



Highlights of [GAO-06-72](#), a report to congressional committees

COMPETITIVE SOURCING

Health Benefits Cost Comparison Had Minimal Impact, but DOD Needs Uniform Implementation Process

Why GAO Did This Study

Competitive sourcing is a management tool where federal agencies conduct competitions between federal employees and private companies to determine the best source to provide commercially available services.

Concerns have been raised in the Congress that differences in the costs of federal and private health insurance benefits could disadvantage the federal workforce in public-private competitions. A health benefit cost comparability provision in the 2005 Defense Appropriations Act prohibited any advantage for private offerors that provide no health benefits or contribute less for them than the Department of Defense (DOD) contributes for its civilian employees. Legislation is pending to extend the provision for another year. GAO, in response to a mandate, determined (1) how DOD implemented the provision, and (2) what impact the provision had on DOD's fiscal year 2005 competitive sourcing program.

What GAO Recommends

To avoid the potentially inconsistent treatment within DOD of private offerors' cost proposals, GAO recommends that DOD use a uniform and consistent process to implement the health benefit cost provision. DOD concurred with the recommendation.

www.gao.gov/cgi-bin/getrpt?GAO-06-72.

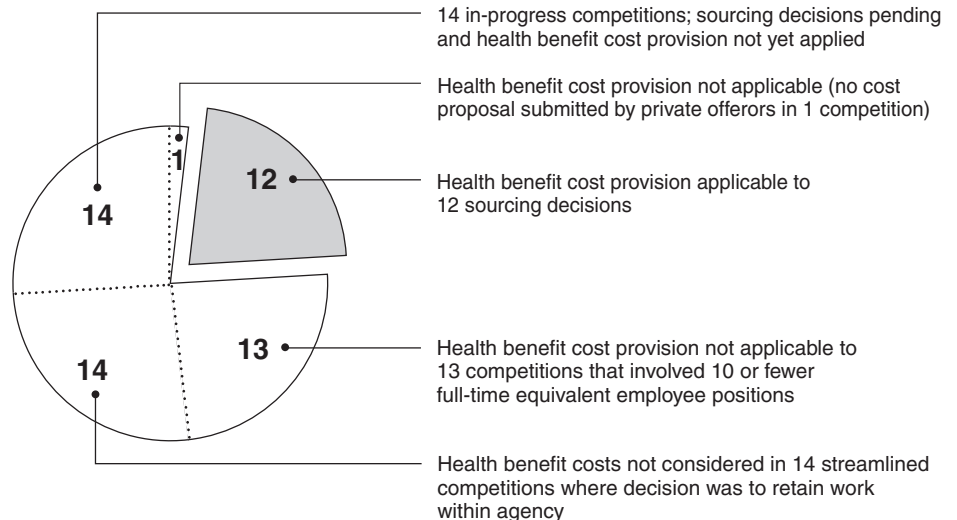
To view the full product, including the scope and methodology, click on the link above. For more information, contact William T. Woods, 202-512-4841, woodsw@gao.gov.

What GAO Found

Most DOD components implemented the health benefit cost provision using a process designed to ensure that private sector proposals include an amount for employee health benefits at least equal to the amount that Office of Management and Budget Circular A-76 requires to be added to agency cost estimates to account for employee health benefits. Under Circular A-76, this amount is 5.5 percent of direct labor costs. The Defense Logistics Agency (DLA), however, used a different process designed to determine whether a private sector offeror's monthly health benefit premium contributions are at least equal to DOD's. While DOD's and DLA's processes are both reasonable approaches, the use of different processes could result in different competitive sourcing outcomes in some cases.

The health benefit cost provision had minimal impact on DOD's fiscal year 2005 competitive sourcing program. Of the 54 public-private competitions we reviewed, the health benefit provision was applicable in only 12 sourcing decisions (see figure). In 7 of these 12 competitions, DOD collected health benefit cost data from private sector offerors and found that most of their health benefit costs exceeded 5.5 percent of direct labor costs. This is largely due to the requirements of the Service Contract Act—which mandates minimum wages and fringe benefits (which could include health insurance) for employees on government service contracts. Although the processes used by DOD and DLA resulted in increasing two private offerors' cost proposals, the adjustments did not alter the outcome of the competitions. Contracting officials and the private sector offerors told us that complying with the health benefit cost provision was not unduly burdensome.

Application of Health Benefits Cost Provision in DOD's Fiscal Year 2005 Competitive Sourcing Program (as of June 30, 2005)



Source: GAO analysis of DOD data.