

**GAO**

Report to the Chairman, Subcommittee  
on Readiness and Management Support,  
Committee on Armed Services,  
U.S. Senate

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**February 1999**

# **DOD COMPETITIVE SOURCING**

## **Results of Recent Competitions**



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**United States  
General Accounting Office  
Washington, D.C. 20548**

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**National Security and  
International Affairs Division**

B-279580

February 23, 1999

The Honorable James M. Inhofe  
Chairman, Subcommittee on Readiness  
and Management Support  
Committee on Armed Services  
United States Senate

Dear Mr. Chairman:

In late 1995, the Department of Defense (DOD) began encouraging the services and defense agencies to conduct competitions between the public and private sectors to determine who would be responsible for performing selected functions currently being provided in-house. These competitions were to be done in accordance with the Office of Management and Budget's (OMB) Circular A-76, which provides guidance for the competitions, and were expected to yield significant savings that could be used to fund other priority needs such as modernization. Currently, DOD components are beginning a significant number of these public-private competitions using the A-76 process.

As you requested, we (1) determined the number of sourcing competitions completed between October 1995 and March 1998 and whether the competitions had been done in accordance with applicable procedures; (2) compared characteristics such as outcomes of recent competitions with previous competitions in terms of winners of the competitions, time required to complete the competitions, savings produced, and other relevant metrics; and (3) identified the extent of any problems in implementing the results of the competitions, and plans for government monitoring of contracts awarded as a result of outsourcing.

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## Results in Brief

The Air Force held the vast majority of competitions completed between October 1995 and March 1998—41 of 53. Likewise, 85 percent of the positions competed were in the Air Force. While the number of recently completed competitions is small, the agency procedures and our analysis of a sample of completed cases indicate that DOD components are conducting these competitions in accordance with OMB Circular A-76 guidelines. Additionally, we identified only 10 appeals under the A-76 administrative appeal process, with only 1 being upheld.

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The private sector won about 60 percent of recent competitions compared to about 50 percent prior to 1995. Also, the time to complete single and multiple function competitions was 18 and 30 months, respectively, compared to an average of about 51 months for all prior competitions. Further, the competitions show significant potential for savings, largely driven by personnel reductions. However, the data is too limited at this point to reach any conclusions about trends, and questions exist about the precision and consistency of savings estimates. Moreover limitations continue to exist in DOD databases used to record savings from A-76 competitions and their usefulness for tracking changes over time. Actions are still required to ensure that improvements are made in these databases and savings estimates from completed competitions are tracked over time.

The relatively few implementation problems were independent of whether the private or public sector had won the competition. For example, a storage and warehousing contract was terminated for poor performance after a 19-month performance period. In another case, full implementation of a public maintenance operation was delayed 17 months due to a delay in being able to recruit enough personnel to perform the work. Lastly, resources expected to be devoted to monitoring contracts awarded to the private sector varied depending on the size and complexity of the functions being reviewed.

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## Background

For many years, federal agencies have been encouraged to consider the potential for significant savings by contracting with the private sector for commercial type goods and services rather than relying on government employees to provide them. Because competitive outsourcing can potentially displace thousands of government employees, federal agencies, including DOD components, traditionally approached competitive sourcing hesitantly.<sup>1</sup> Thus, with a combination of institutional preference to maintain in-house control over activities, along with restrictive legislative provisions in effect between the late 1980s through 1994, DOD activities placed relatively little emphasis on competitive sourcing during that time. The limited competitions that did occur most often involved the Air Force. However, in 1995, with congressional and administration initiatives placing more emphasis on competitive sourcing as a means of achieving greater economies and efficiencies in operations, DOD's senior leadership embraced it as a means of achieving savings and freeing up funds for other priority needs. In August 1995, the Deputy Secretary of Defense directed the services to make outsourcing a priority. Subsequently, DOD placed

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<sup>1</sup>Instead of the term outsourcing, DOD currently uses the term competitive sourcing.

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emphasis on competitive sourcing, recognizing that both the public and private sectors are parties to the competitions. This new emphasis led to plans by the services to consider studying over 200,000 positions by the end of fiscal year 2003.

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### Circular A-76 Process

DOD's competitive sourcing is guided by OMB's Circular A-76, issued in 1966. In 1979, OMB supplemented the circular with a handbook that included procedures for competitively determining whether commercial activities should be performed in-house, by another federal agency through an interservice support agreement, or by the private sector. OMB updated this handbook in August 1983 and in March 1996. The latest revision was intended to reduce the administrative burden of performing A-76 competitions and to make cost comparisons between private sector proposals and government estimates more equitable. For example, in response to industry concerns that agencies were not fully accounting for their overhead costs, OMB imposed the requirement that government overhead costs be calculated based on a standard rate of 12 percent of direct labor costs and placed increased emphasis on the use of best value criteria in competitions.<sup>2</sup>

To compare costs of in-house versus contractor performance, OMB's supplemental handbook requires the government to determine the most efficient and effective way of performing an activity with in-house staff. Based on this most efficient organization (MEO), the government prepares an in-house cost estimate and compares it with the offer selected from the private sector. OMB's A-76 guidance stipulates that work will remain in-house unless the private sector offer meets a threshold of savings that is at least 10 percent of personnel costs or \$10 million over the performance period. The minimum cost differential was established by OMB to ensure that the government would not contract out for marginal estimated savings. Appendix I contains a more detailed description of the A-76 process.

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### DOD's Historical Data Base for A-76 Competitions

DOD records the results of its competitive sourcing program in the Commercial Activities Management Information System (CAMIS). Each service and defense agency maintains its own version of CAMIS, but each system must contain DOD's required minimum set of data elements for

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<sup>2</sup>We previously addressed in a separate report the potential use of best value under A-76, questions concerning the basis for OMB's new 12-percent overhead rate, as well as long-term challenges facing DOD as it attempts to produce accurate and reliable cost data. See *Defense Outsourcing: Better Data Needed to Support Overhead Rates for A-76 Studies* (GAO/NSIAD-98-62, Feb. 27, 1998).

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individual A-76 competitions, including numbers and length of individual competitions, numbers of in-house military and civilian positions affected, comparisons of in-house and contractor estimated costs, contract award dates, and changes in costs for 3 years after a contract award. DOD also requires that each service enter the original baseline cost of the function and the estimated dollar savings from each of the competitions into CAMIS and track actual costs and savings from the completed competitions for 3 years. We have previously reported some concerns about the accuracy and completeness of data contained in the CAMIS system.<sup>3</sup> A list of our recent reports on competitive sourcing issues is included at the end of this report.

DOD's data on cost comparisons completed between fiscal year 1978 and 1994 show that estimated savings occurred—usually through a reduction in personnel—regardless of whether the government or a private sector company was awarded the work. These estimated savings were achieved primarily by closely examining the work to be done and reengineering the activities to do them with fewer personnel, whether in-house or outsourced.<sup>4</sup> DOD's data showed the government won about half of the A-76 competitions, and the private sector the other half.

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### Past Analysis Suggests Caution Regarding Savings

The Army, Navy, and Air Force project they will each achieve between 20 to 30 percent savings from competitive sourcing, based on prior experience and/or Center for Naval Analyses study data.<sup>5</sup> While we believe that competitive sourcing competitions are likely to produce savings, we have urged caution regarding the magnitude of savings likely to be achieved. In March 1997, we reported that prior savings estimates were based on initial savings estimates from competitive sourcing competitions, but that expected savings can change over time with changes in scope of work or mandated wage changes. Further, we noted that continuing budget and personnel reductions could make it difficult to sustain the levels of previously projected savings. At the same time, we noted two areas of competitive sourcing that appeared to offer the potential for significant savings. These areas included giving greater emphasis to (1) the use within the applicable legal standards of a single contract to cover

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<sup>3</sup>OMB Circular A-76: DOD's Reported Savings Figures Are Incomplete and Inaccurate (GAO/GGD-90-58, Mar. 15, 1990).

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

<sup>5</sup>The Center for Naval Analyses is a federally funded research and development center sponsored by the Department of the Navy.

multiple requirements, rather than multiple contracts, for support services and (2) the conversion of military support positions to civilian or contractor positions.

## Overview of Recent Competitions

We identified 53 competitions completed between October 1995 and March 1998, involving 5,757 positions (3,226 military and 2,531 civilian).<sup>6</sup> Of the 53 competitions, 43 involved single functions such as grounds maintenance, storage and warehousing, and child care centers; and 10 involved multiple functions such as base operating support and shelf stocking, receiving, and storage at commissaries.

A majority (77 percent) of the competitions were held by the Air Force. Many of these competitions were initiated prior to or close to the time that DOD began to emphasize competitive sourcing. Table 1 shows the number of government positions competed for under recently completed competitions along with those announced for competition during fiscal years 1996, 1997, and 1998.

**Table 1: Civilian and Military Positions Competed in Recent Completed Competitions and Those Announced for Competition in Fiscal Years 1996, 1997, and 1998**

Defense component	Positions competed between October 1995 through March 1998	Positions announced in fiscal years 1996, 1997, and all of 1998
Army	94	27,437
Navy	154	20,893
Air Force	4,895	20,772
Marine Corps <sup>a</sup>	0	0
Defense agencies	614	5,402
<b>Total</b>	<b>5,757</b>	<b>74,504</b>

<sup>a</sup>Since the Marine Corps did not have any completed competitions, it was not reviewed for this report.

Source: Our analysis is based on Army, Navy, Air Force, Defense Logistics Agency, Defense Commissary Agency, Defense Health Plan, and Defense Finance and Accounting Service information.

Although most (85 percent) of the recently completed competitions belonged to the Air Force, table 1 shows that most of the defense components, reacting to the August 1995 guidance from the Deputy Secretary of Defense, have mounted an aggressive program. Most

<sup>6</sup>As noted in our scope and methodology, the 53 competitions represented those identified from the CAMIS database as well as competitions not included in the database but which were identified in discussions with agency officials. Appendix II provides summary statistical data for each of the 53 competitions.

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components can be expected to complete considerably more competitions each year for the next several years. However, unlike the most recently completed competitions, most future competitions are expected to involve civilian rather than military positions.

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## Extent to Which Appeals or Other Concerns Were Raised About the Competitions

In examining the results of the 53 completed A-76 competitions, we found that 10 appeals had been filed; half were filed by government and half by private sector firms.<sup>7</sup> These appeals were based on questions regarding compliance with the requirements of Circular A-76 and its supplemental handbook, and/or questions regarding costs entered on the cost comparison form. One appeal, however, did not meet this criteria and was dismissed. Of the appeals accepted for consideration, only one resulted in a reversal of the original award decision. The private sector competitor stated that the government in-house estimate did not include all relevant costs, and the agency's reviewing authority agreed. When these costs were included in the government's estimate, the private sector firm's price was lower. In addition to the 10 appeals cited above, we identified one protest to GAO from one of the private sector competitors.<sup>8</sup> GAO upheld the service's decision to retain the activity in-house.

We also examined the files of a sample of nine completed competitions and conducted interviews with officials associated with completing the competitions and satisfied ourselves that the required cost comparisons were made as required by A-76 guidelines. In eight instances, we found that the agencies had elected to conduct public/private competitions and cost comparisons even where the number of civilian employees involved was less than 10, and according to A-76 guidance, direct conversions could have been made without competition. Agency officials said that they conducted a cost comparison on these functions, because they felt it was fairer to the employees. At the same time, service and defense agency

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<sup>7</sup>OMB Circular A-76 provides an administrative appeal process for federal employees (or their representatives) and contractors that have submitted bids or offers who would be affected by a tentative cost comparison decision to convert to or from in-house, contract or performance under an interservice support agreement. In the appeal of a tentative cost comparison decision, the designated appeal authority must be independent of the activity under review or at least two organizational levels above the official who certified the Government's Management Plan and MEO.

<sup>8</sup>Generally, we decline to review an agency's decision whether to perform a commercial activity in-house or through use of a contractor. However, where the A-76 process has included the issuance of a competitive solicitation for purposes of conducting a cost comparison, GAO will review agency decisions to determine whether the agency performed the cost comparison in the manner required by the terms of the solicitation. Only those parties who are otherwise eligible to file a protest under GAO's Bid Protest Regulations may avail themselves of this option and only if they have already exhausted the administrative appeals process. GAO will recommend corrective action only if the record indicates that the agency did not accurately perform the cost comparison and that this failure could have materially affected its outcome. See Madison Servs., Inc., B-277614, Nov. 3, 1997.



officials indicated that during the period covered by our review, they directly converted to contract 119 functions, each involving 10 or fewer positions.

## Characteristics of Completed Competitions and Historical Trends

Most services and defense agencies have completed few competitions. Accordingly, these competitions cannot be viewed as representing a trend or necessarily indicative of future outcomes. Nevertheless, they provide some initial data for limited comparison on a variety of metrics such as outcomes won by the public and private sectors, time required to complete the competitions, use of best value, and indications of savings.

## Competition Winners

Overall, 60 percent of the competitions were won by the private sector. Table 2 summarizes the number of competitions and results by individual defense activities.

**Table 2: Competitions Completed and Results By Defense Components Between October 1995 and March 1998**

Defense component	Number of competitions completed	Private sector winners	
		Number	Percent
Army	3	2	67
Navy	3	3	100
Air Force	41	24	59
Defense Commissary Agency	4	3	75
Defense Finance and Accounting Service	2	0	0
<b>Total</b>	<b>53</b>	<b>32</b>	<b>60</b>

Source: Our analysis is based on Army, Navy, Air Force, Defense Commissary Agency, and Defense Finance and Accounting Service information.

The aggregate data shows an increase in the number of competitions won by the private sector, compared with the historic trend of about 50 percent for all services.<sup>9</sup> However, the percent won by the private sector was closer to the Air Force’s historic average of 60 percent. At the same time, when considering all competitions completed in the October 1995 through March 1998 time frame, the percentage of competitions won by the private and public sectors fluctuated over time. For example, for 26 competitions completed in fiscal years 1996 and 1997, 77 percent were won by the

<sup>9</sup>Our analysis also showed that the private sector won 53 percent (\$390.1 million) of the value of the winning bids.

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private sector. This contrasted with 27 competitions completed between October 1997 and March 1998, where 56 percent were won by the private sector.

We also analyzed the results to determine whether any differences existed among winners depending on whether competitions involved single or multiple functions. We found that 43 of the competitions involved single functions, while 10 involved multiple functions. However, the outcomes were the same for each grouping, with 60 percent being won by the private sector.

We further analyzed the results to determine to what extent the use of a standardized 12-percent overhead rate imposed on government cost estimates may have affected the outcome of the competitions. As previously noted, the private sector has historically registered concerns about the extent to which government activities fully account for costs of their operations in developing MEOS under the A-76 process. Also, some concerns existed on the public side that the new overhead rate could cause more competitions to be won by the private sector. As noted in our February 1998 report, in reviewing development of this overhead rate, we found that the 12-percent rate lacked an analytical basis. As a result, it could either understate or overstate overhead costs in any specific/particular competition.<sup>10</sup>

We found that 39 (74 percent) had used the 12-percent overhead rate. Of those, 54 percent were won by the private sector. The remaining 14 competitions were not required to use this rate because they were either completed prior to its implementation or were in the final stages of the process. Of these, 10 did not use any overhead rate, and the 4 others used overhead rates ranging from 0.1 percent to 12.4 percent.

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## Competition Time Frames

Because there were no required time frames to perform A-76 competitions, a provision was included in the Department of Defense Appropriations Act for Fiscal Year 1991 (Public Law 101-511) and subsequent DOD

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<sup>10</sup>In our February 1998 report, we noted limitations in DOD's accounting systems and its inability to fully identify the costs of operations. Efforts are underway to improve government cost data and supporting systems. Recent legislative and management reform initiatives, such as the Chief Financial Officers Act and the Federal Financial Accounting Standards Board Statement 4, have emphasized the need for better information, including cost data, to support federal decision-making and measure the results of program operations. Standard 4 requires that agencies use full costing in their managerial accounting systems so that total operational costs and unit costs of outputs can be determined. However, at that time we reported efforts to improve these systems in DOD are underway but may require several years to be fully completed.

appropriations acts, directing that single function A-76 competitions be completed within 24 months and multi-function competitions within 48 months. In July 1991, we reported that DOD averaged 51 months to complete A-76 competitions during fiscal years 1987 to 1990.<sup>11</sup> We found that the time to complete the competitions in our review has decreased to an average time of 18 months for single function competitions and 30 months for multiple function competitions. Table 3 indicates the average length of time required to complete the recent A-76 competitions.

**Table 3: Average Number of Months Required to Complete Competitions Between October 1995 and March 1998**

Defense activity	Number of competitions completed		Average time for single function competitions	Average time for multiple function competitions
	Single	Multiple		
Army	3	0	11	0
Navy	3	0	19	0
Air Force	36	5	18	27
Defense agencies	1	5	23	33
Overall average	43	10	18 <sup>a</sup>	30 <sup>a</sup>

<sup>a</sup>Average time based on summarizing study times for individual competitions within the applicable category.

Source: Our analysis is based on Army, Navy, Air Force, Defense Commissary Agency, and Defense Finance and Accounting Service information.

While the Army had few completed competitions, all involving single functions, they averaged 11 months to complete. While this figure shows that some competitions can be completed relatively quickly, it must be viewed with caution because the number reflects a very limited number of completed competitions. Additionally, other data suggests that many competitions are likely to take much longer than the competitions included in this review. For example, a recent Army Audit Agency report noted that the Army’s installations and major commands currently estimate that it will take about 50 percent longer than the Army’s goal of completing competitions with up to 100 positions within 13 months and competitions involving over 600 positions within 21 months.<sup>12</sup>

The Navy’s goal is to complete its competitions between 12 to 36 months. Again, while our review shows that the Navy completed its competitions,

<sup>11</sup>OMB Circular A-76: Legislation Has Curbed Many Cost Studies in Military Services (GAO/GGD-91-100, July 30, 1991).

<sup>12</sup>Observations and Lessons Learned on A-76 Cost Competition Studies (U.S. Army Audit Agency AA 98-340, Sept. 22, 1998).

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on average, in 19 months, only three single function competitions had been completed—not enough competitions to draw any conclusions about how long future competitions will take.

Air Force officials currently project completing competitions within 24 to 48 months. Our review showed that to date the Air Force has completed, on average, its recent single function competitions in 18 months, and its multiple function competitions in 27 months.

The Defense Finance and Accounting Service's goal is to complete its competitions in 12 months. Its single function competition took 23 months, and its multiple function competition took 27 months to complete. The Defense Commissary Agency's goal is to complete the competitions sooner, but they do not have a set target. Its multiple function competitions have taken an average of 34 months.

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## Use of Best Value Criteria

The most recent revision to OMB's Circular A-76 supplemental handbook heightened attention to the consideration of "best overall value to the government" competitions. When best value criteria are considered, the government expects to obtain a better value by comparing the private sector's technical proposals and making trade-offs between various factors such as past performance and costs. The best private sector offer is then selected. Next, the government's in-house offer is reviewed to ensure that it meets the same level of performance and performance quality as the private sector offeror. If it does not, the government is required to change its offer and cost estimate before the final comparison is made to determine which represents the winner of the cost comparison. Sixteen of the 53 completed competitions competed between October 1995 and March 1998 used best value criteria.

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## Uncertainty About the Magnitude of Savings From Competitions Continues

Recently completed competitions continue to show that sourcing competitions can produce significant savings, particularly in reducing personnel requirements, even when these competitions are won by in-house organizations. However, the data is too limited at this point to reach any conclusions about trends. At the same time, the services are inconsistent in how they calculate savings. Also, while initial savings estimates may sometimes be understated, changes do occur in outsourcing contracts, sometimes fairly soon after contracts are awarded, which can reduce the magnitude of savings expected over time. As indicated in our previous reports, we continue to express caution about the extent to

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which the level of initial savings will continue over time given changes that occur, and the previous lack of attention in DOD to tracking savings over time. Our current work also reinforces previous concerns expressed about the adequacy and reliability of the CAMIS databases used by the services to record savings from A-76 competitions, and their usefulness for tracking changes over time.

Initial Savings Estimates From Recent Competitions Are Expected to Be Substantial

Data available from the services and defense agencies for their recently completed competitions suggests that the 53 completed competitions were projected to result in savings of \$528 million over the life of the multiyear awards and would average 42 percent; similar savings were projected regardless of whether the competitions were won by the private sector or in-house.

While most savings from sourcing competitions are related to reduced personnel costs, the extent to which the work can be done with fewer personnel is most clearly shown when in-house organizations win.<sup>13</sup> While some of the recent competitions won by in-house organizations resulted in fairly small personnel reductions, a few show the potential for significant reductions in personnel, in some instances totaling over 50 percent, assuming, as discussed later, these planned reductions hold up over time. Such reductions show the benefit of studying in-house operations to identify the most efficient organizations. However, in one instance personnel requirements increased because the function being competed was not fully staffed at the time it was competed. See appendix II for position reductions associated with competitions won in-house and by the private sector.

Variations in How Savings Are Calculated

In examining the competitions, we found that the Air Force, the Army, and the Defense Finance and Accounting Service had tried to identify the costs of their current operations to provide a baseline for projecting claimed savings. The Air Force determined a baseline personnel cost—usually the largest cost associated with performing a function—and then deducted either the winning contract price or MEO estimate to calculate an estimated savings figure, according to an Air Force official. The Army does not have official guidance on determining savings. However, we found the Army calculates the baseline cost by multiplying baseline workyears by the average cost per workyear in the MEO estimate. Savings are then calculated by subtracting the winning contract price or MEO estimate from the

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<sup>13</sup>Where competitions are won by the private sector, government positions are eliminated as the work is transferred to private sector employees under contract; in those situations, the number of government positions eliminated does not represent the actual reduction in personnel required to perform the function being outsourced.

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baseline cost. By using the average cost per workyear in the MEO estimate, savings are determined in terms of current year dollars.

Projected Defense Finance and Accounting Service savings were calculated using an estimate of baseline costs prior to the competitions, while projected savings of the Defense Commissary Agency were calculated by taking the difference between the MEO and the private sector contractor's offer, according to respective agency officials.

A Navy official told us there is currently no official Navy guidance on how to determine savings. He also said that if an activity has determined a baseline cost of operations, savings can be determined by subtracting the winning offer from the baseline. However, if no baseline information is available, the difference between the MEO and a winning contractor's offer, for example, may be used to estimate savings. For two of the three Navy competitions we reviewed, the Center for Naval Analyses developed an estimate of savings using baseline estimates. A savings estimate for the third Navy competition was computed by subtracting the MEO estimate from the contractor's offer.

#### Projected Savings Are Subject to Change Over Time

DOD's projection of savings from A-76 competitions have historically been derived from savings projections identified at the conclusion of competitions. DOD and the services have not traditionally tracked cost changes that occurred afterwards and revised projected savings. In March 1997, we reported that historic difficulties in preparing good performance work statements had often required revisions. We noted that those revisions and changes in required labor rates and other factors can require contract modifications and adjustments to costs of work to be done. To the extent performance work statements need to be subsequently adjusted because they do not adequately capture the scope of work to be done, initial savings baseline estimates are overstated.

Although most of the competitions included in our review had only been completed for about 15 months or less, we found that changes in performance work statements had occurred in 18 of the 53 competitions. Some changes were due to inadequate initial statements of work; many others were due to new missions or work requirements that were not known at the time the performance work statement was written.

Two contracts had to be recompeted because of inadequate performance work statements. For example, a contract for grounds maintenance at Keesler Air Force Base, Mississippi, had to be terminated because the

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performance work statement did not adequately reflect the work that had to be done. Subsequently, it has taken a year to rewrite this statement and resolicit the function, according to a base official. In another instance, a performance work statement was modified after award for aircraft maintenance according to an Altus Air Force Base, Oklahoma, official, to increase inspections on C-141 aircraft included in the original statement of work, as well as adding work involving support for the C-17 aircraft. The C-17 aircraft was assigned to Altus after the cost comparison had been completed. An Air Force official said that they do not adjust estimated savings once performance periods begin because changes frequently occur in performance work statements that make it difficult to determine actual savings.

Also, since savings estimates are based on the winner successfully performing the function for the entire award period, savings from the competitions may diminish, for example, if contracts are terminated before the end of this period. Of the 32 competitions that were won by the private sector, 4 were terminated within 14 to 26 months. In one instance, a contract for storage and warehousing services at Fort Riley, Kansas, was terminated after 19 months due to unsatisfactory performance. This work is now being done by a contractor as part of an Air Force regional maintenance contract.

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### Data Systems Provide Inadequate Basis for Tracking Savings

DOD's projections of savings from A-76 competitions have typically been drawn from CAMIS data. Available information indicates that the savings, once captured in CAMIS, are not modified and are being used continuously without updating the data to reflect changes in or even termination of contracts. DOD officials have noted that they could not determine from the CAMIS data if savings were actually being realized from the A-76 competitions. Our work continues to show important limitations in CAMIS data.

Our March 1990 report stated that CAMIS contained inaccurate and incomplete data. We further stated that it did not accurately track baseline costs or reasons for contract changes, and contained inaccurate and incomplete data on items such as program implementation or contract administration costs. For example, we found that although DOD required components to report staff hours expended to perform individual competitions, most of the data was not being reported or did not appear reasonable. Our current work and recent work by others have shown that the situation has not changed appreciably. In a 1996 report, the Center for

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Naval Analyses found that the data in CAMIS was incomplete and inconsistent between the services and recommended that the data collection process be more tightly controlled so that data is consistently recorded.<sup>14</sup>

During our review, we found that CAMIS did not always record completed competitions and sometimes incorrectly indicated that competitions were completed where they had not yet begun or were still underway. We also identified instances where savings data recorded for completed competitions were incorrect based on other data provided by the applicable service. For example, the system listed the annual savings from the competition of the base operating support and aircraft maintenance at Tyndall Air Force Base, Florida, as approximately \$80 million; however, our analysis of data provided on this competition estimated the projected annual savings to be about \$22 million. Air Force officials indicated that an error had been made when this information was entered into CAMIS.

We also found that the Air Force's CAMIS savings projections were not adjusted and removed from the system when bases were closed or realigned, thereby, artificially raising the total savings figure. Air Force officials agreed that these savings should not be included in their system. Our analysis indicated that the erroneous figures amount to about 14 percent of the Air Force's total claimed position savings from A-76 competitions since 1979.

DOD officials have recognized significant limitations in CAMIS and are currently making plans to improve the system. A recent DOD review indicated that only about 20 percent of the Army and Air Force's systems contained complete cost data on competitions after they were implemented. Further, it found these competition results were not typically tracked for 3 years and not over the life of the contract, which is usually 5 years. As a result, DOD officials anticipate issuing new guidance to the services to improve the system. DOD officials indicate that they plan to make changes to better track cost and savings information. They also plan to obtain cost data for 5 years. This is in keeping with requirements imposed as part of the National Defense Authorization Act for Fiscal Year 1998 amendments to 10 U.S.C. 2463. Further, they plan to strengthen their oversight responsibilities. Their objective is to have all changes implemented by the fall of 1999.

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<sup>14</sup>An Examination of the DOD Commercial Activities Competition Data (Center for Naval Analyses CIM 472, Dec. 1996).



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## Performance Problems Have Thus Far Been Limited

Most of the competitions included in our study have been concluded for a relatively short period of time—21 contracts have been in effect, on average, 15 months or less—making it difficult to provide a meaningful assessment of performance over any significant period of time. Nonetheless, we identified a few situations where problems had arisen whether competitions were won in-house or by the private sector. Plans for government monitoring of private sector contract awards varied by size and complexity of the functions outsourced.

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## Few Implementation Problems Identified

We identified only a few performance problems on contracts awarded as the result of competitions won by the private sector. We also found that implementation problems can also arise when competitions are won by in-house organizations.

In one instance involving a storage and warehousing contract at Fort Riley, Kansas, the contract was terminated after the first full performance period (19 months) because of poor contractor performance, according to contract officials. In another instance, a grounds maintenance contract at Keesler Air Force Base, Mississippi, was terminated. Officials there attributed the cause partly to contractor performance and also partly due to a poorly written performance work statement.

We also identified a problem in implementing an in-house MEO where the government activity had won the competition. This involved the conversion of an aircraft maintenance operation at Altus Air Force Base, Oklahoma, from a mostly military operation to one to be operated by government civilians. Full implementation of the aircraft maintenance most efficient organization at Altus Air Force Base had to be extended 17 months—from December 1996 to April 1998—due to a delay in being able to recruit enough personnel for the work. During this transition, the Air Force had to arrange for some of the maintenance work to be done by other organizations. In addition, while this transition was going on, the Air Force consolidated its personnel function into one location, which caused further delays in hiring.

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## Monitoring Plans Depend on Size and Complexity of Workload

The performance criteria or standards used to monitor contractor, as well as in-house, performance are laid out in the quality assurance surveillance plans, which accompany the performance work statements developed for competitive sourcing competitions. These plans also include the resources needed to conduct performance reviews. The number of personnel

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assigned to the monitoring of contracts won by the private sector will vary depending upon the size and complexity of the functions being competed. For example, a single location, single function competition at the Naval Telecommunications Station, Stockton, California, had only two government personnel assigned to oversee the contract. While, a multiple location, multiple function competition involving the Defense Finance and Accounting Service's facilities, logistics, and administrative services had plans for 15 government personnel to oversee its implementation at 5 different locations—3 people at each location. For selected competitions we reviewed in detail, DOD officials told us they believed that the number of oversight personnel had been adequate.

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## Conclusions

Defense components appear to be conducting competitive sourcing competitions in accordance with OMB Circular A-76 guidelines. While the results of recently completed competitions included in our review may not be indicative of future competitions, they do indicate that both the public and private sector competitors each continue to win a great number of the competitions; that recent competitions have taken less time than in the past, but longer than the current DOD goals for competitions. These competitions show the potential for significant savings; however, various factors cause the initial savings projections to be imprecise. How well the level of savings hold up over time remains to be determined, as work requirements and costs change. Improvements are still needed in DOD's database to ensure that results from A-76 competitions and savings estimates are tracked over time, with adjustments made as needed for competitions won by the private as well as the public sector.

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## Recommendations

We recommend that the Secretary of Defense establish specific guidance and milestones for defense components to follow in making needed improvements to their CAMIS databases to ensure accurate and complete information is developed and maintained. Likewise, we recommend that the Secretary provide defense components guidance for monitoring and making periodic adjustments to savings estimates resulting from competitive sourcing competitions whether won by the private or public sectors. The guidance should specify that changes in costs of work, other than changes in costs unrelated to the competitions such as mission changes and/or new work, should be used to adjust estimated savings.

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## Agency Comments and Our Evaluation

DOD concurred with the report's findings concerning the need for improvements to the Commercial Activities Management Information System and the necessity to provide components guidance for adjusting savings. It also indicated it planned to implement our recommendations as part of overall improvements planned for its management information system. DOD's written comments on a draft of this report are included in appendix III.

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## Scope and Methodology

To determine the results of the A-76 competitions and related appeals, we spoke with officials from the Office of the Secretary of Defense, Departments of the Army, the Navy, and the Air Force; the Marine Corps; the Defense Finance and Accounting Service; and the Defense Commissary Agency to obtain listings of competitions completed from October 1995 through March 1998 and the performance and oversight of the winners. We obtained information on the 53 A-76 competitions completed within DOD from October 1995 to March 1998.<sup>15</sup> We also judgmentally selected nine of these competitions to more fully assess whether they were conducted in accordance with OMB Circular A-76 guidelines, and if DOD officials felt that contractor oversight was adequate. We made our selection of cases to ensure we had coverage for military services and defense agencies.

In this report, we considered a competition to be completed when an award was made to a contractor or the final decision was made to keep the function in-house between October 1, 1995, through March 31, 1998. The Marine Corps did not have any completed competitions that met this criteria. Therefore, the Marine Corps was not reviewed for this report.

Because of our concerns about the reliability of the CAMIS database, to obtain details on each competition we contacted the contracting officials or officials in charge for each of the completed cases. We also met with contracting and other installation officials at four installations and the Defense Finance and Accounting Service where the A-76 competitions were conducted to review and discuss in detail the process followed for the nine selected competitions. To determine if the nine competitions were in compliance, we compared agency procedures with the protocols outlined in the A-76 handbook. The competitions selected for detailed review were storage and warehousing, Fort Riley, Kansas; dining facility, Fort Sam Houston, Texas; Naval Computer and Telecommunications

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<sup>15</sup>Because of the difficulties encountered with the reliability of CAMIS, we cannot be certain that our universe of 53 competitions is complete.

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Station, Stockton, California; aircraft maintenance, Altus Air Force Base, Oklahoma; base operating support, Laughlin Air Force Base, Texas; base operating support and aircraft maintenance, Tyndall Air Force Base, Florida; regional jet engine maintenance, Laughlin Air Force Base, Texas; base operating support, Columbus Air Force Base, Mississippi; and facilities, logistics, and administration services, Defense Finance and Accounting Service, Denver, Colorado; Indianapolis, Indiana; Kansas City, Missouri; Cleveland, Ohio; and Columbus, Ohio. With the exception of the Air Force, to determine the estimated dollar savings from each of the competitions, we contacted the contracting officials who were responsible for each of the A-76 competitions. The savings information for all Air Force competitions is determined centrally at the Air Force's Innovations Center, Randolph Air Force Base, Texas. In addition, for two of the three competitions completed by the Navy, we obtained the estimated dollar savings from Center for Naval Analyses reports. We also discussed the methodology used to determine savings with officials from the Army, the Navy, the Air Force, the Defense Finance and Accounting Service, and the Defense Commissary Agency. We did not independently verify the savings estimates or the number of positions reduced.

To determine the factors that could affect the actual savings achieved from the competitions, we analyzed the data obtained on each of the competitions, and reviewed prior reports on outsourcing.

We performed our review from September 1997 to November 1998 in accordance with generally accepted government auditing standards.

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We are sending copies of this report to the Secretaries of Defense, the Army, the Navy, and the Air Force; the Commandant of the Marine Corps; the Director, Office of Management and Budget; and other interested congressional committees. Copies will also be made available to others upon request. Please contact me on (202) 512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix IV.

Sincerely yours,



David R. Warren, Director  
Defense Management Issues

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**Contents**

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**Abbreviations**

CAMIS	Commercial Activities Management Information System
DOD	Department of Defense
MEO	most efficient organization
OMB	Office of Management and Budget

# The A-76 Process

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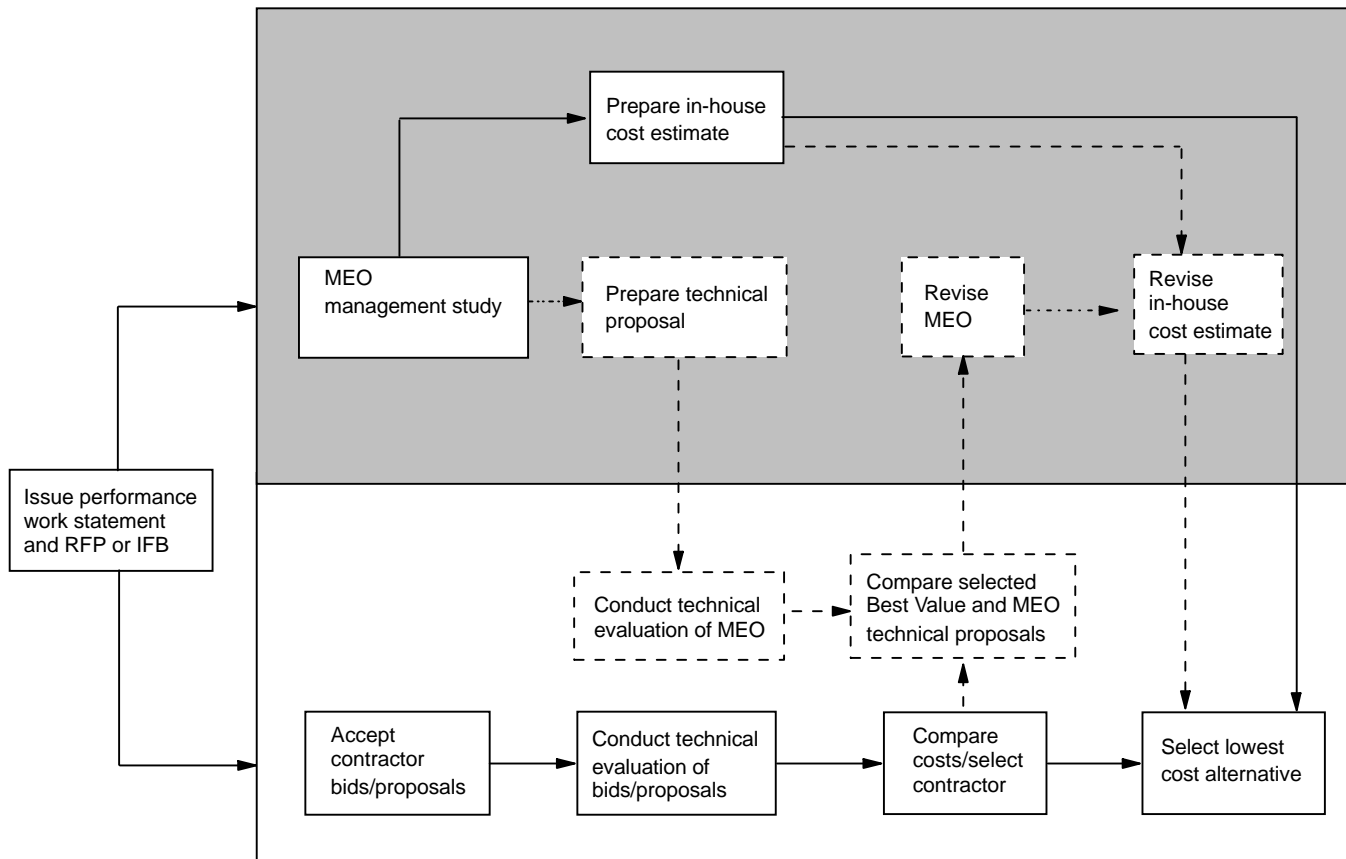
In general, the A-76 process consists of six key activities—(1) developing a performance work statement and quality assurance surveillance plan; (2) conducting a management study to determine the government’s most efficient organization (MEO); (3) developing an in-house government cost estimate for the MEO; (4) issuing a Request for Proposals or Invitation for Bids; (5) evaluating the proposals or bids 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 the A-76 handbook.

Figure I.1 shows an overview of the process. The solid lines indicate the process used when the government issues an Invitation for Bids, requesting firm bids on the cost of performing a commercial activity. This type of process is normally used for more routine commercial activities, such as grass-cutting or cafeteria operations, where the work process and requirements are well defined. The dotted lines indicate the additional steps that take place when the government wants to pursue a negotiated, “best value” procurement. While it may not be appropriate for use in all cases, this type of process is often used when the commercial activity involves high levels of complexity, expertise, and risk.



**Appendix I**  
**The A-76 Process**

**Figure I.1: Overview of the A-76 Process**



- Most Efficient Organization (MEO) activities
- Government technical evaluation activities
- Process for invitation for bid (IFB)
- - - Additional steps required for request for proposals (RFP)

Source: Air Force Air Education and Training Command documents.

The circular requires the government to develop a performance work statement. This statement, which is incorporated into either the Invitation for Bids or Request for Proposals, serves as the basis for both government estimates and private sector offers. If the Invitation for Bid process is used, each private sector company develops and submits a bid, giving its firm price for performing the commercial activity. While this process is taking place, the government activity performs a management study to determine the most efficient and effective way of performing the activity with in-house staff. Based on this “most efficient organization,” the government develops a cost estimate and submits it to the selecting authority. The selecting authority concurrently opens the government’s estimate along with the bids of all private sector firms.

According to OMB’s A-76 guidance, the government’s in-house estimate wins the competition unless the private sector’s offer meets a threshold of savings that is at least 10 percent of direct personnel costs or \$10 million over the performance period. This minimum cost differential was established by OMB to ensure that the government would not contract out for marginal estimated savings.

If the Request for Proposals—best value process—is used, the Federal Procurement Regulation and the A-76 supplemental handbook require several additional steps. The private sector offerors submit proposals that often include a technical performance proposal and a price. The government prepares an in-house management plan and cost estimate based strictly on the performance work statement. On the other hand, private sector proposals can offer a higher level of performance or service.

The government’s selection authority reviews the private sector proposals to determine which one represents the best overall value to the government based on such considerations as (1) higher performance levels, (2) lower proposal risk, (3) better past performance, and (4) cost to do the work. After the completion of this analysis, the selection authority prepares a written justification supporting its decision. This includes the basis for selecting a contractor other than the one that offered the lowest price to the government. Next, the authority evaluates the government’s offer and determines whether it can achieve the same level of performance and quality as the selected private sector proposal. If not, the government must then make changes to meet the performance standards accepted by the authority. This ensures that the in-house cost estimate is based upon the same scope of work and performance levels as the best value private sector offer. After determining that the offers are based on the same level of performance, the cost estimates are compared. As with the Invitation

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for Bids process, the work will remain in-house unless the private offer is (1) 10 percent less in direct personnel costs or (2) \$10 million less over the performance period.

Participants in the process—for either the Invitation for Bids or Request for Proposals process—may appeal the selection authority’s decision if they believe the costs submitted by one or more of the participants were not fair, accurate, or calculated in the manner prescribed by the A-76 handbook.

# List of OMB Circular A-76 Competitions Completed October 1995 Through March 1998

Dollars in millions

Defense component/ major commands	Location	Function competed	Positions competed (Civ./mil.) <sup>a</sup>	Positions reduced (Civ./mil.) <sup>a</sup>	Winner	Amount of multi-year award	Total multi-year savings
<b>Fiscal year 1996</b>							
<b>Army</b>							
Forces Command	Fort Riley, KS	Storage & warehousing	29 civ.	29 civ.	Contractor	3.0	4.3
Medical Command	Fort Sam Houston, TX	Dining facility	13 civ.	15 civ.	Contractor	5.4	3.0
<b>Navy</b>							
Bureau of Medicine & Surgery	San Diego, CA	Child care center	22 civ.	22 civ.	Contractor	0.4	0.7
<b>Air Force</b>							
Air Combat Command	Davis Monthan AFB, <sup>b</sup> AZ	Military family housing maintenance	1 mil. 30 civ.	1 mil. 29 civ.	Contractor	5.1	1.7
Air Force Materiel Command	Eglin AFB, FL	Range mobile target support	23 civ.	39 civ.	Contractor	5.9	3.2
Air Education & Training Command	Little Rock AFB, AR	Transient aircraft maintenance	11 civ.	11 civ.	Contractor	2.2	0.26
Air Education & Training Command	Maxwell AFB, AL	Fuels management	16 mil. 7 civ.	11 mil.	In-house MEO	2.2	2.1
Air Education & Training Command	Goodfellow AFB, TX	Ground maintenance	Under contract for last 10 years	Under contract for last 10 years	Contractor	0.9	0.5
Air Education & Training Command	Laughlin AFB, TX	Base operating support	177 mil. 101 civ.	177 mil. 93 civ.	Contractor	29.4	29.8
Air Education & Training Command	Keesler AFB, MS	Ground maintenance	13 civ.	29 civ.	Contractor	2.1	1.6
Air Education & Training Command	Altus AFB, OK	Aircraft maintenance	1,401 mil. 43 civ.	692 mil. 17 civ.	In-house MEO	165.5	99.6
Pacific Air Forces	Anderson AFB, Guam	Refuse collection	14 civ.	13 civ.	Contractor	0.4	3.2
Pacific Air Forces	Anderson AFB, Guam	Military family housing maintenance	34 civ.	32 civ.	Contractor	11.0	4.9

(continued)

**Appendix II  
List of OMB Circular A-76 Competitions  
Completed October 1995 Through  
March 1998**

Dollars in millions

<b>Defense component/ major commands</b>	<b>Location</b>	<b>Function competed</b>	<b>Positions competed (Civ./mil.)<sup>a</sup></b>	<b>Positions reduced (Civ./mil.)<sup>a</sup></b>	<b>Winner</b>	<b>Amount of multi-year award</b>	<b>Total multi-year savings</b>
<b>Marines</b>							
None							
<b>DECA<sup>c</sup></b>							
None							
<b>DFAS<sup>d</sup></b>							
None							
<b>Fiscal year 1997</b>							
<b>Army</b>							
None							
<b>Navy</b>							
Naval Computer & Telecommunications Command	Rough & Ready Island, Stockton, CA	Telecommunications center	15 mil. 29 civ.	27 civ.	Contractor	7.8	4.2
<b>Air Force</b>							
Air Combat Command	Nellis AFB, NV	Military family housing maintenance	29 civ.	33 civ.	Contractor	8.4	1.0
Air Force Materiel Command	Eglin AFB, FL	Library services	8 civ.	8 civ.	Contractor	1.4	0.1
Air Education & Training Command	Laughlin AFB, TX	Regional jet engine maintenance	50 civ.	63 civ.	Contractor	31.4	25.5
Air Education & Training Command	Lackland AFB, TX	Animal caretaking	26 civ.	24 civ.	Contractor	3.8	1.7
Air Education & Training Command	Maxwell AFB, AL	General library	12 civ.	3 civ.	In-house MEO	1.9	0.1
Air Force District of Washington	Bolling AFB, D.C.	Military family housing maintenance	31 civ.	36 civ.	Contractor	4.5	4.4
Air Force Material Command	Tinker AFB, OK	Ground maintenance	21 civ.	10 civ.	In-house MEO	9.5	1.3
Air Combat Command	Tyndall AFB, FL	Base operating support & aircraft maintenance	796 mil. 238 civ.	796 mil. 221 civ.	Contractor	130.6	88.4
Air Mobility Command	Andrews AFB, MD	Administrative support for medical records	8 civ.	8 civ.	Contractor	0.6	0.7
<b>Marines</b>							
None							
<b>DECA</b>							

(continued)

**Appendix II  
List of OMB Circular A-76 Competitions  
Completed October 1995 Through  
March 1998**

Dollars in millions

<b>Defense component/ major commands</b>	<b>Location</b>	<b>Function competed</b>	<b>Positions competed (Civ./mil.)<sup>a</sup></b>	<b>Positions reduced (Civ./mil.)<sup>a</sup></b>	<b>Winner</b>	<b>Amount of multi-year award</b>	<b>Total multi-year savings</b>
Defense Commissary Agency	Fort Lewis, WA	Shelf stocking custodial receiving, storage & holding area	44 civ.	44 civ.	Contractor	6.0	1.2
Defense Commissary Agency	San Onofre Marine Corps Base, CA	Shelf stocking custodial receiving, storage & holding area	6 civ.	2 civ.	In-house MEO	0.8	0.1
<b>DFAS</b>							
Defense Finance and Accounting Service	Denver, CO Indianapolis, IN Kansas City, MO Cleveland, OH Columbus, OH	Facilities logistics and administration services	279 civ.	92 civ.	In-house MEO	41.5	20.5
<b>Fiscal year 1998</b>							
<b>Army</b>							
Matériel Command	Redstone Arsenal, AL	Missile maintenance	13 mil. 39 civ.	13 mil. 21 civ.	In-house MEO	3.2	0.1
<b>Navy</b>							
U.S. Pacific Fleet	San Diego, CA Three locations— N. Island, 32nd Street, & Point Loma	Family service centers	10 mil. 78 civ.	75 civ.	Contractor	15.7	10.1
<b>Air Force</b>							
Air Education & Training Command	Columbus AFB, MS	Base operating support	231 mil. 110 civ.	114 mil.	In-house MEO	37.2	21.4
Air Force Materiel Command	Hanscom AFB, MA	Laboratory support services	1 mil. 14 civ.	1 mil. 6 civ.	In-house MEO	2.6	2.4
Air Force Materiel Command	Hanscom AFB, MA	Audio-visual	2 mil. 18 civ.	2 mil. 9 civ.	In-house MEO	2.5	2.2
Air Force Materiel Command	Kirtland AFB, NM	Precision measurement equipment lab	33 mil. 18 civ.	32 mil.	In-house MEO	4.5	5.3
Air Force Materiel Command	Wright-Patterson AFB, OH	Base operating support	88 mil. 411 civ.	88 mil. 406 civ.	Contractor	40.4	57.6
Air Force Materiel Command	Hanscom AFB, MA	Vehicle O&M	30 mil. 34 civ.	26 mil.	In-house MEO	10.1	2.7
Air Force Materiel Command	Tinker AFB, OK	Communication functions	48 mil. 22 civ.	69 mil.	Contractor	8.8	6.2
Air Force Materiel Command	Hill AFB, UT	Grounds maintenance	38 civ.	36 civ.	Contractor	4.7	3.4

(continued)

**Appendix II  
List of OMB Circular A-76 Competitions  
Completed October 1995 Through  
March 1998**

Dollars in millions

<b>Defense component/ major commands</b>	<b>Location</b>	<b>Function competed</b>	<b>Positions competed (Civ./mil.)<sup>a</sup></b>	<b>Positions reduced (Civ./mil.)<sup>a</sup></b>	<b>Winner</b>	<b>Amount of multi-year award</b>	<b>Total multi-year savings</b>
Air Force Materiel Command	Los Angeles AFB, CA	Education services	13 mil. 22 civ.	13 mil. 5 civ.	In-house MEO	3.4	4.4
Air Force Materiel Command	Robins AFB, GA	Audio-visual	39 civ.	5 civ.	In-house MEO	10.0	1.4
Air Force Materiel Command	Robins AFB, GA	Military family housing maintenance	4 mil. 9 civ.	4 civ.	In-house MEO	2.7	0.04
Air Force Space Command	Onizuka AFB, CA	Utilities plant	4 mil. 21 civ.	4 mil. 5 civ.	In-house MEO	7.5	0.5
Air Force Materiel Command	Edwards AFB, CA	Base supply	223 mil. 116 civ.	211 mil. 109 civ.	Contractor	30.0	29.2
Air Force Special Operations Command	Hurlburt Field, FL	Transient aircraft maintenance	11 mil.	11 mil.	Contractor	0.3	0.4
Air Force Space Command	Patrick AFB, FL	Base operating support communications	90 mil. 28 civ.	49 mil.	In-house MEO	13.3	6.2
Air Force Space Command	Falcon AFB, CO	Utilities plant	16 mil. 5 civ.	8 mil.	In-house MEO	4.3	0.4
Air Force Space Command	Vandenberg AFB, CA	Housing management	14 civ.	6 civ.	In-house MEO	3.1	1.3
Air Force Mobility Command	McGuire AFB, NJ	Military family housing maintenance	19 civ.	19 civ.	Contractor	10.1	7.1
Air Force Space Command	Vandenberg AFB, CA	Civil engineering (CE)	8 civ.	7 civ.	Contractor	1.0	0.3
Air Force Space Command	Vandenberg AFB, CA	CE: materiel acquisition	3 mil. 8 civ.	3 mil. 4 civ.	In-house MEO	1.3	0.1
Air Force Mobility Command	Grand Forks AFB, ND	Base operating support	13 civ.	12 civ.	Contractor	2.8	1.3
Pacific Air Forces	Elmendorf AFB, AK	Power production	41 civ.	34 civ.	Contractor	10.7	8.7
<b>Marines</b>							
<b>None</b>							
<b>DECA</b>							
Defense Commissary Agency	Camp Pendleton Marine Corps Base, CA	Shelf stocking custodial receiving, storage & holding area	28 civ.	28 civ.	Contractor	3.2	0.5
Defense Commissary Agency	Kaneohe Bay Marine Corps Base, HI	Shelf stocking custodial receiving, storage & holding area	17 civ.	17 civ.	Contractor	2.1	0.5

(continued)

**Appendix II**  
**List of OMB Circular A-76 Competitions**  
**Completed October 1995 Through**  
**March 1998**

Dollars in millions

<b>Defense component/ major commands</b>	<b>Location</b>	<b>Function competed</b>	<b>Positions competed (Civ./mil.)<sup>a</sup></b>	<b>Positions reduced (Civ./mil.)<sup>a</sup></b>	<b>Winner</b>	<b>Amount of multi-year award</b>	<b>Total multi-year savings</b>
<b>DFAS</b>							
Defense Finance and Accounting Service	Ft. Lee, VA Kelly AFB, TX	Defense commissary vendor pay	240 civ.	165 civ.	In-house MEO	13.2	50.5

<sup>a</sup>Civ = civilian; mil = military. In some instances, the number of positions reduced was greater than those competed for a variety of reasons, such as counting the reduction in temporary employees when they had been used to fully staff a function.

<sup>b</sup>AFB = Air Force Base.

<sup>c</sup>DECA = Defense Commissary Agency.

<sup>d</sup>DFAS = Defense Finance and Accounting Service.



# Comments From the Department of Defense



ACQUISITION AND  
TECHNOLOGY

## OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON DC 20301-3000



February 3, 1999

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

Dear Mr. Warren:

The Department of Defense (DoD) has reviewed the General Accounting Office (GAO) Draft Report, "DoD Competitive Sourcing: Results of Recent Competitions," Dated December 18, 1998 (GAO Code 709298/OSD Case 1725). The DoD concurs with the Report's findings concerning improvements to the Department's Commercial Activities Management Information System (CAMIS) and the necessity to provide Components guidance for monitoring and making periodic adjustments to savings.

The Department recognized the limitations of the existing CAMIS prior to the initiation of the GAO survey and established a working group composed of the Services and major Defense Agencies to improve the accuracy and completeness of the system. The working group has completed its analysis and is formulating its recommendations for consideration by the Components. The new system will provide more accurate cost and savings data. It will allow Components to track contract modifications and revise projected savings information. It will also invigorate the Office of the Secretary of Defense oversight and ultimately promote higher quality data collection that will lead to more useful analyses of cost performance data that can be shared by Components.

CAMIS improvements will include the recommendations from the GAO Draft Report. The Department's policy document on competitive sourcing, "DoD Instruction 4100.13" will be updated to reflect the changes to CAMIS in the Fall of 1999.

Thank you for the opportunity to comment on the Draft Report.

Sincerely,

Randall A. Yim  
Acting Deputy Under Secretary  
(Installations)



# Major Contributors to This Report

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**Appendix IV**  
**Major Contributors to This Report**

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**Appendix IV**  
**Major Contributors to This Report**

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# Related GAO Products

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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).

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**Related GAO Products**

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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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