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Washington, DC 20548

National Security and
International Affairs Division

B-283503

September 13, 1999

The Honorable Bruce F. Vento
House of Representatives

Subject: DOD Competitive Sourcing: Air Force Reserve Command A-76 Competitions

Dear Mr. Vento:

The Air Force Reserve Command is conducting public/private competitions for base operating support functions at its various bases under the Office of Management and Budget Circular A-76. Because of concerns about the process and its impact on a reserve facility in your state, you requested that we review the Command's completed competitions for contracts recently won by the private sector for functions at Dobbins Air Reserve Base, Georgia, and Niagara Falls Air Reserve Station, New York.[1] This report summarizes the briefing we provided to your office on August 4, 1999. Specifically, we evaluated (1) the Command's process for conducting the competitions, including the development of the performance work statements, and (2) the estimates of expected savings and cost to conduct the studies, and the likelihood that base operating efficiency can be expected to improve. Also, because some functions of the Niagara Falls Air Reserve Station base operations were previously contracted out, we determined the extent of and the reasons for modifications to the previous contract.

RESULTS IN BRIEF

According to the information we reviewed, the A-76 competitions at Dobbins and Niagara Falls were conducted following the Office of Management and Budget Circular A-76 guidelines. The Air Force Reserve Command developed the performance work statements and determined the in-house most efficient organization at the headquarters level to ensure a comparable level of service among the bases under its command. According to various installation officials at both Niagara Falls and Dobbins, the centrally developed performance work statements adequately captured the work that needed to be done when they were written. However, because the Niagara Falls and Dobbins contracts have been in place since April 1, 1999, and June 1, 1999, respectively, it is too soon to assess the completeness of the performance work statements.

Data available from the Reserve Command indicate that savings over 5 years from these recent competitions are estimated to be approximately $8 million for Dobbins and $1.8

[1] Under A-76, agencies conduct public/private competitions to determine whether the public or private sector will perform selected commercial activities and functions. In conducting competitions for in-house functions, agencies review organizational structures, staffing, and operating procedures to determine the most efficient organization and most cost-effective way of performing the functions.

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million for Niagara Falls.[2] However, these projections do not take into account the cost of completing the studies and transition costs. Also, initial A-76 projected savings may not necessarily represent long-term savings. The contracts have not been in place long enough to assess the likelihood of changes in contract requirements that could affect costs and savings, nor have they been in place long enough to assess improved efficiencies in base operations.

Most of the modifications to the prior contract at Niagara Falls were due to technical changes or changes in labor wage rates that are normal and expected. According to officials at Niagara Falls, the prior contract's performance work statement adequately captured the work that needed to be done at that time.

BACKGROUND

The Air Force Reserve Command (AFRC) conducted A-76 competitions for base operating support functions at nine of its bases in the 1980s. As a result of these competitions, the functions remained in-house at all but one base—Niagara Falls Air Reserve Station. The original contract award was for 3 years. At the end of the contract period, the functions were offered for full and open competition among private sector companies.

In November 1995, AFRC began an aggressive competitive sourcing program because of the need to reexamine its business processes and achieve efficiencies. At 13 Air Force reserve bases, command officials identified base operating support functions (involving 1,244 authorized positions) that could be studied under the Office of Management and Budget (OMB) Circular A-76 for possible contract performance. Many of the same functions studied at bases in the 1980s were identified for review under this effort again. AFRC officials determined that all the private sector competitions undertaken as part of these studies would be small business set-asides. When we began our review, A-76 studies were completed only at Dobbins Air Reserve Base and Niagara Falls Air Reserve Station.

The A-76 study at Dobbins Air Reserve Base began on June 13, 1996. The study included eight base operating support functions—base supply, motor vehicle management, traffic management, communications and information management, real property maintenance, transient aircraft services, airfield management, and meteorological services. Government employees performed all functions except meteorological services and the communications portion of communications and information management, which were performed under separate contracts.

The study at Niagara Falls Air Reserve Station also began on June 13, 1996. The study included the same support functions as those at Dobbins, except for transient aircraft services. As a result of the previous OMB Circular A-76 competition, all functions except the communications portion of communications and information management, airfield management, and meteorological services had been contracted out. Command officials decided to develop an in-house most efficient organization (MEO) for all functions, including those that were previously contracted out.

[2] The savings for Dobbins are based on the difference between the winning bid and baseline costs. The savings for Niagara Falls are based on the difference between the winning bid and the cost to return performance of the functions to the government.

After the A-76 competitions at Dobbins and Niagara Falls had begun, AFRC removed the communication and information management function from the remaining 11 competitions. Command officials decided a Command-wide A-76 competition would be more beneficial due to the rapidly changing nature of communication and information technology. AFRC announced an A-76 competition for communications and information management in March 1999.

AFRC TOOK A CENTRALIZED APPROACH TO A-76 COMPETITIONS

Based on the information we reviewed concerning the two completed A-76 competitions at Dobbins and Niagara Falls and interviews with officials associated with the competitions, the competitions were conducted following OMB Circular A-76 guidelines. AFRC's headquarters centrally managed the development of both the performance work statements and the MEOs. This was a change from the decentralized management approach used by AFRC in the 1980s, when each installation undertook its own A-76 study. One of the Command's purposes in centralizing the development of the performance work statements and MEOs at the headquarters was to standardize the level of services across installations. No employees appealed the outsourcing decisions under the administrative appeals process. Also, officials at both Dobbins and Niagara Falls told us that thus far the performance work statements had adequately captured the work that needed to be done.

Performance Work Statement Development

AFRC centralized the development of the performance work statement at its headquarters to ensure consistency and a standard level of service across all the Command's installations and to eliminate major differences in base support functions. Command officials developed a generic performance work statement template for each base operating support functional area to be used in all base operating support A-76 competitions. The template was based on the contract for the contracted base operating support operations at Niagara Falls Air Reserve Station and related service standards. We were told that functional representatives from each of the bases met to discuss what should be included in the template. The functions not previously contracted out at Niagara Falls but included in the recent competition were added to this generic template. AFRC officials developed a base-specific performance work statement by modifying the template to meet each base's unique needs. Because of the Command's desire to standardize base operating support, not all modifications requested by base personnel were made to the final performance work statement. However, to ensure that the performance work statement was sufficient to meet each base's minimum acceptable level of service, the wing commander's approval was required.

AFRC instituted a standard level of service so that all bases in the Command would operate with similar service levels and processes. For example, according to AFRC officials, the contract template specified that grass is to be maintained between 2 and 4 inches. Another example is specification of breakdown maintenance versus periodic maintenance on certain noncritical items such as bathroom fans. Command officials determined it would be cheaper to replace the fans when they broke rather than provide periodic maintenance. The Command also looked at what education and experience levels were required to perform base operation support tasks in the contract. A mandatory level of education that was too

high could result in an unnecessary inflation of the cost of doing business and might mean that current employees could not meet the requirements of their jobs, according to AFRC officials.

Command officials, under guidance from Air Force officials, determined that the Davis-Bacon Act[3] did not apply to the base operating support A-76 competitions because the requirements did not include substantial and segregable construction work.

Officials at both Dobbins and Niagara Falls told us that the performance work statements adequately captured the work that needed to be done at their locations when they were written. However, in our March 1997 report on competitive sourcing,[4] we noted that difficulties in preparing performance work statements had often required contract modifications by the Department of Defense (DOD). According to the contracting officer both of these contracts have been in operation for only a short period of time, and AFRC has made no major modifications. Therefore, at this early date, we cannot evaluate whether the performance work statements adequately captured the work that needed to be done.

AFRC officials acknowledged the Niagara Falls solicitation inadvertently omitted the number of hours—7,200—required for snowplowing and grounds maintenance work. This led the private sector offeror to calculate fewer hours for the work than the government calculated. When this oversight was discovered, AFRC investigated the impact of adding the 7,200 hours to the contractor's cost. It found that the private sector's offer would still win the cost comparison.

Most Efficient Organization Development

When developing the MEO, a team comprised of management representatives from the AFRC headquarters level visited each base and sought input from all base officials. 10 U.S.C. 2467 requires that employee representatives be consulted during the preparation and development of the MEO. We were told that the MEO team received input from management and functional officials and union representatives and that the final MEO represented a management decision based on relevant input.

Under the centralized process, according to an AFRC official, the MEO team calculates a staffing baseline using the Command's manpower standards and then adjusts the baseline based on discussions with the functional area chiefs at each installation and union representatives. The centralized MEO team adjusts the staffing levels in the MEO if base officials can support changes with objective evidence. We were told adjustments have been made to reflect changes in technology, multiskilling of positions, reorganization of functions, and use of seasonal employees. According to AFRC officials, the wing commander at each installation and key members of the management staff review the final MEO, which requires the wing commander's approval. The commander must attest that the work of the base can be done with the workforce estimate in the MEO and that the base will not be adversely

[3] The Davis-Bacon Act (40 U.S.C. 276a) states that federal construction contracts over $2,000 must provide that laborers or mechanics be paid the prevailing labor rates as determined by the Secretary of Labor.

[4] Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997).

affected. The wing commander at Niagara Falls told us that he and his management team reviewed and approved the recent MEO with no changes.

The functional area chiefs at Niagara Falls believed the centralized MEO team did a good job of developing the MEO for Niagara Falls. However, some of the functional area chiefs at Dobbins said that they were not given enough time for input into the MEO development process.

A-76 COMPETITIONS CONTEMPLATE SAVINGS, BUT IT IS TOO SOON TO FULLY ASSESS EFFICIENCY IMPACTS

AFRC data indicate that savings over 5 years from these recent competitions are estimated to be approximately $8 million for Dobbins and $1.8 million for Niagara Falls. However, any changes made to work requirements after award of the contracts could affect these savings estimates. In addition, the Air Force does not fully identify the cost to conduct A-76 competitions. Because these contractors have only been performing work for a short time, it is too soon to fully assess impacts on the efficiency of base operations.

AFRC's projected savings do not necessarily represent long-term savings. The Command's projected savings do not include the cost to complete the studies or transition costs. In addition, as we have previously reported, savings estimates can change over time because of changes in scope of work, mandated wage increases, or poorly written performance work statements.[5] Further, DOD and the services have not traditionally tracked cost changes that occurred after their competitions and revised projected savings. DOD officials, however, have recognized these limitations and have initiatives underway to improve its information systems to more fully capture cost and savings data from A-76 competitions.[6]

The Air Force does not completely track and account for the various costs involved in conducting and implementing an A-76 study. Thus, the Air Force's savings estimates did not include the estimated cost of developing the in-house MEO. As our February 1999 report noted, study costs as well as employee separation costs can have the effect of reducing projected savings in the short-term.

The contractors at both Niagara Falls and Dobbins have been in charge of base operations for a relatively short period of time. The contractor at Niagara Falls took over operations on April 1, 1999, while the contractor at Dobbins took over operations on June 1, 1999. This short period of time makes it difficult to provide a meaningful assessment of any improved efficiencies in base operating support.

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[5] DOD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative (GAO/NSIAD-99-46, Feb. 22, 1999) and DOD Competitive Sourcing: Results of Recent Competitions (GAO/NSIAD-99-44, Feb. 23, 1999).

[6] At the same time, DOD has acknowledged, and our financial statement audits have confirmed, that it cannot adequately measure the cost of its operations and programs. Lacking reliable cost data, DOD will continue to have difficulty determining performance against projected savings estimates.

MODIFICATIONS TO THE PREVIOUS CONTRACT AT NIAGARA FALLS AIR RESERVE STATION

Due to the award of two successive contracts for base operations at Niagara Falls and the many modifications that have been made to the second contract, it is difficult to establish a meaningful baseline against which to measure savings. For example, the prior contract at Niagara Falls was modified 73 times.[7] Our review indicated that the modifications were not due to a poorly written performance work statement. Officials at Niagara Falls stated that the prior performance work statement adequately captured the work that needed to be done at the time. Most of the contract modifications were either technical changes or funding changes, such as increased or changed work requirements or labor wage rate increases.

AGENCY COMMENTS AND OUR EVALUATION

We requested comments on a draft of this report from the Secretary of Defense or his designee. On August 30, 1999, officials in DOD's Office of the Deputy Under Secretary for Installations and the Air Force's Commercial Activities Program Office orally concurred with our report findings.

SCOPE AND METHODOLOGY

To determine the process AFRC followed in conducting the A-76 competitions and assess whether the performance work statements adequately captured the work to be done, we met with Command and base officials at the Air Force Reserve Command, Warner-Robins, Georgia; Dobbins Air Reserve Base, Marietta, Georgia; and Niagara Falls Air Reserve Station, Niagara Falls, New York. We spoke with a union representative at Niagara Falls and attempted to meet with union representatives at Robins and Dobbins. We also reviewed the performance work statements and other documents associated with the competitions. To determine the cost of the studies, expected savings, and improved efficiencies from the A-76 competitions, we interviewed officials and obtained data from officials at the Department of the Air Force, Washington, D.C.; Randolph Air Force Base, Texas; and the Air Force Reserve Command at Robins Air Force Base, Georgia. We also relied on our prior work in this area. To determine the extent to which the previous contract at Niagara Falls Air Reserve Station was modified and why, we interviewed officials at the Air Force Reserve Command and Niagara Falls Air Reserve Station. We also reviewed all of the contract modifications.

We performed our work from April through August 1999 in accordance with generally accepted government auditing standards.

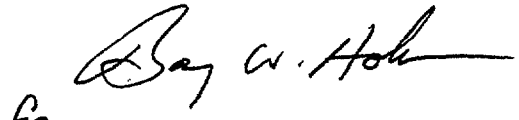
We are sending copies of this report to Senator James M. Inhofe, Chairman, and Senator Charles Robb, Ranking Minority Member, Subcommittee on Readiness and Management Support, Senate Committee on Armed Services, and to Representative Herbert Bateman, Chairman, and Representative Soloman Ortiz, Ranking Minority Member, Subcommittee on Military Readiness, House Committee on Armed Services. We are also sending this report to

[7] Our review of the contract modifications focused on the contract from the second competition at Niagara Falls.

the Honorable William S. Cohen, Secretary of Defense; the Honorable F. W. Peters, Secretary of the Air Force; and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will also be available to others upon request.

If you or your staff have any questions concerning this report, please contact Barry Holman or me on (202) 512-8412. Key contributors to this assignment were Marilyn Wasleski, Neal Gottlieb, and David Rowan.

Sincerely yours,



for David R. Warren, Director
Defense Management Issues

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