost Estimate (IHCE). A statement of how much it will cost the Government to perform the work identified in the PWS using the methods and organization identified in the MEO.

Management Plan. The document that outlines the changes that will result in the Government's Most Efficient Organization (MEO) to perform a commercial activity in-house. It provides the staffing patterns and operating procedures that serve as a baseline for in-house cost estimates.

Military Essential Function. A function which must be performed by a uniformed member of the Air Force rather than a Federal employee or a civilian contractor. The following are various justifications for HQ USAF classifying a function as military essential: positions directly contribute to the prosecution of war (combat or direct combat support); positions required by law to be military; positions that are military due to custom or tradition; positions needed for career field sustainability and for overseas rotation requirements; or positions that require a skill not available in the private sector.

Most Efficient Organization (MEO). In certain circumstances under OMB Circular A-76, agencies that are considering contracting out an activity must first conduct a cost benefit exercise to identify the MEO. The MEO refers to the government's in-house organization that would most efficiently perform a commercial activity after a managed competition under A-76. It may include a mix of federal employees and contract support and is used as the basis for measuring all government costs (direct and indirect) and performance against competitive contractor or interservice support agreement (ISSA) offers. To determine the MEO, the in-house activity may reinvent, reorganize and restructure itself, including making capital investments, in order to arrive at the agency's most efficient method of performing the commercial activity.

OMB Circular A-76. OMB Circular A-76 sets forth federal policy for determining whether commercial activities associated with conducting the government's business will be performed by federal employees or private contractors. Recent revisions to the A-76 Supplemental Handbook were designed to enhance federal performance through competition and choice, seek the most cost-effective means of obtaining commercial products and support services, and provide new administrative flexibility in agency decisions to convert to or from in-house, contract, or ISSA performance.

Outsourcing. Under outsourcing, a government entity remains fully responsible for the provision of affected services and maintains control over management decisions, while another entity operates the function or performs the service. This approach includes contracting out, the granting of franchises to private firms, and the use of volunteers to deliver public services.

Performance Work Statement (PWS). A document that accurately describes a service in terms of output requirements and the required quality level or standard of acceptable performance of those outputs.

Privatization. The term privatization has generally been defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector.

Quality Assurance Surveillance Plan (QASP). A document which identifies performance requirements and specifies the surveillance methodology to be used to evaluate contractor performance.

Transition Plan. A written plan for the transition from the current organizational structure to MEO, contract or ISSA performance designed to minimize disruption, adverse impacts, capitalization, and start-up requirements.

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