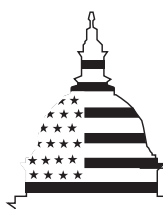


July 1999

# DOD COMPETITIVE SOURCING

## Lessons Learned System Could Enhance A-76 Study Process



G A O

Accountability \* Integrity \* Reliability

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B-282637

July 21, 1999

### Congressional Committees

In late 1995, after a lull in emphasis for several years, the Department of Defense (DOD) began encouraging the services and defense agencies to intensify competitive sourcing efforts as provided for in the Office of Management and Budget's (OMB) Circular A-76. Pursuant to A-76, DOD components conduct cost comparison studies of commercial activities being performed by government personnel to determine whether it would be more cost efficient to maintain them in-house or contract with the private sector for their performance. Government officials, business leaders, and the Congress have expressed concern that these cost comparisons take too long and that DOD needs to find ways to expedite the process. The Congress, in enacting the National Defense Authorization Act for Fiscal Year 1998 (P.L. 105-85), encouraged DOD to develop standardized performance work statements as a means of expediting these competitive sourcing studies. This legislation also required us to report on DOD's progress.

As requested, this report addresses efforts by DOD to (1) improve performance work statements, including encouraging the use of standard templates, and (2) implement other efforts to improve the competitive sourcing process, as well as gather and disseminate lessons learned that could benefit the competitive sourcing program DOD-wide. Our scope and methodology are included in appendix I.

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## Results in Brief

DOD has focused on improving the quality of its performance work statements, with limited emphasis on developing standardized work statements. According to various DOD officials, the need to tailor performance work statements to individual circumstances and locations, as well as the increasing emphasis on grouping multiple activities for competitions under single solicitations, limits the usefulness of standardized work statements. Many officials stated that while previously developed work statements provide useful guidance, they are best used as a frame of reference for, but not in place of, developing new performance work statements.

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In addition to efforts devoted to developing improved performance work statements, DOD components and activities are pursuing a variety of approaches on their own to improve competitive sourcing studies. Some of these may not shorten the study process, but they are intended to improve the efficiency and long-term cost-effectiveness of the process. Approaches range from combining multiple functions together under single solicitations to using new tools to improve the development of key A-76 documents. However, DOD and its components have devoted limited efforts and resources to documenting and disseminating lessons learned and best practices from the various efforts that could be useful DOD-wide.

We are recommending that DOD develop a more systematic approach for evaluating, compiling, and disseminating best practices and lessons learned from competitive sourcing activities.

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## Background

Since 1955, federal agencies have been encouraged to obtain commercially available goods and services from the private sector, if doing so is cost-effective. In 1966, OMB issued Circular A-76, which established federal policy for the government's performance of commercial activities and procedures for studying them for potential conversion to performance by the private sector. In 1979, OMB issued a supplemental handbook to the circular that included procedures for cost comparison studies to determine whether commercial activities should be performed in-house, by another federal agency, or by the private sector. OMB updated this handbook in 1983 and again in March 1996.

Through much of the 1980s, DOD encouraged the services and the defense agencies to conduct A-76 competitive sourcing studies. Subsequently, DOD's emphasis on these studies was limited from the late-1980s to the mid-1990s due to legislative actions and internal constraints. However, in 1995 DOD renewed its competitive sourcing study program with the expectation of achieving savings that could be used to fund modernization and other priority needs. Over the next several years, DOD expects to study about 230,000 positions under this program, compared with about 90,000 positions studied over an almost 20-year period. It also expects to achieve \$11.2 billion in cumulative savings between fiscal year 1997 and 2005 and \$3.3 billion in annual recurring savings each year thereafter. We have reported that in launching the renewed emphasis on competitive sourcing studies, DOD faces a greater challenge than that posed by the

significant increase in the numbers of positions to be studied.<sup>1</sup> That is, despite the major emphasis being given to competitive sourcing studies, many Defense components report that DOD's downsizing has resulted in far fewer personnel being devoted to conducting studies and the elimination of much of the expertise in this area.

Generally, the A-76 process requires (1) developing a performance work statement and a quality assurance surveillance plan; (2) conducting a management study to determine the government's most efficient organization (MEO), the federal entity that will compete with the selected private sector offeror; (3) developing an in-house government cost estimate for the MEO; (4) issuing Request for Proposals (RFP) or Invitation for Bids (IFB);<sup>2</sup> (5) evaluating the RFPs or IFBs and comparing the in-house estimate with a private sector offer or interservice support agreement and selecting the winner of the cost comparison; and (6) addressing any appeals submitted under the administrative appeals process, which is designed to ensure that all costs are fair, accurate, and calculated in the manner prescribed by A-76 procedures.

A key component of the A-76 study process affecting both costs and work performance involves developing the performance work statement that defines the government's requirements. This statement is used as the technical performance section of a solicitation for private-sector offers and is the basis for the government's development of its own management plan and in-house cost estimate to be used in the cost comparison. In March 1997, we reported that defense installations often prepared performance work statements that inadequately captured requirements and required revision after contracts had been awarded.<sup>3</sup> Those revisions sometimes led to increased costs—making it more difficult to assess the savings actually realized from the A-76 process.

A 1997 Air Force Audit Agency report on cost growth in service contracts, for instance, stated that 65 percent of cost growth was due to post contracting revisions. Revisions were needed to add existing work that was

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<sup>1</sup>DOD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative (GAO/NSIAD-99-46, Feb. 22, 1999).

<sup>2</sup>An RFP or IFB is used to solicit offers from the private sector and contains the performance work statement.

<sup>3</sup>Base Operations: Challenges Confronting DOD as It Renews Emphasis on Outsourcing (GAO/NSIAD-97-86, Mar. 11, 1997).

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not addressed in the performance work statement or work not anticipated at the time the statement was developed. The remaining 35 percent of cost growth was due to wage increases mandated by the Department of Labor or labor contracts. The report concluded that more comprehensive performance work statements were needed. Later, in 1998, an Office of the Secretary of Defense (OSD) sponsored report stated that more than one-half of 156 performance work statements reviewed were not performance based<sup>4</sup> and that personnel who wrote the statements often lacked experience and training. To assist in the development of quality performance work statements, OSD recommended that DOD establish a central repository for sample performance-based performance work statements. Time lines for implementation of this repository have not been established, however.

Development of performance work statements and other initial steps in the competitive sourcing study process historically have taken extended periods of time. Concern over the slow pace led to legislation in 1991, as part of the Department of Defense Appropriations Act for Fiscal Year 1991 (P.L. 101-511) and subsequent DOD appropriations acts, requiring that DOD complete single activity A-76 competitions within 24 months and multiple activity competitions within 48 months.

More recently, various DOD and industry officials have continued to express concerns about what they perceive is excessive time required to complete competitive sourcing studies, and thus have cited the need to streamline the process. The Congress, in enacting the National Defense Authorization Act for Fiscal Year 1998, authorized DOD to develop standard forms to use when studying commercial activities for conversion to private-sector performance. Specifically, the law authorized and encouraged DOD to develop standard performance work statements and RFPs for each commercial function studied, giving priority to functions that repeatedly have been converted successfully to contractor performance.

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<sup>4</sup>The Office of Federal Procurement Policy defines "performance based" work statements as those containing specifications structured around the purpose of the work to be performed. Performance-based work statements should not include detailed procedures that dictate how work is to be accomplished and should avoid ambiguous and imprecise statements. For example, a performance work statement should not specify that "lawns be mowed weekly" and "trees be pruned each fall," nor should it include ambiguous requirements, such as "clear snow as required" or "mow grass as necessary." Rather, such a statement should read "keep driveways clear of snow so that depth does not exceed 2 inches" or "maintain grass between 2 and 3 inches high."

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## Greater Efforts Devoted to Quality Performance Work Statements Than to Standardization

As DOD components give renewed emphasis to competitive sourcing studies, various commands and field level activities are working to strengthen their development of performance work statements in the competitive sourcing process. They are also devoting some efforts to incorporating outcome measures that are less prescriptive and more performance based into those statements. Limited efforts, however, have been devoted to developing standardized performance work statements or templates. Many officials stated that while previous performance work statements provide useful guidance, they are best used as a frame of reference for, rather than in place of, developing new statements.

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## Efforts Devoted to Developing Performance Work Statements

Because performance work statements are used to establish the MEO and the basis for the RFP in an A-76 cost comparison study, their quality is critical and considerable attention needs to be devoted to their development to ensure they adequately capture the work that is required. At the same time, these statements have sometimes been so prescriptive that contractors complained they were left with little flexibility or room for creativity in meeting requirements. Various DOD components are addressing these issues in their new competitive sourcing studies.

Each of the services has issued comprehensive written guidance on developing performance work statements. The guidance defines the terms, purpose, scope, elements, and structure of the statement, including steps to writing it. For example, the Army provides a methodology for diagramming work processes, and the Navy provides an interview guide to use in gathering workload data. Service guidance does not specifically require the use of standardized performance work statement templates, however.

DOD components also emphasize writing performance-based work statements. Component guidance defines such statements variously as “performance-oriented . . . specifying what outputs or measures are desired and limiting directions as to how the results are achieved,” and permitting “innovation that can lead to increased efficiency and improved levels of quality.” Marine Corps guidance contains examples of performance-based requirements, while Air Force guidance refers a reader to a worldwide web site containing sample language. To help a reader understand what a performance-based work statement should look like, Marine Corps and Navy guidance includes an illustration of one for a transportation maintenance and repair activity. Air Force guidance directs a reader to review performance work statements on worldwide web sites. However,

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according to an Air Force headquarters official, the statements on the worldwide web are not necessarily performance-based, but they provide a basis to start writing a performance work statement.

Major commands and field headquarters we visited have also assisted those involved in writing performance work statements. In most cases, command assistance continues the emphasis on writing performance-based specifications, as well as developing comprehensive performance work statements with quantifiable measures. Recognizing limitations in field staff expertise, some commands have sent teams of experts to the field to help field level officials conduct A-76 studies, including providing assistance to write performance work statements.

Various officials described their success in writing comprehensive performance work statements with quantifiable measures and performance-based specifications as mixed. Officials at some commands told us they believe that performance work statements have improved, while others told us improvements are still needed. Army, Navy, and Air Force officials at various levels told us that some performance-based work statements are being written but that most work statements continue to be largely prescriptive; that is, they define how the work is to be accomplished rather than the results to be achieved. Officials attributed the use of prescriptive wording to a lack of training and understanding of what constitutes a performance-based work statement. Army officials said the use of prescriptive language continues because installation officials want to ensure that specifications accurately represent the installations' work requirements.

We found that performance work statements were seldom reviewed above local levels to ensure they were performance based. In the few instances where officials told us that the statements were reviewed above the local level, officials at both the local and major command levels said they believed that such reviews helped improve the quality of the documents.

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### Use of Standardized Performance Work Statements Likely to Be Limited

Although some DOD component headquarters have recently cited the need for standardized performance work statement templates, officials at various levels have suggested that previously developed statements have limited value as a substitute for new statements. They noted that overuse of templates can, in fact, create problems and that the changing nature of competitive sourcing studies suggests the usefulness of templates will likely be as a general guide.



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Most field commands and installations have received generalized templates as part of headquarters' service guidance. Further, OSD and most DOD components maintain worldwide web sites containing performance work statements from prior studies for use as models. Command and field level officials stated that templates were useful as a frame of reference or a guide for formatting new statements. However, they urged caution about over reliance on previously developed statements or templates. Some were aware of selected instances where overuse of templates had limited management initiative, as those preparing the performance work statement simply lifted the language from the template without reevaluating requirements and considering alternative approaches to accomplishing the mission. Some major command officials recalled instances where contracting officers at some locations had relied on templates to the point where the statements were not specific in that they did not fully reflect their activities' unique requirements. For example, officials at an Air Force installation described instances where the template was not changed to reflect the activity's requirements, but was used as is, including requirements that were not performed at the installation.

Various officials also noted that most competitive sourcing studies focused on individual commercial activities performed on military installations, such as grass cutting. Now, increasing emphasis is being given to combining multiple activities under single A-76 competitive sourcing studies. This makes it more difficult to use standardized templates other than as a frame of reference for formatting purposes.

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## **Efforts Are Underway to Improve Competitive Sourcing Studies, but Actions to Identify Best Practices and Disseminate Lessons Learned Are Limited**

The services, the defense agencies, and local installations are individually taking and considering steps to improve the efficiency and effectiveness of the competitive sourcing process. These steps range from combining multiple activities together under single solicitations to using new tools to improve the development of A-76 study documents, including the performance work statement and the in-house MEO. However, DOD and its components have devoted limited efforts and resources to documenting and disseminating lessons learned and best practices from the various efforts that could be useful DOD-wide.

## Efforts to Improve the Competitive Sourcing Process

In visiting service command and field locations, we identified a variety of efforts being undertaken to improve the competitive sourcing process. Examples include combining multiple activities under single A-76 studies, addressing small business competition issues, establishing the MEO based on modeling estimated costs of in-house activities, streamlining solicitations to reduce cycle time, and building quality metrics into the requirements of the performance work statement to assure better performance once a competition has been completed. These examples are not all inclusive, but they are indicative of efforts to strengthen the process—efforts that if successful could have wider application throughout DOD.

## Multiple Activity Cost Comparison Studies

DOD has endorsed competitions involving multiple activity studies, even though they take longer to complete than studies involving single activities, because of their perceived potential to yield greater savings. While the majority of A-76 studies underway involve a single activity, Army, Air Force, and Marine Corps officials identified more than 50 studies underway in mid-fiscal year 1999 involving a mix of commercial activities on military installations.<sup>5</sup> Further, according to a Navy headquarters official, most of the Navy's more than 280 ongoing A-76 studies involve (1) more than one commercial activity on an installation or (2) activities at more than one location. We found various instances of multiple activity studies that involve or involved several sites or that were regional in nature. For example:

- The Defense Logistics Agency (DLA) is conducting a single study of logistics activities at 10 sites in the northeastern part of the United States.
- The Air Force is conducting single studies of activities such as training and library services currently performed at multiple installations. It is also conducting a single A-76 study of its precision measurement equipment laboratories, which provide weapon systems' calibration and are located at roughly 120 sites across 39 states, 1 U.S. territory, 5 countries, and the District of Columbia.
- In 1998, the Navy conducted a single A-76 study of child care services provided at two Marine Corps bases, a hospital, and various naval

<sup>5</sup>DOD headquarters officials estimated a total of about 660 A-76 studies were underway during mid-fiscal year 1999 in the four services and two defense agencies, DLA and the Defense Finance and Accounting Service. Some officials cautioned that the actual number of studies could vary, however, because field level officials are still reviewing how to group some activities for study.

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activities within an area covering two western states. Currently, the Navy is conducting eight A-76 studies in four regions across the United States and its territories involving child care; family services; and activities related to morale, welfare, and recreation.

Experience gained from these diverse studies will likely provide important information about practices that may be desirable to replicate in other studies, as well as practices that may need to be reconsidered.

### Dealing With Competition Issues

Because the study process includes issuance of an RFP or IFB, when multiple activities are to be consolidated into one cost comparison study, issues concerning competition are raised. The use of a contract that bundles several requirements must be consistent with the mandate for full and open competition contained in the Competition in Contracting Act of 1984. The use of a bundled solicitation could restrict competition because multiple requirements are combined into a single award, potentially eliminating those firms that can only furnish a portion of the requirement. In order to be deemed acceptable, such a solicitation must represent DOD's legitimate needs, rather than administrative convenience or unsupported claims of economy.

As we have reported, the effect of grouping multiple activities for competitive sourcing studies has been a concern to the small business community because of its potential to exclude small business participation as prime contractors. In 1997, the Congress amended the Small Business Act to specifically address the consolidation, or bundling, of procurement requirements into one solicitation.<sup>6</sup> Generally, these amendments provided that procurement strategies used by government agencies, to the maximum extent practicable, shall facilitate the maximum participation of small business concerns as prime contractors, subcontractors, and suppliers. If the procurement strategy involves bundling, an agency must determine that it is necessary and justified. If substantial bundling is involved, the procurement strategy must also specify actions designed to maximize small business participation as subcontractors. These statutory provisions may affect an agency's ability to conduct multiple activity studies.

Various officials have pointed to the need for more effective strategies for engaging small business communities in the early stages of the studies to mitigate concerns and potential problems. Concerned about fewer small

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<sup>6</sup>See sections 411-417 of the Small Business Reauthorization Act of 1997 (P.L. 105-135).

businesses participating in DOD's competitive sourcing program, the Air Force established an outreach program office in November 1998 to encourage small business participation in A-76 competitions. The Air Force hopes to capitalize on a change to the Small Business Act that allows small businesses to team in order to compete for large multiple activity contracts.<sup>7</sup> The Air Force plans to (1) work with the small business community to promote cooperation and (2) conduct market research to identify small business teaming relationships capable of competing for large A-76 contracts. If successful, this effort could provide some important lessons or guides for approaching small business issues in competitive sourcing efforts.

#### Using Modeling Tools to Perform A-76 Studies

Various DOD component headquarters and field commands have encouraged the use of activity-based costing as a management tool for installation officials to improve analyses and business decisions based on a better understanding of costs associated with performing individual activities. Activity-based costing is a method of deriving the costs of a firm's output by identifying processes used in the production and delivery of the output and the resources used in the performance of these processes. This method contrasts with more traditional accounting approaches of spreading indirect/overhead costs evenly across direct costs according to some allocation formula, such as a percentage of direct labor hours. According to DOD proponents of activity-based costing, this tool can help managers analyze organizational requirements and structures by focusing on the costs to perform individual activities.

Historically, concerns have been expressed about how accurately in-house cost estimates reflect actual costs. We have previously noted limitations in DOD's accounting systems affecting its ability to accumulate and report on the total costs of its activities.<sup>8</sup> Absent efforts to improve DOD's overall accounting systems, it is not clear to what extent efforts to implement activity-based costing will be meaningful given the limitations in DOD's accounting systems. Nevertheless, activities that have explored the use of this tool view it as useful for analyzing individual work segments and better

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<sup>7</sup>15 U.S.C. 644, as amended by section 413 of the Small Business Reauthorization Act of 1997 (P.L. 105-135).

<sup>8</sup>See Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies (GAO/NSIAD-98-62, Feb. 27, 1998) and Performance and Accountability Series: Major Management Challenges and Program Risks—Department of Defense (GAO/OCG-99-4, Jan. 1999).

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identifying the costs of performing them or of alternative approaches to accomplishing them.

The Air Force presented the following hypothetical example of how activity-based costing can be applied to commercial activities. A military medical center has various resources such as personnel, supplies, and facilities. Each of these resources has known funding levels, such as personnel salaries. Under this concept, analysts allocate resources and associated funding among the center's various activities, such as taking blood samples and filling prescriptions, by breaking down funding among activities mainly by conducting interviews and workflow analyses. They then link activities to resulting outputs, such as primary care patient visits, and estimate the cost of each output by totaling the funding of contributing activities. The relative differences between estimated costs of different outputs provide managers with the information to make business decisions and change work processes.

According to Defense Finance and Accounting Service (DFAS) headquarters officials, activity-based costing helps develop the MEO by providing the information necessary to reengineer the in-house organization. Officials at one installation that used this tool to conduct an A-76 study said the information helped to structure the performance work statement in terms of outputs or activities, instead of along organizational or functional lines. Others said the tool helped to develop a better MEO by improving in-house operations and identifying potential efficiencies.

Officials at various component headquarters and major commands told us they did not know of any activity using activity-based costing to conduct A-76 studies. For example, we found only one Army, one Air Force, and six DFAS studies in which this tool had been used or was being used to create MEOs and prepare performance work statements. Installation officials expressed concerns about the cost and time to develop activity-based costing models, especially in conjunction with an A-76 study. For example, DLA officials told us it took 10 staff members working 6 months full time to identify individual activities, conduct interviews, and enter the data to an activity-based costing model for one installation. (The DLA model was not prepared as part of an A-76 study.) Because of the time and effort involved in constructing an activity-based costing model, most officials said that this tool should be used in A-76 studies only when a model is already in place. Conducting an A-76 study and developing the model at the same time consumes a lot of resources, officials said. Proponents of activity-based costing acknowledge that maintaining a model can consume significant

resources, but they point out that such efforts should lessen as more automated processes are applied, such as using computerized surveys of employees to identify the time they spend performing various activities.

Although DOD has encouraged the use of activity-based costing to study commercial activities, it has not fully assessed how much time and resources are needed to develop models or whether they produce worthwhile improvements in the A-76 study process. Assessments of ongoing and previous use of this tool could identify best practices and lessons learned as well as give a better indication of the potential of the tool for facilitating A-76 studies.

#### Shortening the Solicitation Process

To accomplish DOD's ambitious time lines for completing A-76 studies, several components we visited were pursuing various approaches to reduce the time it takes to complete some tasks. Officials at both major command and field levels attributed timesaving to measures to streamline the solicitation process, such as requiring oral presentations from offerors and limiting the size of proposals received. Air Force command officials told us they allowed offerors to forgo restating the performance work statement in their proposals, thereby reducing the size of proposals to one-fifth the usual number of pages. Various field level officials said they plan to require oral presentations and a short written proposal to eliminate voluminous written proposals and shorten the government's time line for proposal evaluations. Because the government's in-house technical performance plan must be compared to the selected private sector firm's offer to ensure the same level of performance and quality is contained in the government's offer, the use of oral presentations may make the comparison difficult. Information on whether oral presentations proved workable in the A-76 context would be useful to others undertaking A-76 studies.

As field activities incorporate these approaches into A-76 studies, it would be useful for DOD to assess the actual time saved, determine the usefulness, and disseminate information about these approaches so that other field activities may capitalize on those that prove successful.

#### Use of ISO 9000 Type Quality Standards

DOD component headquarters have begun to emphasize the use of commercial quality standards when conducting A-76 studies. We found that officials at several installations were considering requiring federal contractors to comply with the International Organization for Standardization (ISO) 9000 series, a set of international commercial standards for quality management and reliability, or a similar standard.

Some DOD officials said that less oversight of contractor performance would be necessary if they required contractors to be certified as meeting quality standards. DOD's service contracting community has had limited experience with ISO 9000, however, and DOD has not settled all the issues surrounding such certification requirements, including how contract quality assurance will be affected.

A key unresolved issue is whether and how to require the MEO to become certified and ensure a level playing field in competitions between the public and private sectors. At least one official expressed concern about the time it would take an in-house organization to become certified and the possibility of delaying the overall A-76 study time line. Other contracting officials told us they plan to require an in-house organization to obtain certification or at least comply with the standards.

Some DOD officials expressed concerns about the time and cost to the contractor to become ISO 9000 certified and the implications for competition. The ISO 9000 certification process can take up to 1 year and the total cost estimates for certification, which includes periodic reassessments, range from about \$22,000 to \$32,000. These cost estimates are in addition to any internal costs to develop and implement a quality system and pay for a consultant. Further, various DOD officials said requiring certification might limit competition because some firms will not be able to afford certification.

Although some officials said they were considering ISO 9000 or a similar type of certification or compliance, how this requirement will be implemented is uncertain. We cannot comment on the viability of this approach given the unanswered questions that exist and the potential competition issues it raises. However, because ISO is an emerging concept within federal contracting for service-type activities and is being considered for inclusion in A-76 studies, an assessment of its viability could be beneficial to organizations DOD-wide as large numbers of positions and activities are subjected to competitive sourcing studies.

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## Efforts to Identify and Disseminate Lessons Learned Are Limited

Each of these approaches could offer important insights into practices that work well and others that might not work so well in future competitive sourcing studies. While DOD has encouraged improving and streamlining the A-76 study process, it has generally relied upon its components to develop the means for doing so. In many instances, this stance and the limited personnel devoted to managing the competitive sourcing program

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at OSD, components, and major command headquarters have resulted in limited, largely decentralized and uncoordinated efforts to improve the competitive sourcing process.

Some efforts have been made to gather and disseminate lessons learned, but they have been limited, particularly as they pertain to sharing information on a DOD-wide basis.

- Since 1997, Air Force headquarters has worked to build a knowledge management system. Although the Air Force has competed commercial activities for years, there is no system to capture and incorporate lessons learned into existing processes, an Air Force headquarters official said. The Air Force is developing a website for information sharing.
- In a February 1999 report, the Army acknowledged the need to establish forums to share competitive sourcing lessons learned, tools, and best practices. The report contained a recommendation that the Army exchange ideas across the service and with the other services, OMB, and private industry. This recommendation is under development.
- A DLA official told us that lessons are discussed during video conferences with field personnel and, where appropriate, incorporated into the competitive sourcing process. However, DLA officials told us the agency does not have a formal process to collect and disseminate competitive sourcing lessons learned.
- Navy headquarters officials told us that contracting officials maintain lessons learned on an informal basis. The Navy does not, however, have a formal process to capture and disseminate these lessons learned. Headquarters officials told us they do not intend to disseminate lessons learned until they have assessed the lessons and their potential to improve the competitive sourcing process.

OSD has recently stated that it needs to do more than encourage process improvement; it needs to lead competitive sourcing efforts and provide guidance and direction on how A-76 studies are accomplished in the field and initiatives are implemented. Yet, the OSD office with primary responsibility for DOD's competitive sourcing program operates with a full-time staff of two persons. Officials in that office told us that they recognize the need to identify and disseminate lessons learned, but they do not have sufficient resources to devote to the effort. Similarly, officials in the service headquarters' A-76 offices generally recognized the need to better disseminate lessons learned but also told us they were constrained by available resources.



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## Conclusions

Standardized performance work statements provide useful guidance but are best used as a frame of reference, not in place of developing new performance work statements. Significant DOD efforts are underway, however, to improve the statements by making them performance based. Each of the services has issued comprehensive written guidance on developing performance work statements and emphasized the need to write performance-based work statements. However, DOD needs to devote more effort to ensure that the statements are truly performance based.

In addition, various efforts are underway at different DOD levels to improve the competitive sourcing process. Some may shorten the process, while others may improve the efficiency and long-term cost-effectiveness of the process. Most of these efforts are in the early stages of implementation. As DOD components determine whether these efforts are successful and under which scenarios they are most helpful, it is likely that they would be more widely employed if information concerning lessons learned and best practices were widely disseminated among DOD components. However, despite a recognized need, there is no DOD-wide effort to identify lessons learned by activities with experience in carrying out these initiatives.

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## Recommendations

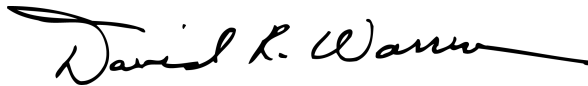
To ensure that components pursue the A-76 study process with maximum efficiency and effectiveness, we recommend that the Secretary of Defense, in conjunction with DOD components, establish a framework for identifying and analyzing best practices and lessons learned from competitive sourcing studies and disseminating them DOD-wide to foster improvements in competitive sourcing studies.

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## Agency Comments and Our Evaluation

In written comments on a draft of this report (see app. II), DOD generally agreed with our recommendation to establish a framework for identifying and analyzing best practices and lessons learned. DOD indicated that it planned to develop a web page that would promote sharing of best practices and lessons learned and consider other measures to foster improvements in the conduct of competitive sourcing studies. While a web page could be useful in disseminating information, we believe OSD needs to evaluate the relative merits of potential lessons learned before widely disseminating such information to components. This would better ensure that components are provided information on the most appropriate and viable best practices that could enhance their competitive sourcing studies.

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 Representative Herbert Bateman, Chairman, and Representative Solomon Ortiz, Ranking Minority Member, Subcommittee on Military Readiness, House Committee on Armed Services. We are also sending copies of this report to the Honorable William S. Cohen, Secretary of Defense; the Honorable Louis Caldera, Secretary of the Army; the Honorable Richard Danzig, Secretary of the Navy; the Honorable F.W. Peters, Acting Secretary of the Air Force; General James L. Jones, Commandant of the Marine Corps; and the Honorable Jacob Lew, Director, Office of Management and Budget. Copies will also be available to others upon request. GAO points of contact concerning this report and other key contributors are listed in appendix III.

A handwritten signature in black ink that reads "David R. Warren". The signature is written in a cursive style with a long horizontal stroke at the end.

David R. Warren, Director  
Defense Management Issues

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List of Congressional Committees

The Honorable John Warner  
Chairman

The Honorable Carl Levin  
Ranking Minority Member  
Committee on Armed Services  
United States Senate

The Honorable Ted Stevens  
Chairman

The Honorable Daniel Inouye  
Ranking Minority Member  
Subcommittee on Defense  
Committee on Appropriations  
United States Senate

The Honorable Floyd Spence  
Chairman

The Honorable Ike Skelton  
Ranking Minority Member  
Committee on Armed Services  
House of Representatives

The Honorable Jerry Lewis  
Chairman

The Honorable John Murtha  
Ranking Minority Member  
Subcommittee on Defense  
Committee on Appropriations  
House of Representatives

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## Abbreviations

DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DOD	Department of Defense
IFB	Invitation for Bid
MEO	most efficient organization
OSD	Office of the Secretary of Defense
OMB	Office of Management and Budget
RFP	Request for Proposal

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# Scope and Methodology

To report on the Department of Defense's (DOD) efforts to improve development of performance work statements, including the use of standard templates, and other actions to improve the competitive sourcing process and the gathering and disseminating of lessons learned, we discussed DOD's process for competing commercial activities, including new A-76 study and contracting techniques and initiatives, with headquarters and field level officials from the military services and two major defense agencies. At the headquarters level, we interviewed officials from the Office of the Secretary of Defense; the Departments of the Army, the Navy, and the Air Force; the Defense Logistics Agency (DLA) and the Defense Finance and Accounting Service (DFAS). At the field level, we visited commands and installations that headquarters officials identified as using innovative efforts to improve the process or that were competing relatively more positions performing commercial activities (see table I.1).

**Table I.1: Locations Visited**

	<b>Army</b>	<b>Navy</b>	<b>Air Force</b>	<b>DLA</b>
Commands	Army Training and Doctrine Command, Fort Monroe, Va.; Army Forces Command, Fort McPherson, Ga.	Navy Region Southwest, San Diego, Calif.; Naval Facilities Engineering Command, San Bruno, Calif.	Air Force Materiel Command, Dayton, Ohio; Air Education and Training Command, San Antonio, Tex. <sup>a</sup>	Defense Supply Center, Columbus, Ohio
Installations	Fort Knox, Ky.; Fort Polk, La.	Naval Air Station Lemoore, Calif.; Camp Pendleton Marine Corps Base, Calif.	Wright-Patterson Air Force Base, Dayton, Ohio	Defense Distribution Depot, Columbus, Ohio

<sup>a</sup>Although we did not visit Maxwell Air Force Base, Ala., we talked with officials at Randolph Air Force Base that worked on Maxwell's A-76 study.

We conducted our review from August 1998 to May 1999 in accordance with generally accepted government auditing standards.

# Comments From the Department of Defense



ACQUISITION AND  
TECHNOLOGY

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

July 2, 1999

Mr. David R. Warren  
Director, Defense Management Issues  
National Security and International Affairs Division  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Warren:

This is the Department of Defense (DoD) response to the General Accounting Office (GAO) Draft Report, "DOD COMPETITIVE SOURCING: Lessons Learned System Could Enhance A-76 Study Process," Dated May 20, 1999 (GAO/NSIAD-99-152, OSD Case 1827). The Department generally concurs with the report.

The Draft Report recommends the DoD establish a framework for identifying and analyzing best practices and lessons learned from competitive sourcing studies and disseminating them DoD-wide to foster improvements in competitive sourcing studies. My staff is developing a web page that, among other things, will promote sharing of best practices and lessons learned. In addition, we plan to consider other constructive measures to foster improvements in the conduct of competitive sourcing studies under the auspices of the Competitive Sourcing Overarching Integrated Process Team.

Technical comments and clarification were provided directly to the GAO staff for consideration. The Department appreciates the opportunity to comment on the Draft Report.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall A. Yim".

Randall A. Yim  
Deputy Under Secretary  
(Installations)



# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Barry Holman, (202) 512-5581  
Marilyn Wasleski, (202) 512-8436

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## Acknowledgments

In addition to those named above, Christine Frye, RuthAnn Hijazi, Arnett Sanders, and Jonathan Silverman made key contributions to this report.



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# Related GAO Products

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Defense Reform Initiative: Organization, Status, and Challenges  
(GAO/NSIAD-99-87, Apr. 21, 1999).

Quadrennial Defense Review: Status of Efforts to Implement Personnel Reductions in the Army Materiel Command (GAO/NSIAD-99-123, Mar. 31, 1999).

Defense Reform Initiative: Progress, Opportunities, and Challenges  
(GAO/T-NSIAD-99-95, Mar. 2, 1999).

Force Structure: A-76 Not Applicable to Air Force 38th Engineering Installation Wing Plan (GAO/NSIAD-99-73, Feb. 26, 1999).

Future Years Defense Program: How Savings From Reform Initiatives Affect DOD's 1999-2003 Program (GAO/NSIAD-99-66, Feb. 25, 1999).

DOD Competitive Sourcing: Results of Recent Competitions  
(GAO/NSIAD-99-44, Feb. 23, 1999).

DOD Competitive Sourcing: Questions About Goals, Pace, and Risks of Key Reform Initiative (GAO/NSIAD-99-46, Feb. 22, 1999).

OMB Circular A-76: Oversight and Implementation Issues  
(GAO/T-GGD-98-146, June 4, 1998).

Quadrennial Defense Review: Some Personnel Cuts and Associated Savings May Not Be Achieved (GAO/NSIAD-98-100, Apr. 30, 1998).

Competitive Contracting: Information Related to the Redrafts of the Freedom From Government Competition Act (GAO/GGD/NSIAD-98-167R, Apr. 27, 1998).

Defense Outsourcing: Impact on Navy Sea-Shore Rotations  
(GAO/NSIAD-98-107, Apr. 21, 1998).

Defense Infrastructure: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD-98-115, Mar. 18, 1998).

Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD/AIMD-98-122, Mar. 13, 1998).

Base Operations: DOD's Use of Single Contracts for Multiple Support Services (GAO/NSIAD-98-82, Feb. 27, 1998).

Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies (GAO/NSIAD-98-62, Feb. 27, 1998).

Outsourcing DOD Logistics: Savings Achievable but Defense Science Board's Projections Are Overstated (GAO/NSIAD-98-48, Dec. 8, 1997).

Financial Management: Outsourcing of Finance and Accounting Functions (GAO/AIMD/NSIAD-98-43, Oct. 17, 1997).

Base Operations: Contracting for Firefighters and Security Guards (GAO/NSIAD-97-200BR, Sept. 12, 1997).

Terms Related to Privatization Activities and Processes (GAO/GGD-97-121, July 1997).

Defense Outsourcing: Challenges Facing DOD as It Attempts to Save Billions in Infrastructure Costs (GAO/T-NSIAD-97-110, Mar. 12, 1997).

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

Public-Private Mix: Effectiveness and Performance of GSA's In-House and Contracted Services (GAO/GGD-95-204, Sept. 29, 1995).

Government Contractors: An Overview of the Federal Contracting-Out Program (GAO/T-GGD-95-131, Mar. 29, 1995).

Government Contractors: Are Service Contractors Performing Inherently Governmental Functions (GAO/GGD-92-11, Nov. 18, 1991).

OMB Circular A-76: Legislation Has Curbed Many Cost Studies in Military Services (GAO/GGD-91-100, July 30, 1991).

OMB Circular A-76: DOD's Reported Savings Figures Are Incomplete and Inaccurate (GAO/GGD-90-58, Mar. 15, 1990).

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