

February 1999

FORCE STRUCTURE

A-76 Not Applicable to Air Force 38th Engineering Installation Wing Plan





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

**National Security and
International Affairs Division**

B-280525

February 26, 1999

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

The Honorable Floyd D. Spence
Chairman
The Honorable Ike Skelton
Ranking Minority Member
Committee on Armed Services
House of Representatives

This report responds to the request of the Chairman of the Senate Subcommittee on Readiness and Management Support, Committee on Armed Services, that we determine whether the Air Force complied with relevant policy and congressional notification requirements in reaching a decision to deactivate the 38th Engineering Installation Wing (EIW) at Tinker Air Force Base (AFB), Oklahoma, and reassign its work elsewhere. It also fulfills a requirement of the House National Security Committee's¹ report on the National Defense Authorization Act for Fiscal Year 1999, which directed us to analyze and determine whether information provided by the Air Force supports this proposed action. Specifically, this report discusses (1) the scope of the Air Force's planned action, (2) whether it is subject to the requirements of Office of Management and Budget (OMB) Circular A-76 and 10 U.S.C. 2461, and (3) whether an analysis was completed to examine the cost-effectiveness of the planned action.

Results in Brief

The Air Force plans to deactivate the 38th EIW, headquartered at Tinker Air Force Base, Oklahoma, and transfer its wartime mission to the Air National Guard (ANG) without increasing the Guard's authorized end-strength. About 75 percent, or 1,752, of the unit's authorized positions will be eliminated, while 591 positions will be reassigned to existing or new organizations to assume responsibilities previously assigned to the 38th EIW. These changes are expected to result in one-time savings of \$33 million and annual recurring savings of \$28 million.

¹Now known as the House Armed Services Committee.

Concerning questions raised about the need for notice and cost studies related to the proposed action, we found:

- The proposed action is a comprehensive restructuring of an active component unit, largely transferring its wartime mission to the Air National Guard. It is not the type of action historically associated with OMB Circular A-76 and is not a conversion as envisioned under the circular. Accordingly, a cost comparison under that circular is not required.
- Likewise, the planned action is not a change in the performance from civilian personnel to contractor employees of the kind subject to the requirements of 10 U.S.C. 2461; accordingly, the Air Force was not required to perform the cost study and provide congressional notification under that provision.
- At the same time, the Air Force's business case analysis supports the cost-effectiveness of the proposed action, with the reduction of a significant number of personnel.

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 set forth the procedures for studying them for potential contracting. In 1979, OMB issued a supplemental handbook to the circular that included cost comparison procedures for 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 1983 and again in March 1996.

The March 1996 Revised Supplemental Handbook clarified numerous areas, including the application of the A-76 cost comparison requirements. The handbook's introduction describes a wide range of options government officials must consider as they contemplate reinventing government operations. They include "the consolidation, restructuring or reengineering of activities, privatization options, make or buy decisions, the adoption of better business management practices, the development of joint ventures with the private sector, asset sales, the possible devolution of activities to state and local governments and the termination of obsolete services or programs." The introduction also explains that "in the context of this larger reinvention effort, the scope of the Supplemental Handbook

is limited to conversion of recurring commercial activities to or from in-house, contract or interservice support agreement performance.”²

Where A-76 cost comparison procedures apply, the initial step is to develop a performance work statement describing what is needed to perform the activity. That statement is used as the technical performance section of a solicitation for private-sector offers. The government also develops a management plan that describes the most efficient organization for in-house performance of the activity described in the performance work statement. The cost of performance by the government in accordance with the most efficient organization is compared to the cost proposed by the private-sector source selected pursuant to the solicitation. The activity will be converted to performance by the private sector if the private sector’s offer represents a reduction of at least 10 percent of direct personnel costs or \$10 million over the performance period. Further information about the A-76 process is included in appendix I.

In addition to A-76, the Department of Defense (DOD) must consider the effect of 10 U.S.C. 2461 when it plans changes to an industrial or commercial type function performed by its civilian employees. Section 2461, as amended by the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999, Public Law 105-261, requires an analysis of the activity, including a comparison of the cost of performance by DOD civilian employees and by a contractor, to determine whether contractor performance could result in a savings to the government. It also requires DOD to notify Congress of the analysis and to provide other information prior to instituting a change in performance.³

Process of Deactivating 38th EIW Involves Multiple Actions

The 38th EIW is an active component Air Force unit with a wartime support mission that has been greatly diminished since the end of the Cold War. Deactivation of the 38th EIW will involve multiple actions to realign the wartime mission and reassign other peacetime roles.

The 38th EIW provides engineering and installation (E&I) services in support of the Air Force’s communications needs. It supports flight facilities, intrusion detection, ground radio, wideband/satellite systems, local area

²While A-76 addresses conversions in both directions, for purposes of this report, we will focus on conversions from performance by government employees to the private sector.

³Further, section 8014 of the Department of Defense Appropriations Act for Fiscal Year 1999, Public Law 105-262, requires that DOD certify its in-house estimate to congressional committees before converting any activity performed by more than 10 DOD civilian employees to contractor performance.

networks, cable/fiber optic distribution systems, switching systems, and other communications systems. The 38th EIW is an Air Force Materiel Command unit headquartered at Tinker AFB, Oklahoma, with squadrons at Keesler AFB, Mississippi; Kelly AFB, Texas; and McClellan AFB, California. In addition, an active duty military advisor is stationed at each of the 19 ANG units—units that also provide engineering and installation services. Currently, the 38th EIW consists of 2,343 personnel (1,358 military and 985 civilian) at these bases and various ANG locations. Table 1 shows the active component military and civilian personnel authorized for the 38th EIW at each location.

Table 1: Current 38th EIW Active Component Manpower Authorizations

Location	Military	Civilian	Total
Keesler AFB, Mississippi	293	111	404
Kelly AFB, Texas	290	24	314
McClellan AFB, California	290	24	314
Tinker AFB, Oklahoma	466	826	1,292
ANG units, various locations	19	0	19
Total	1,358	985	2,343

Source: Air Force Engineering and Installation Reengineering Briefing Document, June 18, 1998.

The squadrons at Keesler, Kelly, and McClellan AFBS are composed primarily of military personnel. About a third of the total EIW authorized personnel (726 military and 40 civilian) perform installation services. The remainder of the military and civilian personnel perform engineering; logistics; and other support functions.

The 19 ANG units noted above have 2,314 authorized guard personnel: they perform peacetime installation services as part of their training. Further, the Air Force relies on the private sector to provide E&I services using approximately 40 different indefinite delivery/indefinite quantity contracts.⁴

The 38th EIW’s structure was premised on its cold war mission of reconstituting damaged fixed communications systems (radars, phone lines, cables, etc.) at overseas bases. However, under the new Air Expeditionary Force concept, existing military forces will go into bare bases and use tactical, or mobile, communications gear. Consequently, the

⁴An indefinite delivery/indefinite quantity contract provides for an indefinite quantity, within stated limits, of supplies or services to be furnished during a fixed period with deliveries or performance to be scheduled by placing orders with the contractor. See Federal Acquisition Regulation 16.504.

need to repair these fixed communications is reduced and there is greater reliance on tactical communications.

Based on the reassessment of its wartime mission requirements and the Quadrennial Defense Review process (which recommended DOD improve the efficiency and performance of support activities by reengineering), the Air Force decided that the wartime E&I mission could be transferred to the ANG. At the same time, the Air Force would retain a minimal active-duty capability, provided by a new rapid response squadron at Keesler AFB. Since there will no longer be a need for the 38th EIW to supply the Air Force's peacetime E&I needs in order to maintain wartime skills, the Air Force no longer has a requirement to maintain the large E&I infrastructure of the 38th EIW.⁵

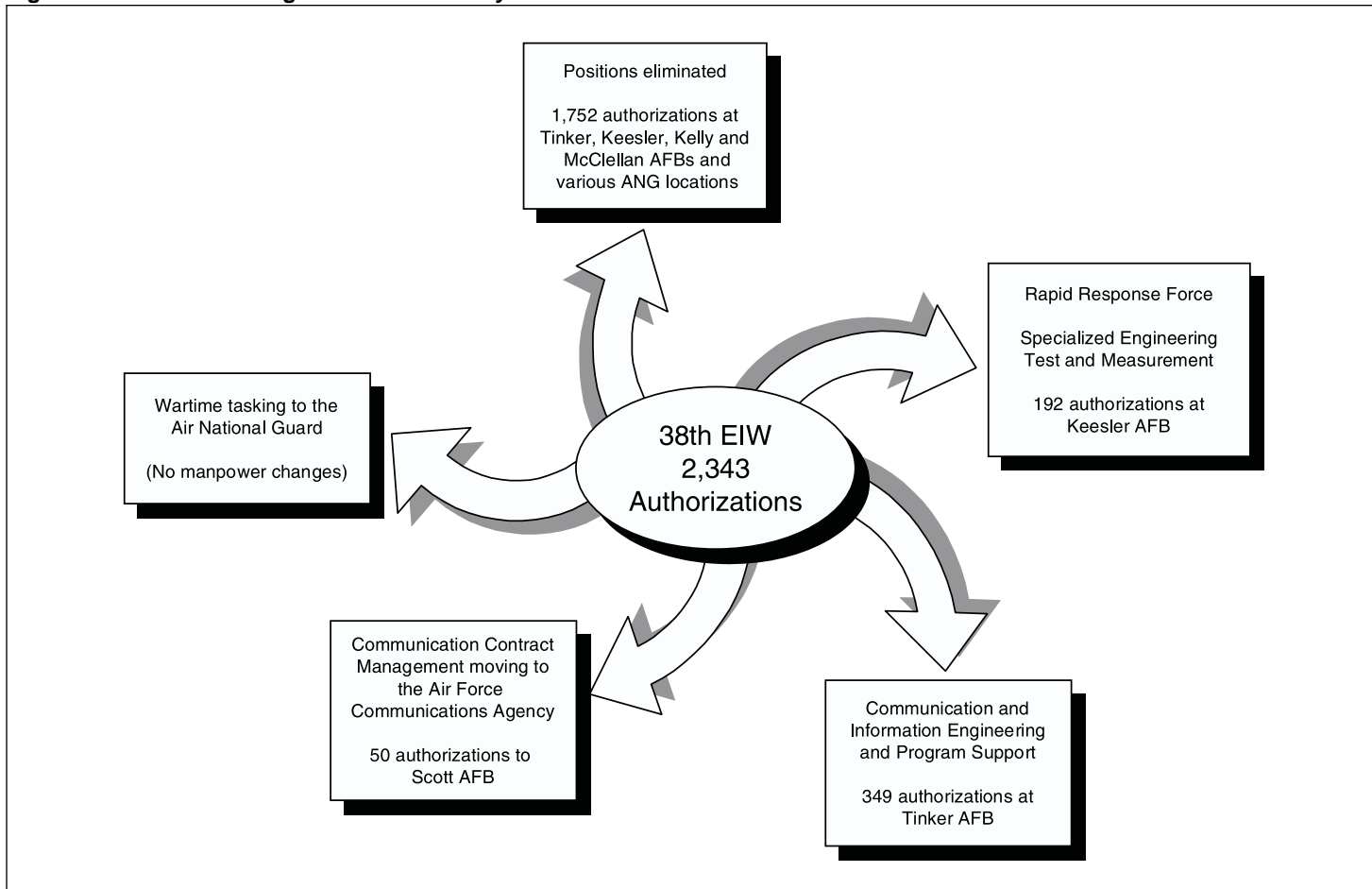
As currently proposed, the deactivation of the 38th EIW would eliminate 1,200 of its 1,358 military positions and 552 of its 985 civilian positions. After the wing is deactivated, the remaining 158 military personnel and 433 civilian personnel will be reassigned to existing or new organizations, located principally at Tinker and Keesler AFBS. With the deactivation of the 38th EIW and transfer of the wartime mission to the ANG, other actions will also occur:

- The Kelly and McClellan squadrons will be disestablished concurrent with the realignment and closure actions being implemented as part of the 1995 base realignment and closure decision.
- All 19 active-duty authorizations at the ANG units will be eliminated.
- The squadron at Keesler AFB will become a rapid response squadron whose mission would be wartime deployment, and also provide a quick reaction E&I capability for emergency needs, and provide specialized engineering.
- A portion of the positions formerly with the 38th EIW will be reassigned to a new organizational unit at Tinker AFB that will become a base communication and information infrastructure planning and program management office.
- Fifty civilian authorizations which are being eliminated at Tinker will be transferred to the Air Force Communications Agency at Scott AFB, Illinois, to more closely align their telecommunications sustainment workload with the Air Force unit responsible for telecommunications policy.
- The wartime E&I mission will be substantially transferred to the existing ANG E&I units without an increase in authorized positions.

Figure 1 portrays the planned actions.

⁵The Air Force proposed deactivating the 38th EIW by July 2000.

Figure 1: Actions Affecting Positions Formerly Associated With the 38th EIW



Source: Air Force Engineering and Installation Reengineering Briefing Document, June 18, 1998.

Viewed another way, of 1,358 authorized military positions, over 88 percent would be eliminated and out of the 985 authorized civilian positions, 56 percent would be eliminated, while the remainder would be shifted to other organizations.⁶ Table 2 shows the number of 38th EIW military and civilian positions that would be reduced at affected bases and the numbers reassigned to other organizations.

⁶Air Force officials told us that military end-strength would be reduced along with the civilian positions that are not being reassigned elsewhere. The Air Force did notify Congress of these changes through the annual force structure announcement of February 10, 1998.

Table 2: 38th EIW Active Component Personnel Reductions and Transfers to Other Organizations

Location	Military reductions	Civilian reductions or gain	Total reductions or gain	Military assigned to new org.	Civilians assigned to new org.	Total reassigned
Keesler AFB	(136)	(76)	(212)	157	35	192
Kelly AFB	(290)	(24)	(314)	0	0	0
McClellan AFB	(290)	(24)	(314)	0	0	0
Tinker AFB	(465)	(478)	(943)	1	348	349
Scott AFB	0	50	50	0	50	50
ANG units at various locations	(19)	0	(19)	0	0	0
Total	(1,200)	(552)	(1,752)	158	433	591

Source: Air Force Engineering and Installation Reengineering Briefing Document, June 18, 1998.

As a result of the deactivation and restructuring, 1,752, or 75 percent, of the unit's 2,343 positions would be eliminated, while 591 would be reassigned elsewhere.

Following the deactivation of the 38th EIW, the responsibility for obtaining peacetime E&I services will be transferred to the individual major commands. These commands may acquire such services from (1) contracts, (2) the ANG E&I units, or (3) the rapid response squadron at Keesler, based on availability. The military units will need to perform some of this peacetime work to maintain their wartime skills.

Applicability of OMB Circular A-76 and 10 U.S.C. 2461

OMB Circular A-76 and the cost comparison requirements of its accompanying handbook apply to the conversion of the performance of a commercial activity from government civilian employees to the private sector. According to the Air Force, A-76 does not apply to its plan because the deactivation of the 38th EIW does not constitute a conversion of the performance of an activity by civilian DOD employees as envisioned under the circular. The Air Force's changed wartime requirements have caused it to propose a realignment of the responsibilities and missions of the 38th EIW. Consequently, the original function of the 38th EIW has been fundamentally altered and the need for civilian employee support is significantly reduced. We find the Air Force's conclusion that A-76 does not apply to be reasonable.⁷

⁷However, this is not to say other business case analyses or cost-effectiveness studies should not be done to validate the benefits of the proposed change as a matter of prudent management practice.

The Air Force made a reasonable judgment in deciding that its deactivation of the 38th EIW and the restructuring of the delivery of E&I services is not subject to the requirements of 10 U.S.C. 2461 since the plan does not constitute a change from performance of a particular workload by DOD civilian employees to private sector performance.

**Air Force Plan Does Not
Constitute an A-76
Conversion**

The handbook does not provide detailed guidance as to what constitutes a conversion of a commercial activity for purposes of A-76. Between 1979 and 1994, DOD conducted over 2,000 competitions using the A-76 process. Most of these involved activities, such as groundskeeping, laundry, and food service, where the conversions proposed were straightforward exchanges of a government employee workforce for a contractor workforce to perform a particular service. An agency must base its judgment about whether A-76 applies on the individual facts of each initiative. As each case usually involves a unique situation, an agency has the discretion to determine the applicability of A-76 to its particular initiative as long as the agency has exercised its judgment reasonably.⁸

The handbook introduction explains that a commercial activity is a process resulting in a product or service that may be obtained from the private sector and that some management initiatives, such as “reengineering,” “privatization,” or “restructuring,” involving such activities are beyond conversions and are not subject to the cost-comparison requirements of A-76.⁹ Therefore, it is reasonable to interpret the guidance to mean that A-76 conversions are not intended to encompass every initiative that results in the loss of civilian government jobs. Further, the handbook provides that it is not to apply to the conversion of activities performed by uniformed military personnel.¹⁰

The Air Force plan to deactivate the 38th EIW and transfer its E&I activities to other organizations within the Air Force or to the ANG is a comprehensive change to the missions and responsibilities of the 38th EIW. The Air Force has decided that the 38th EIW’s wartime mission should be transferred to the ANG. As a result, it appears that the Air Force no longer has a requirement to maintain a large, centralized E&I infrastructure to train personnel to meet this mission. The peacetime E&I work was

⁸Department of the Air Force—Reconsideration, 72 Comptroller General 241 (1993).

⁹A-76 does not define “restructuring” or “reengineering.” It does provide that “privatization” is a change of a public entity or enterprise to private control or ownership.

¹⁰OMB Circular No. A-76 Revised Supplemental Handbook (Mar. 1996), chapter 1, section D.7.

performed by the 38th EIW, in large part, to maintain its skills and capabilities to perform its wartime mission. This included a large civilian workforce performing peacetime E&I work to support the wartime mission of the uniformed military personnel. Now that this wartime mission has been transferred to the ANG, which does not need this civilian support, there is no longer a requirement to maintain the infrastructure.

The type of E&I work being impacted by the Air Force plan would generally fit within the definition of commercial activity for A-76 purposes. However, the Air Force plan is not simply a changeover of this commercial activity from performance by civilian employees to private sector workers. In fact, the majority of positions affected are uniformed military personnel, which are not subject to A-76. Of 1,358 military personnel assigned to the 38th EIW, only 158 will remain. The civilians in the 38th EIW were primarily performing commercial E&I activities to provide continuity during contingencies and support for military personnel to enhance their wartime skills. Absent the military requirement, the E&I services could have been supplied by contract with the private sector.

Under the restructuring, civilian positions will be lost and the different Air Force units could meet some of their new responsibilities by obtaining E&I services through contractors.¹¹ However, this is an incidental result of a plan that primarily involves the reassignment of uniformed military personnel and the transfer of their responsibilities to other organizations. The civilian performance of the commercial E&I activity was essentially an adjunct of the military mission. The civilians who remain will be reassigned to different organizations and locations. Thus, we find reasonable the Air Force decision that its plan to change the wartime mission of the 38th EIW is not the type of management initiative that is subject to A-76.

**Air Force Plan Does Not
Constitute Change in
Performance of a Function
Under 10 U.S.C. 2461**

We believe that the Air Force made a reasonable judgment in deciding that its deactivation of the 38th EIW and the restructuring of the delivery of E&I services which that necessitates is not subject to the requirements of section 2461 since the plan does not constitute a change from performance of a particular workload by DOD civilian employees to private-sector performance.¹²

¹¹The handbook provides that new requirements are generally to be obtained by contract. See chapter 1, section D.2.

¹²See Israel Aircraft Industries, Ltd.—Reconsideration (B-258229, July 26, 1995).

Section 2461 requires that before any commercial or industrial type function is changed from performance by DOD civilian employees to private-sector performance, DOD must report to Congress and perform an analysis showing that private sector performance will result in a savings to the government over the life of the contract. As under A-76, the cost of performance of the function by the government employees is to be based on an estimate of their most cost-effective manner for performance of the function.

Section 2461 applies to initiatives that result in functions performed by DOD civilian employees being changed to performance by private-sector employees. As discussed earlier, the Air Force proposal is more than just a change of the 38th EIW function from DOD civilian employees to contractors. Rather, it is a transfer of the E&I wartime mission to the ANG units which primarily affects uniformed military personnel who are not subject to 10 U.S.C. 2461. Once this occurs, there will no longer be a need for the 38th EIW, which was designed to support the military personnel and their wartime mission. The action being taken in this case is not a change of the kind contemplated by section 2461.¹³

Cost-Effectiveness of the Change Proposed by the Air Force

While neither an A-76 cost comparison nor a section 2461 cost study was required, the Air Force nevertheless did complete a business case analysis to estimate the cost-effectiveness of restructuring the 38th EIW. That analysis showed an estimated annual recurring savings of approximately \$28 million, based on reported fiscal year 1997 costs and projected costs (including contract costs) of the restructured organizations. The estimated contract costs were based on existing negotiated contract rates for an equivalent level of effort. The analysis showed that most of the recurring savings would result from engineer and installer manpower cuts and unit operations and maintenance reductions. Also, the business case analysis found that the Air Force will realize an estimated one-time savings of \$33 million, of which \$28 million is due to the cancellation of planned Base Realignment and Closure construction projects associated with the future realignment of Kelly AFB and the closure of McClellan AFB. (These construction projects were planned at other bases in order to accommodate the E&I workload being transferred from the squadrons at McClellan and Kelly AFBS as the result of 1995 base realignment and closure decisions.) The study also found that another \$5 million will be

¹³For the same reasons we believe that the requirement to certify the government estimate in section 8014 of the 1999 DOD Appropriations Act is not applicable.

saved due to the cancellation of building construction projects at Tinker AFB.

The Air Force Audit Agency performed a management advisory review of the 38th EIW business case analysis.¹⁴ The Audit Agency sampled two of the five wing functions, representing 78 percent of the wing's total functions. It concluded that the methodology the Air Force had used for its analysis was sound and that the analysis was materially correct and well documented. It also concluded that the estimate of expected savings was conservative because the Air Force used the most conservative rates in place. We also found the analysis to be reasonable based on the cost factors and type of methodology the Air Force used.

Conclusions

The Air Force's proposal concerning the 38th EIW is a comprehensive change to the missions and responsibilities performed by the 38th EIW and does not constitute a conversion of civilian to contractor personnel as envisioned under A-76. Thus, the Air Force was reasonable in concluding that it did not have to undergo the A-76 process in this instance. Similarly, the planned action is not a change of the kind contemplated by 10 U.S.C. 2461. Accordingly, the Air Force was not required to perform the cost study and provide congressional notification under that provision. At the same time, the Air Force's business case analysis supports the cost-effectiveness of the proposed action, with the reduction of a significant number of personnel.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Secretary of Defense or his designee. On February 11, 1999, DOD officials concurred with the report findings. They also provided technical comments which have been incorporated as appropriate.

Scope and Methodology

To determine whether the planned action was subject to the requirements of OMB Circular A-76, we reviewed the Air Force's programming and implementation plans and reviewed and analyzed Circular A-76. Also, we interviewed senior officials at Air Force Headquarters, Washington, D.C.;

¹⁴A management advisory review is done in accordance with the Air Force Audit Agency's management advisory service. This service does not follow the traditional audit process and is not subject to formal reporting requirements. Instead, the service is completed in response to specific management requests for independent data gathering and analysis on taskings such as evaluating management alternatives, performing fact finding, and scoping known problems. The results are communicated in a briefing or memorandum.

the 38th EIW, Tinker AFB, Oklahoma; and the Office of Management and Budget, Washington, D.C. We also reviewed our prior work reviewing A-76 issues.

To determine whether the Air Force action was subject to the requirements of 10 U.S.C. 2461, we identified and reviewed relevant legislation and discussed the applicability of section 2461 with senior officials of the Office of Management and Budget and the Air Force's Office of General Counsel.

To determine whether the Air Force analyzed the cost-effectiveness of the proposed action, we reviewed its business case analysis and discussed it with the Air Force Audit Agency. We also reviewed the Air Force's rates and cost methodology.

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

We are sending copies of this report to the Ranking Minority Member of the Subcommittee on Readiness and Management Support, Senate Armed Services Committee; Chairmen and Ranking Minority Members of the Senate and House Committees on Appropriations; the Secretaries of Defense and the Air Force; and the Director of OMB. We will make copies available to others upon request.

Please contact me at 202-512-8412 if you or your staff have any questions concerning this report. Major contributors to this report are listed in appendix II.



David R. Warren, Director
Defense Management Issues

Contents

Letter		1
Appendix I The A-76 Process		16
Appendix II Major Contributors to This Report		20
Tables	Table 1: Current 38th EIW Active Component Manpower Authorizations	4
	Table 2: 38th EIW Active Component Personnel Reductions and Transfers to Other Organizations	7
Figures	Figure 1: Actions Affecting Positions Formerly Associated with the 38th EIW	6
	Figure I.1: Overview of the A-76 Process	17

Abbreviations

AFB	Air Force Base
ANG	Air National Guard
DOD	Department of Defense
EIW	Engineering Installation Wing
E&I	Engineering and Installation
IFB	Invitation for Bid
MEO	most efficient organization
OMB	Office of Management and Budget
RFP	Request for Proposals

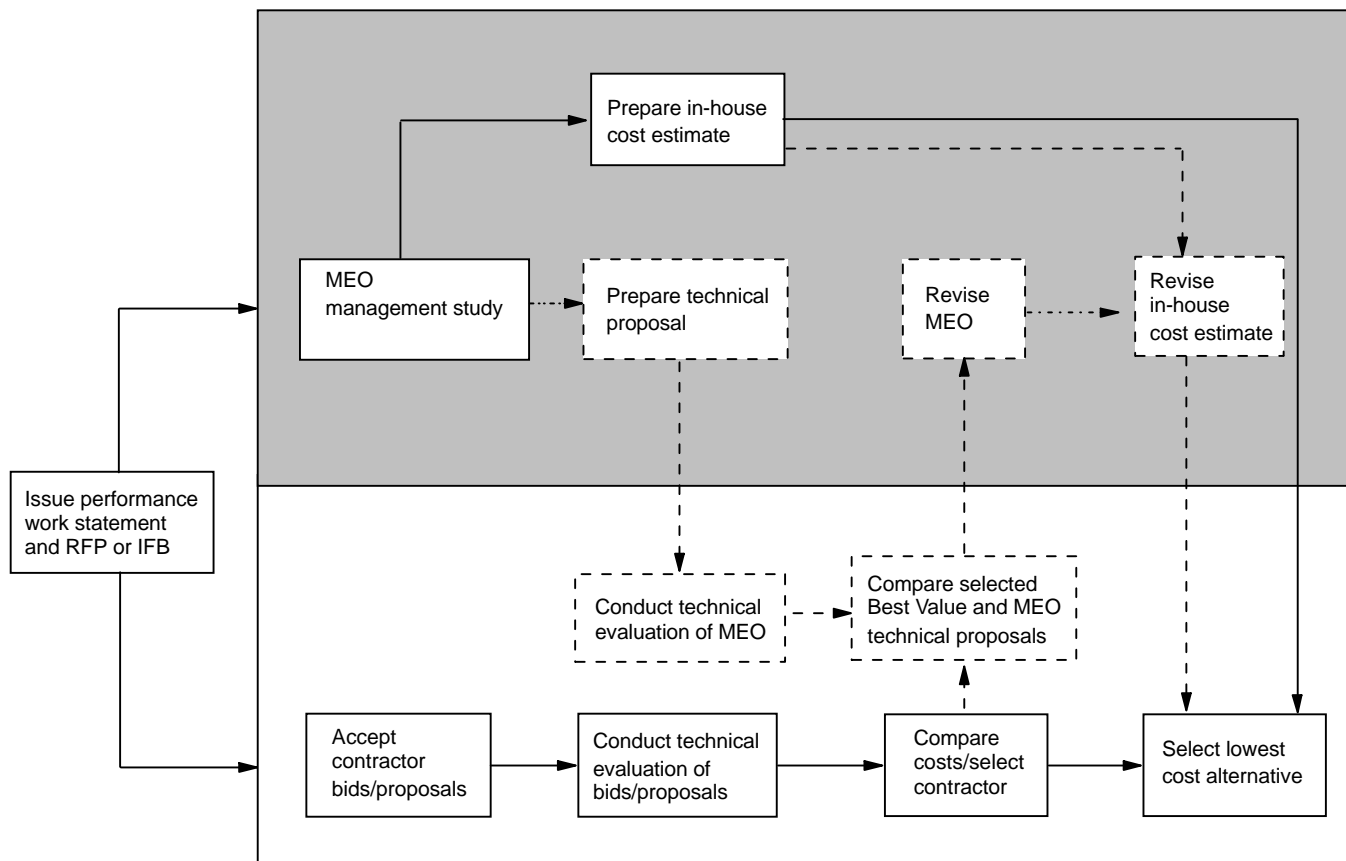
The A-76 Process

In general, the A-76 process consists of six key activities. They are: (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 (RFP) or Invitation for Bid (IFB); (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 IFB, requesting firm bids on the cost of performing a commercial activity. This 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 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 IFB or RFP, serves as the basis for both government estimates and private sector offers. If the IFB 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 RFP—best value process—is used, the Federal Procurement Regulations 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 IFB 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 IFB or RFP 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. Appeals must be submitted in writing and within 20 days after the date that all supporting documentation is made publicly available. The appeal period may be extended to 30 days if the cost comparison is particularly complex. Appeals are supposed to be adjudicated within 30 days after they are received.

**Waivers of Cost
Comparison Requirement**

The A-76 Supplemental Handbook provides that, under certain circumstances, agencies may authorize cost comparison waivers and direct conversions to or from in-house, contract or interservice support agreements. A waiver may be granted where:

- The conversion will result in a significant financial or service quality improvement and a finding that the conversion will not serve to reduce significantly the level or quality of competition in the future award or performance of work; or
- The waiver will establish why in-house or contract offers have no reasonable expectation of winning a competition conducted under the cost comparison procedures of the Handbook.

Additionally, the supplemental handbook provides that under certain circumstances, such as situations involving 65 or less full time equivalent personnel, streamlined cost comparisons may be permitted.

Major Contributors to This Report

**National Security and
International Affairs
Division, Washington,
D.C.**

Barry Holman, Associate Director
Marilyn Wasleski, Assistant Director
Debra McKinney, Evaluator-in-Charge
Bonita Page, Senior Evaluator

**Office of the General
Counsel**

John Brosnan, Assistant General Counsel
Stephanie May, Senior Attorney

Dallas Field Office

Kimberly Seay, Site Senior
Bonnie Carter, Senior Evaluator

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are \$2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

<http://www.gao.gov>

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

