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NAVAL POSTGRADUATE SCHOOL
Monterey, California



THESIS

THE ROLE OF THE NAVY COMPTROLLER IN
MANAGING THE OMB CIRCULAR A-76 PROCESS

by

Frank A. Lindell

June, 1992

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The Role of the Navy Comptroller
in Managing the OMB Circular A-76 Process

by

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Lieutenant, United States Navy
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Submitted in partial fulfillment
of the requirements for the degree of

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ABSTRACT

This thesis examines the role of the Navy field activity comptroller in the acquisition and contracting process under OMB Circular A-76. It contains practical ideas, concepts and comments regarding acquisition and contracting under OMB Circular A-76 by experienced field comptrollers. The thesis is structured toward the newly reported comptroller who has had little, if any, experience in the Navy financial management arena. This thesis will provide that comptroller with a basic understanding of the problems and processes involved with acquisition and contracting. It attempts to promote an understanding of contracting under OMB Circular A-76 so that the new comptroller can apply the principles discussed for better decision making in the acquisition process.

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I. INTRODUCTION

A. PURPOSE

The purpose of this research is to examine the role of the Navy field activity comptroller in the contracting and acquisition process under OMB Circular A-76. A-76 sets forth policy and procedures for the performance of commercial activities. It delineates the steps used to determine whether commercial activities should be performed by private sector sources or by governmental agencies. This thesis will outline general OMB Circular A-76 requirements and specifically, give useful and practical ideas and concepts that will enable a comptroller to successfully function under the Commercial Activities Program. The goal of this thesis is to inform the comptroller of the key facets of the A-76 contracting environment.

This thesis provides a framework for the Navy Officer's understanding of the role of a field activity comptroller in the A-76 contracting process. It also provides an overview of the contracting process within the Department of the Navy. It strives to provide an understanding of the pivotal role A-76 contracts play in terms of budget, morale, cost savings and quality at an activity. In addition, it will serve as a

supplemental text for the Navy Practical Comptrollership Course conducted at the Naval Postgraduate School, Monterey, California. The text may also be used by the comptroller as a guide in the A-76 contracting process.

B. PROBLEM STATEMENT

The budget is one of the most important management tools which a Commanding Officer possesses because it has a direct impact on his goals and objectives. The relationship between OMB Circular A-76 and the budget is also direct. Savings garnered from use of A-76 contracts are deleted from the activity's budget. Failure to properly formulate a Statement of Work could result in required functions not being included in the commercial contract.

If the scope of the work does not include all the functions performed by government employees, the civilian bidder can undercut governmental agency costs and win the contract. However, functions which were not included in the contract must still be performed. This workload is often shifted to other personnel at the command.

Similarly, since savings are recouped by the Government, the activity now has less money yet the civilian contractor is not performing all tasks which were originally required. The incomplete definition of the scope of work could result in costly change orders to the original contract. These actions

could have a detrimental effect on the activity budget and the ability of the Commanding Officer to effectively manage.

The function of the field activity comptroller is to supervise the financial management of the activity under the guidance and supervision of the Commanding Officer while adhering to all applicable laws and regulations. The comptroller reports directly to the Commanding Officer and serves as a technical advisor on the budgetary aspects of the activity. It is imperative the comptroller understand the relationship between A-76 and the budgetary process so that the command's missions, priorities and goals can be achieved.

Many Naval officers, especially from the line community, are detailed to Navy field activity comptroller positions with little, if any, practical financial management experience. They are tasked with assuming all responsibilities and duties of a field activity comptroller in a short period of time. The newly reported comptroller may easily be overwhelmed by the myriad regulations and laws applicable to his new position. He may not understand the direct link between OMB Circular A-76 contracts and resultant costs savings, cost increases, changes in quality of product or service, effect on personnel morale or the relationship to the activity budget.

C. BACKGROUND

Efficiency in Government has been a catch phrase since the early 1900's. It is continually sought, yet very hard to achieve. Unique product requirements, lack of a true market and lack of competition make it very difficult to assess the real efficiency of Government.

True efficiency in the marketplace exists where competition is allowed to function in an effort to reach an equilibrium between quantity and prices. One could say therefore, that it would be in the best interest of economy and efficiency to open up the various requirements of Government to competition and market forces. However, some government services are public goods which the market does not provide. These goods must fall under the domain of Government if they are to be produced at all.

Often the magnitude of the good or service to be provided is so large that an individual firm could not possibly have the required resources to be a producer. National defense, law enforcement and social services are prime examples of public goods which, by necessity, fall under government purview. One firm, or even several firms, could not man and equip a military or all the social agencies required by our country.

The scope of the task is too large for private enterprise to handle and must fall under appropriate government agencies.

However, even in providing this public good society seeks efficiency in an effort to get the best return for its tax dollars. In search of this efficiency the question thus becomes whether the Federal Government should satisfy its needs for a public good such as national defense by using contracts from private sector sources or through the use of civil servants and military personnel. In order to measure the relative efficiency of providers a process is required which can weigh the efficiency and economy of private and government sources.

To measure this efficiency the Government has established OMB Circular A-76. The basic policy stated in this circular is that goods and services which can be procured more efficiently from commercial sources will be so procured except for those goods and services which are inherently governmental in nature and highly related to public interest. In an effort to increase efficiency and decrease cost, DOD activities will evaluate commercial activities on the basis of cost, quality, performance and national security. They will replace military and civil service personnel with a commercial contractor when that replacement leads to improved efficiency and decreased costs.

Since its inception, A-76 has had several revisions in an effort to improve the guidance to DOD activities and increase fairness. Properly implemented and utilized, OMB Circular A-76 contracts will increase efficiency, reduce cost and

assist in making sound management decisions. However, poor adherence to the guidance, poorly written Statements of Work, inaccurate cost comparisons, improper determination of the Most Efficient Organization, improper research, inaccurate computation or failure to properly monitor the contacts can result in poor quality products at higher costs. Since savings realized from A-76 contracts are withdrawn from the activity's budget, it becomes imperative that administrators of this program are well versed in proper execution of the Commercial Activities study and its ramifications. Incorrectly utilized, A-76 contracts can often result in true inefficiency and adversely affect the financial posture of the activity. It is therefore important that the activity comptroller be well versed in the inner workings of OMB Circular A-76 and be able to identify those commercial activities which can and cannot achieve increased efficiency for his activity.

D. SCOPE

The primary scope of this thesis will focus on the Navy field activity and its relationship to OMB Circular A-76. It is the intention of the thesis not only to identify applicable regulations, concepts and procedures, but also to suggest specific ideas and recommendations which experienced field comptrollers feel have proven to be successful. The thesis is designed to provide a reference guide for the comptroller at

the field activity level. It examines the duties and responsibilities of Navy field activity level comptrollers and contracting personnel in the administration of the A-76 process.

It is not the intent of this thesis to reiterate existing instructions. Most comptrollers will gain that knowledge in their professional training. The greater amount of emphasis will be on the current practices of the field activity comptroller and their organizations. The scope of the thesis will be sufficiently broad to familiarize the Navy field comptroller with the A-76 process and provide that comptroller with salient management suggestions from experienced field comptrollers. A thorough literature search combined with investigative research of the questions posed in section E below are the foundation of this thesis.

E. RESEARCH QUESTIONS

The primary research question is:

1. What is the prerequisite knowledge required by a financial manager to function effectively in the area of acquisition and contract management under OMB Circular A-76?

Subsidiary research questions include:

1. What is OMB Circular A-76?

2. What are the key laws and regulations which guide the financial manager?
3. What is the contracting process under OMB Circular A-76?
4. What is the role of the financial manager in the A-76 process and how might this role be changed to improve the process?

F. METHODOLOGY

The methodological approach to this thesis was through field research. The data for the study was gathered from comptrollers and contracting officers at various Naval activities across the nation through the use of surveys and interviews. The major focus was on the OMB Circular A-76 process. The surveys sought to gain a perspective of the exact role of the comptroller in the A-76 process and any specific problems engendered by OMB Circular A-76.

Interviews included not only procedural advice, but also the comptroller and contracting officer's management recommendations for future comptrollers. The A-76 process and the relevant information that should be known by all comptrollers at the field activity level were discussed. Specifically, the comptrollers and their staffs pointed out key concepts, ideas and recommendations on A-76 administration

which are not documented in professional literature, yet have proven effective in managing the process.

A secondary source of information was obtained by a thorough review of current Navy directives, manuals, instructions and other professional literature. Specific background information on OMB Circular A-76 was obtained through the Dudley Knox Library at the Naval Postgraduate School and through a custom bibliography generated by the Defense Logistics Studies Information Exchange. Many General Accounting Office and congressional oversight committee reports were also utilized.

The following definitions, paraphrased from OMB Circular A-76, are provided to help the reader to understand this research:

Commercial Activity. An activity operated by a Federal executive agency and which provides a product or service which could be obtained from a commercial source. A commercial activity may also be a part of an organization or a type of work that is separable from other functions or activities and is suitable for performance by contract. It is a regularly needed activity, rather than a one-time activity of short duration. Examples of commercial activities include food services, health services, administrative services and automated data processing services.

Governmental Function. A function which is so intimately related to the public interest as to mandate performance by

government employees. Examples of these functions include (1) discretionary application of government authority, (2) monetary transactions and entitlements, and (3) maintenance of in-house technical core capabilities.

Commercial Source. A source which is a business or other non-Federal activity, located in the United States or its possessions, which provides a commercial product or service.

Conversion to Contract. The changeover of an activity from government performance to performance under contract by a commercial source.

Cost Comparison. A process of developing an estimate of the cost of government performance of a commercial activity and comparing it to the cost of performance by a commercial source.

Performance Work Statement. The specifications and description of the service to be performed. It specifies acceptable standards and quality levels to be achieved. It should describe personnel requirements, equipment requirements, performance standards and other criteria which both the government and commercial source are expected to meet.

G. ORGANIZATION OF THE STUDY

This thesis is divided into five chapters. Chapter I provides a general introduction to the area of study. It

includes the purpose of the study, problem statement, background, scope of the study, research questions, methodology and definitions. Chapter II provides background information concerning basic contracting and acquisition regulations currently in existence. Chapter III provides background information concerning OMB Circular A-76 and how the process works. Chapter IV reviews the survey results, analyzes the data and provides interpretations of results. Chapter V contains conclusions, recommendations and answers to research questions.

II. ACQUISITION AND CONTRACTING

One of the key facets of successful budget execution is a sound acquisition and contracting program. The largest portion of a shore activity's budget is spent on civilian labor. However, the majority of remaining funds are obligated through acquisition and contracting procedures. Incorrect administration of these areas could adversely affect the mission of the command. It is the comptroller's responsibility to ensure proper safeguards are in place to manage and oversee the budget. The comptroller must ensure compliance with existing laws and regulations, review budget requirements, allocate resources and defend budget requests to higher echelons. [Ref. 8:p. K-12].

A basic understanding of contracting and acquisition procedures will assist the comptroller to carry out these duties. In order to have this understanding the comptroller should be aware of basic procurement regulations and laws, types of contracts, methods of contracting, and the contracting process. Knowledge of these areas will help the comptroller to control funding obligation rate, ensure adherence to regulations and better expend the activity's funds. Proper budget execution through proper acquisition and

contracting procedures will also improve subsequent budget formulation.

A. THE REGULATIONS

Contracting and acquisition is governed by a series of regulations, laws, court decisions, General Accounting Office (GAO) decisions and congressional decisions, either in specific laws or as conditions to Appropriation legislation. All of the above are woven together to form the framework within which the Contracting Officer must function. Adherence is mandatory, yet regulations are often open to individual interpretation.

The Armed Services Procurement Act of 1947 contained only 125 pages and provided basic regulations governing the business operations of the Department of Defense and private industry. This act was the forerunner of modern day procurement legislation. The Federal Procurement Regulation Act was implemented at about the same time to govern all non-DOD procurement. In 1976, the Armed Services Procurement Regulations were changed to the Defense Acquisition Regulation (DAR). The Defense Acquisition Regulation delineated applicable regulations for Department of Defense acquisition and was over 10 times the volume of the original ASPR.

The DAR established the underlying principles, procedures and policies concerning contracting and acquisition management, including: methods of procurement, foreign purchases, interdepartmental procurement, international acquisition, contract clauses, patents, contract termination, quality assurance, inspection and acceptance, cost principles, cost accounting standards, contract types, contract financing, conflicts of interest, cost and price analysis, contracting by formal advertising and negotiations and many other acquisition and contract related matters.

In an effort to keep acquisition and contracting practices current, the Commission of Government Procurement made several recommendations in 1972. As a result of the Office of Federal Procurement Act of 1974 the Federal Acquisition Regulation System was established to develop a government-wide regulation system which would take the myriad, and sometimes conflicting regulations, and combine them into a single, uniform set of regulations. This regulation, established in 1984, is the Federal Acquisition Regulation. It applies to all Federal government acquisitions.

The Federal Acquisition Regulation System codifies and publishes uniform policies and procedures for acquisition by all executive agencies. The FAR System is prepared, issued and maintained by the Secretary of Defense, the Administrator of General Services and the Administrator of the National Aeronautics and Space Administration. Revisions to the FAR

are prepared and issued through the Defense Acquisition Council and the Civilian Agency Acquisition Council.

B. THE LAWS

As indicated above, acquisition and contracting is conducted under an umbrella of laws combined with GAO, OMB and Congressional decisions. The primary intent of these guidelines is to foster an environment of honesty and integrity in the process which expends government funds. They are also designed to accomplish public goals and objectives. Examples of laws designed to ensure the integrity of the contracting process are:

1. Budget and Accounting Act of 1921
2. Defense Production Act of 1950
3. Public Law 85-804--Extraordinary Contractual Relief
4. Public Law 87-653--Truth in Negotiations
5. Conflict of Interest Statutes
6. Public Law 97-177--Prompt Payment Act
7. Brookes Act

Examples of laws designed to accomplish public goals and objectives are referred to as socio-economic laws and include the following:

1. The Small Business Act of 1963
2. Freedom of Information Act
3. Contract Work Hours and Safety Standards Act

4. Davis-Bacon Act
5. Service Contract Act
6. Buy American Act
7. Public Law 95-507--Subcontracting with Small and Minority Business Firms
8. Public Law 98-369--The Competition and Contracting Act of 1984 [Ref. 8:p. K-6]

In an effort to stem perceived mismanagement of the acquisition process, a secondary intent for these laws has emerged. This secondary purpose is protection of government funds through increased reporting requirements for defense contractors in an effort to forestall price gouging and waste of taxpayer's dollars. Since the 1970's, the detail and quantity of these regulations have increased resulting in burdens for both contractors and the Government. Increased reporting requirements increase the costs incurred by the contractor and are passed along to the Government, defeating their original purpose of controlling waste.

The legislative arena surrounding the acquisition and contracting environment is a dynamic one. Laws and regulations are regularly enacted and modified as market and government conditions warrant. Comptrollers should be aware of not only existing laws and regulations, but also prospective changes and the effects they might have on the activity's budget.

C. CONTRACTING

Contracting is the purchasing, renting, leasing or otherwise obtaining of supplies or services. It includes the description of the service or good required, selection and solicitation of sources, preparation and award of contracts and all phases of contract administration [Ref. 3:p. 2-1]. Contracting within the Department of Defense is accomplished by individuals specifically empowered to act as agents to obligate or commit the Government in a contractual relationship. Such individuals are specially trained and required to be knowledgeable and qualified in their area of expertise. Selection of Contracting Officers is based upon their experience in government contracting, education or special training in business administration, knowledge of acquisition policies, specialized knowledge in a particular field of contracting and satisfactory completion of acquisition training courses. Within the Department of Defense there are three types of Contracting Officers.

1. Procurement Contracting Officer (PCO)--This individual is responsible for the overall contract. Specifically, his tasks involve the activities leading up to and awarding of the contract.

2. Administrative Contracting Officer (ACO)--This individual monitors contractor performance after the contract award. In the contractor's plant he acts as the "eyes and

ears" for the Procurement Contracting Officer and the Program Manager.

3. Termination Contracting Officer (TCO)--This individual is responsible for all actions leading to the settlement of terminated contracts.

Another key player in contracting is the Defense Contract Audit Agency (DCAA). This agency is responsible for auditing contractor's books and accounting records regarding the acceptability and allowability of estimated and incurred costs.

D. METHODS OF CONTRACTING

As a result of the Competition in Contracting Act of 1984, the Department of Defense uses two major methods of contacting. These two methods are sealed bid or competitive negotiation. The Competition in Contracting Act eliminated the preference for formal advertising and placed sealed bidding and competitive negotiation on an equal basis.

Sealed bidding employs competitive bids, public opening of bids and awards. Sealed bidding is permitted under the Federal Acquisition Regulations if:

1. Time permits the solicitation, submission and evaluation of sealed bids;
2. The award can be made on the basis of price or other price-related factors;

3. It is not necessary to conduct discussions with responsible offerors about their bids; and
4. There is a reasonable expectation of receiving more than one sealed bid.

Sealed bidding uses the Invitation for Bid (IFB) solicitation document. Sealed bidding must use either a Firm Fixed Price (FFP) Contract or a Fixed Price with Economic Price Adjustment Contract. The following steps comprise the sealed bid method of contracting:

1. Preparation of invitations for bids. This step involves preparing a description of the service or good to be provided. The description should be clear, concise and complete.
2. Publicizing the invitation for bids. This step involves distribution of the invitation to bid.
3. Submission of bids. Sealed bids must be submitted by bidders to be opened at the time and place specified in the invitation to bid.
4. Evaluation of bids. Bids must be evaluated without discussion.
5. Contract award. Based on price and price-related factors the contract will be awarded to the bidder whose bid will be most advantageous to the Government.

[Ref. 3:p. 14-1]

The negotiation method of contracting entails use of either competitive or other-than-competitive proposals and

discussions. This method is used whenever any of the sealed bid criteria noted above cannot be met. Negotiation is characterized by bargaining and revision of offers. Bargaining usually applies to price, schedule, type of contract or proposed terms of a contract. Similar to the sealed bid process, negotiation commences with a request for proposal. Contractors are also required to submit cost and pricing data which are used by Contracting Officers in negotiating prices and other terms or conditions of the contract when the cost of the contract exceeds \$ 500,000.00. However, negotiation is between the Government and the contractor.

Multiple contractors do not usually negotiate for one specific contract simultaneously. This does not mean that there is a lack of competition since it is the Government's policy to obtain effective competition whenever possible [Ref. 4:p. 47]. However, some instances occur where a sole source contract is the only vehicle available to obtain the required goods and services. Under the Competition in Contracting Act, there are seven statutory exceptions which allow for sole source contracting. These contracts must be formally justified and receive an appropriate level of approval. The seven statutory exceptions include:

1. Only one responsible source.
2. Unusual or compelling urgency.
3. Industrial mobilization purposes.

4. Based on an international agreement or Foreign Military Sales requirement.
5. To meet a statutory requirement.
6. In the interest of national security.
7. In the public interest.

In addition to the sealed bid and negotiated contracting methods, there are also several special methods. These include multi-year contracting, options, and leader company contracting. The general purpose of these special contracting methods is to increase economic efficiency through special contracts [Ref. 3:p. 17-1]. Each method has specific limitations, objectives and requirements. However, selecting the contracting method is only one part of the acquisition process. Another key facet of the process is the choice of which type of contract to use.

E. TYPES OF CONTRACTS

There is a wide selection of contracts available to Contracting Officers. The selection of the type of contract to use requires negotiation and sound judgement on the part of the Contracting Officer. Negotiation for contract price and type are tightly linked. Effort must be made to provide the contractor reasonable risk and sufficient incentive to perform the contract economically and efficiently. There are several key factors which should be taken into account when

negotiating the type of contract. The most important of these include:

1. Price competition.
2. Cost analysis.
3. Price analysis.
4. Urgency of requirement.
5. Type and complexity of the requirement.
6. Adequacy of contractor's accounting system.

Contract types vary according to the degree and timing of the responsibility assumed for the costs by the contractor and the amount and nature of the profit incentive to the contractor for achieving or surpassing goals or standards. Contract types are generally divided into two broad categories: Fixed-Price contracts and Cost-Reimbursement contracts. A brief review of the principal types of contracts in each category follows:

1. Firm Fixed Price Contract. In this type of contract the Government and the contractor agree to a fixed price for the goods or services which is not subject to adjustment. This type of contract places the maximum risk upon the contractor. The contractor assumes full responsibility for cost control and any loss or profit. This type contract also provides maximum incentive for the contractor to control costs. [Ref. 3:p. 16-2]

2. Fixed-Price Redeterminable Contract. This type of contract is utilized when uncertainties exist that would

preclude use of the firm fixed-price contract. This type contract provides for a firm fixed price for a specified initial period of performance and prospective redetermination at a specified time of the price for subsequent periods of performance. A key factor necessary for this type contract is that the contractor must have an acceptable cost accounting system capable of accurately capturing and reporting costs so that this data may be used for subsequent redeterminations of price. [Ref. 3:p. 16-4]

3. Fixed-Price Incentive Contract. In this contract the contractor and the Government agree upon target costs and then establish a pricing agreement whereby the contractor is incentivized to reduce costs in order to earn more profit. If the contractor delivers the goods or service under target cost, then he shares in the savings by an additional profit based on a predetermined share formula. Likewise, the contractor is motivated to control costs because a cost overrun will result in a reduction of his profit. There is a price ceiling associated with this type of contract which is negotiated at the outset. Fixed-price incentive contracts are further divided into either firm target or successive targets, depending upon the cost and profit targets agreed upon.

[Ref. 3:p. 16-4]

4. Cost-Plus-Incentive Fee Contract. This type contract specifies a target cost, target profit, minimum and maximum fees and a fee adjustment formula. This type of

cost-reimbursement contract provides for an initially negotiated fee which is later adjusted by a specified formula based upon the relationship between allowable costs and target costs. This type contract is similar to the fixed-price incentive contract except there is no ceiling on price. It is normally used for test and development contracts. This type contract encourages the contractor to control costs while undertaking high risk projects. The inherent high risk nature of the contract precludes use of a fixed price contract. [Ref. 3:p. 16-10]

5. Cost-Plus-Fee-Award Contract. This type contract is a cost-reimbursement contract that provides the contractor a fee composed of a base amount fixed at the outset plus an award amount based on excellence in quality, timeliness, technical ingenuity, and cost-effective management. This contract allows the Government the flexibility of altering the emphasis on contractor performance by realigning the weights assigned to the award fee formula. This realignment can be done at the beginning of each award period. [Ref. 3:p. 16-10]

6. Cost-Plus-Fixed-Fee Contract. This type contract provides the contractor a fixed fee in addition to reimbursement for allowable costs. It is usually utilized where there are great risks and uncertainties involved, such as research and development work. [Ref. 3:p. 16]

In addition to the major types of contracts noted above there are several other contracts or agreements to contracts

which can be used. These would include: indefinite quantity contracts, definite quantity contracts, requirements contracts, time and materials contracts, labor hour contracts, letter contracts, basic ordering agreements and blanket purchase agreements. Each has a particular use in contracting such as when the exact quantity or time of delivery is unknown, small purchases, repetitive procurement of selected service or goods, or other peculiarities. In general, the needs of the Government and the abilities of the contractor must be evaluated prior to deciding upon the type of contract to use [Ref. 3:p. 16-2].

F. THE CONTRACTING PROCESS

The contracting process is initiated by the individual desiring a good or service. This individual completes a purchase request or requisition document describing the item desired and routes that document through appropriate levels in the chain of command for approval. The purchase request is then sent to the contracting department for procurement. The procurement process can be as short as one day or as long as several months depending upon the cost, method of contracting, item/service desired or several other factors. The contracting process, however, consists of six basic components. These components include:

1. Planning. This phase of the contracting process consists of determination of the procurement method, development of the acquisition strategy, determination of the type of contract, development of the solicitation document, evaluation of the specifications for bidding, circulation of draft requests for proposals and determination of data necessary for negotiation. [Ref. 2:p. 4]

2. Source solicitation. During this phase the solicitation document is released and any modifications or changes to the solicitation document are made. Bidder's conferences are also held during this phase. [Ref. 2:p. 4]

3. Source evaluation and selection. During this phase the contracting personnel evaluate bids/offers, determine lowest responsive and responsible bidder/offeror, establish competitive range, apply source selection criteria and prepare for negotiations utilizing cost and price analysis coupled with contractor data (if applicable). [Ref. 2:p. 7]

4. Negotiation. Though not applicable for sealed bid method of contracting, this phase is the key component of the negotiation method of contracting. As such, it includes negotiation of delivery schedule, costs, pricing structure, profit or fee, and technical aspects of the requirement. [Ref. 2:p. 9]

5. Award. This component of the process is characterized by a final agreement on the terms and conditions of the

contract, contract preparation, legal review, contract signatures and publicizing the award. [Ref. 2:p. 10]

6. Contract administration. This phase involves Government monitoring of contractor performance including production surveillance, quality assurance, cost auditing, termination settlements, property management and contract payment. [Ref. 2:p. 1]

G. CONCLUSION

Although the contracting process is almost exclusively controlled and executed by the contracting department under the supervision of the Contracting Officer, the activity comptroller must be aware of the process, methods of contracting, types of contracts and applicable laws and regulations. The activity comptroller's role is not so much to audit the contracting department as it is to ensure funds are expended properly and in the best interest of the command. [Ref. 8:p. K-18]

Efficient and economical use of government funds is the comptroller's primary mission. To that end, he must not only monitor the requisitioning, acquisition and contracting processes of the activity, but must actively seek ways to decrease costs. OMB Circular A-76 was developed by the Government to force commands to evaluate the efficiency and economic soundness of activities performed by military

personnel and civil servants. The next chapter will review and explain the OMB Circular A-76 process and its purpose.

III. OMB CIRCULAR A-76

A. HISTORICAL PERSPECTIVE

During World War I the Government of the United States began to perform some commercial activities for itself. This change came about in response to demands placed upon the Government resulting from the national mobilization required for the war. Although these activities continued after the war, in 1933 a special House of Representatives committee recommended their abolition. Subsequent attempts at privatization were halted until after World War II. The movement resurfaced again in the mid 1950's and gained momentum as the executive branch of the Government became a privatization advocate. In 1955 the Bureau of Budget Bulletin Number 55-4 was issued. This bulletin outlined the basic concept of shifting federal performance of certain activities to commercial sources, except when it was not in the public interest to do so. The bulletin stated in part that:

It is the general policy of the administration that the Federal Government will not start or carry on any commercial activity to provide a service or product for its own use if such product or service can be procured from private enterprise through ordinary channels. Exceptions to this policy shall be made by the head of any agency only where it is clearly

demonstrated in each case that it is not in the public interest to procure such product or service from private enterprise. [Ref. 1: p.1]

Evolutionary changes over the years have tended to enlarge the scope of the original document and focus on increasingly detailed analysis. The original document was followed by Bureau of Budget Bulletins 57-7 and 60-2 in 1957 and 1959, respectively. Bureau of Budget Bulletin 60-2 was canceled and replaced by the original OMB Circular A-76 on 3 March 1966. This circular made some significant policy and procedural changes to the previous bulletins. It emphasized effective and efficient operation of government programs vice any benefit to a specific segment of the economy. It provided increased guidance in the areas of cost comparisons, inventory review and evaluation procedures. In addition to these changes, it listed five specific exceptions. These items were required to be performed in-house as opposed to commercial sources. These five exceptions were:

1. When procurement from a commercial source would disrupt or delay a DOD program.
2. When in-house performance is required to maintain military training or readiness.
3. When a satisfactory commercial source is not available.
4. When products or services are available from other federal agencies.

5. When contract performance is more costly.
[Ref. 6:p. 4]

A revision to the Circular was made in 1967 in an attempt to clarify policies and provide more structure. This revision focused on methods of conducting in-house and contracting out cost comparisons. It also required cost analysis prior to commencing new starts or continuing a government function. Since the inception of the policy through the late 1970's critics charged the guidelines and procedures were too vague and lacked uniform application.

An attempt to address these concerns was made in a 1979 revision to the Circular. New approaches were identified in this revision which included Performance Work Statements, Management Study reviews and detailed cost comparisons. This revision also contained a Cost Comparison Handbook which provided detailed instructions for use by agencies in conducting cost comparison studies.

In 1981, David Stockman, Director of OMB, directed an analysis of cost comparison methodology in an attempt to streamline it and increase efficiency. The result was the last complete revision of OMB Circular A-76, issued on August 4, 1983. This iteration revised much of the guidance contained in the 1979 Cost Comparison Handbook. The cost comparison methodology was changed from full cost to the incremental cost approach. The revision also attempted to clarify procedures, streamline methodology and enhance equity

in the process. This latest A-76 policy was based upon three principles:

1. Achieve economy and enhance productivity. Whenever an in-house function can be performed by the commercial sector, a comparison of the cost of contracting and the cost of in-house operation of the function will be made to determine who will do the work.

2. Retain governmental functions in-house. Certain functions are inherently governmental, not in competition with the commercial sector and, in the public interest, are required to be government-run.

3. Rely on the commercial sector. The Government is to rely on commercially available sources to provide commercial products and services. The Government will not start any commercial activity if the product or service can be provided more economically from a commercial source. [Ref. 6:p. 2]

To update the current revision to OMB Circular A-76, transmittal notices are issued. The latest transmittal notice is dated 19 November 1987 and requires agencies to conduct annual studies of not less than three percent of their civilian work force until all identified potential commercial activities have been studied. Policy changes and revisions to the A-76 concept are continually being implemented. Attempts have even been made to convert the Circular to law, but none have succeeded.

B. THE OMB CIRCULAR A-76 PROCESS

OMB Circular A-76 has established steps that must be adhered to whenever a commercial activity is being considered for contracting out. Each federal agency will normally

coordinate and monitor commercial activity milestones in accordance with OMB Circular A-76 by placing a designated department in charge of the program. For example, the Chief of Naval Operations (OPNAV 43) coordinates and monitors Navy commercial activity programs [Ref. 8:p. J-13]. OPNAV 43 will task Navy activities to review certain functions as potential commercial activity candidates, establish reporting milestones, task activities to conduct an internal review, maintain a commercial activities inventory and monitor progress leading to a competition between the Government and the private sector.

Each review is an indepth management study of the commercial activity as currently performed. The first step in the study is an analysis of the task to identify what its function is and exactly what the task entails. From this analysis, a Statement of Work (SOW) is created which in turn becomes the Performance Work Statement (PWS). Concurrently with the SOW, a Quality Assurance plan for a possible commercial service contract is designed. The purpose of the Quality Assurance plan is to provide a course of action for the Government to take to ensure the activity is performed properly by the commercial source.

While the Performance Work Statement (PWS) is being created, another indepth analysis of the commercial activity is being conducted to determine the government's cost to perform the activity. This analysis entails review of the

organization and its staffing. The review leads to the establishment of a Most Efficient Organization (MEO). The MEO is a streamlined organization which can perform its mission. Since the MEO is an attempt at improving the efficiency of the organization, the results of the review often lead to decreases in costs and reductions in personnel. However, this is not always the case. In some instances an organizations can actually expand to conform with the MEO. Once the MEO is in place, the costs of operating the activity are determined and used as a baseline for future comparisons. [Ref. 7:p. 40]

Once the reviews are completed, the MEO is turned over to the contracting activity in the form of a sealed bid. The Statement of Work is used to solicit proposals from commercial sources. There are specific requirements which need to be included in the solicitation package when contracting out for a commercial activity. The contractor must be notified that award is based solely on a cost comparison between the commercial bidders and the government's MEO estimate. This stipulation in the solicitation makes the contractors aware of the fact that the solicitation may be canceled if the government's cost is lower. Additionally, the contractor must be informed in the solicitation that he is required to offer employment to any qualified government employee who is displaced as a result of a commercial activity study.

[Ref. 7:p. 41]

Upon receipt of bids from commercial sources, their bids and the costs contained in the MEO are compared. The lower of the two is selected as the winner. However, the contractor proposals must be at least ten percent less than the MEO to be judged a winner. For multi-year funding, bids will be for a minimum of three years. For single year funding, bids will cover two fiscal years after the initial year. Commercial activities which remain in-house are required to have another review five years after the original study was conducted. Although the intention of the indepth management reviews is to increase efficiency and decrease costs, attainment of this goal is dependent upon sound reviews and analyses. The studies are complex and time consuming. Proper planning and preparation is required to ensure the quality of the reviews is of the highest caliber and the cost data captured is accurate.

Once a commercial activity is contracted out, it is very difficult to get the activity performed in-house again. Basically, the shoe is now on the other foot. Another MEO must be determined by the Government for the activity. This new MEO must demonstrate that performing the activity in-house would be ten percent cheaper than the cost charged by the commercial source plus 25% percent of the commercial source's capital assets cost. Initially, in order to award the contract to the civilian source, their bid had to have been ten percent below government cost. In order to take the

contract away from the commercial source the government must be ten percent below the figure used to justify transfer to the private sector in the first place. This new MEO cost figure would therefore be at least 20 percent cheaper than the original MEO. We can see then the difficulty in returning contracts from civilian to government sources when cost savings must meet or exceed 20 % of the original operating costs. The approval authority for returning an activity to in-house performance rests with the Secretary or Director of the department or agency.

C. IMPLEMENTATION

There are three areas of Government services that are considered for OMB Circular A-76 implementation. These areas are existing activities, expansion of those activities and new requirements. Since the majority of commercial activities fall into the existing or new requirements category, we will examine those two processes. The process for conversion of existing activities and new requirements consists of four phases. Within the phases the steps are different. The four phases of the process are inventory, management review, cost comparison and implementation of the results of the cost comparison. We will now examine the process for existing services and new requirements.

1. Existing Services

To determine if an existing service can or should be converted to a commercial source, the four phases of the process noted above are broken down into the thirteen steps listed below in Table I. If an activity is determined to be a government function it is not eligible for conversion to a commercial source and is retained in-house. If this is the case, the review stops at this step. If not, the commercial activity must begin the inventory phase and is placed on a schedule for review at least once every five years to see if the activity can be converted to a commercial source. An inventory of commercial activities involves separating those activities into two groups - those functions with 10 or fewer full-time equivalent (FTE) work years and those with more than 10 FTE's. One FTE is roughly equivalent to one employee.

The management review phase involves an examination to identify any reasons which would preclude performance of the activity by a commercial source. Steps four, five and six address these questions. Step seven examines whether an unacceptable delay would occur. The activity should remain in-house if such a delay is expected. Step eight is consideration for the Preferential Procurement Program (PPP). The PPP is an agreement that no comparison of commercial and government costs is necessary and that contracts are issued

under the procuring agency. Examples of industries which fall into this category are Federal Prison Industries, handicapped industries and other small and minority owned firms. Step nine involves the review of the FTE's established in step two. Step 10 provides the Assistant Secretary level the option to waive a costs comparison and convert the activity to a commercial contract regardless of any cost increases. Activities with less than 10 FTE's should be considered for conversion to commercial sources, if costs are reasonable (Step 11).

The cost comparison phase commences at step 12. The cost study itself consists of several different steps beginning with the development of the Performance Work Statement. The task analysis involved with the development of that statement must identify and quantify the output generated by the activity. The Performance Work Statement is the basis of the Government's and commercial sources' cost estimation and solicitation document, respectively. The Performance Work Statement is, by and large, the most important piece of work associated with the Commercial Activity study. Its accuracy and scope must be flawless if we are to get true estimates of cost for performance of equal work.

The next step in the process is to conduct a management review with respect to the stated tasks of the Performance Work Statement. Once this review is completed, the organization is restructured into the Most Efficient

Organization. Concurrent with the development of the MEO is the preparation of the in-house cost estimate. Step 13 is the decision to award the contract to the commercial sector if contract costs are less than in-house personnel costs by ten percent or more, or, if not, to continue government performance of the activity. [Ref. 5:p. A-1]

TABLE I: PROCESS FOR EXISTING SERVICES

STEPS	DECISION CRITERIA
1.	Is activity a Governmental function ?
2.	Is function scheduled for inventory ?
3.	Is function scheduled for review ?
4.	Is in-house performance required for national defense ?
5.	Is in-house performance a government hospital required by agency medical director ?
6.	Are satisfactory commercial sources available ?
7.	Would unacceptable delay occur ?
8.	Will contract be awarded under a certain Preferential Procurement Program ?
9.	Are less than ten FTE's present ?
10.	Does the Assistant Secretary wave the cost comparison ?
11.	Will the contract cost be unreasonable ?
12.	Conduct the cost comparison.
13.	Is the contract cost less than in-house cost by the specified margin ?

2. New Services

The process for awarding a contract for a new requirement has only eight steps as displayed in Table II. Concerns over scheduling for inventory and review do not apply. Similarly, concern over delay in performing the function are not present since the function does not exist yet. Step one is unchanged from the above mentioned process. Steps two and three determine whether the activity is required for National Defense or by the Agency Medical Director. Step four determines if a satisfactory commercial source is available. If not the activity will remain in-house. If the contract is to be awarded under PPP, the contract is let and the process ends. If not, then it must be determined if competitive contract costs would be reasonable. If a contract is awarded then the process ends with step six. If it is determined that it is not reasonable to award a competitive contract without a cost comparison, then one would be conducted at step seven.

Upon completion of the cost comparison, a contract is awarded if the following criteria are met: Total contract costs are less than total in-house estimates by ten percent of personnel costs and less than twenty five percent of acquisition costs of equipment and plant necessary to perform the service. [Ref. 5:p. A-1]

TABLE II: PROCESS FOR NEW SERVICES

STEPS	DECISION CRITERIA
1.	Is activity a Governmental function ?
2.	Is in-house performance required for national defense ?
3.	Is in-house performance at a government hospital required by agency medical director ?
4.	Is a satisfactory commercial source available ?
5.	Will the contract be awarded under the Preferential Procurement Program ?
6.	Will contract costs be unreasonable ?
7.	Conduct cost comparison ?
8.	Is the contract cost less than in-house cost by the specified margin ?

D. SUMMARY

The activity comptroller is primarily concerned with the funding issues associated with the OMB Circular A-76 contracts. At some activities program analysts attached to Manpower Engineering Departments are the primary overseers of the program. They are responsible for conducting Commercial Activity studies and preparing the statement of work for the A-76 contract proposal. At other activities the responsibility for conducting the Commercial Activity study rests with the comptroller department. In the latter case, the comptroller is intimately involved with the A-76 process.

The comptroller is concerned with providing technical

guidance and direction for financial matters, budget formulation, review and execution, collection of budget data, review of program performance and promotion of economy and efficiency for assigned programs. Depending upon the level of involvement, administration of the A-76 process may be a large part of the comptroller's efforts to improve economy and efficiency at the activity.

Thus far we have reviewed the history of OMB Circular A-76, how the process works and the steps used to implement the policy. In the previous chapter we examined the contracting process itself. With this information as background, Chapter IV will provide the responses to the survey questions and their analysis.

IV. SURVEY RESULTS AND ANALYSIS

A. INTRODUCTION

This chapter will present the survey results and analysis of those results. The data for this study was gathered through oral interviews and mail surveys. Oral interviews were conducted with 17 comptrollers from various Naval activities across the country. Included were comptrollers from COMNAVAIRPAC, COMNAVSURFLANT, NAS New Orleans, NSC Oakland, NSC Charleston, NAS Memphis and NAVSUBASE New London. Additionally, 62 mail surveys were also sent to various comptrollers. Appendix A provides a listing of comptrollers who responded to the survey.

Of the 62 surveys mailed, 21 were returned with proper answers and 41 were not returned. All 17 comptrollers who were interviewed orally followed up their interview with responses to the mail survey. Survey questions are provided in Appendix B.

The survey consisted of 10 questions aimed at determining the degree to which OMB Circular A-76 contracts were used by the activity, how that contracting function was performed and any management hints that could be passed along to new

comptrollers. Several surveys indicated that OMB Circular A-76 process was not utilized at that activity. However, even in those four cases, the responding comptrollers offered advice on management of the process based on past experience.

B. THE RESPONSES

1. Question One

How are you or your department involved in your command's A-76 program?

The level of involvement in the OMB A-76 process varied across a wide spectrum. The responses fell into three broad categories. (Total responses were 17. Four of 21 comptrollers had no response to this question) The breakdown is as follows:

- a. Funding oversight only: 58.8%
- b. Review of the program: 23.5%
- c. Total oversight of the program: 17.7%

Some typical comments received are paraphrased below:

- Involvement is limited to budgeting and funding issues.
- A-76 is assigned to the Management Engineering Department who consults with comptroller for cost estimates and funding.
- The Commercial Activities Program is administered by Management Division. The comptroller's primary involvement is the review of CA contracts at subordinate activities.

- Involvement is limited to advice, assistance and coordination.
- The Comptroller Department is the command's agent for OMB Circular A-76 functions and conducts the bi-annual inventory and 5 year review of Commercial Activities.
- The Comptroller Department is tasked to manage the OMB A-76 program for the base. We have a management analyst designated as the Commercial Activities Program Manager. He organizes teams for active studies, conducts management studies, conducts cost comparisons, etc.
- The Comptroller Department prepares the government's estimate of in-house costs.
- The comptroller administers the A-76 program. One GS-11 program analyst is responsible for A-76 and interservice support agreements.

2. Question Two

Do you have an A-76 contracts at your activity? If so, what are they, what is their dollar value and what percentage of your budget do they comprise?

Of the respondents, four had no OMB A-76 contracts. The remaining seventeen activities had various levels of spending associated with the process. Values of OMB A-76 contracts ranged from a low of \$ 14,000 for NAS Fallon's Base Operating Services Contract to a high of approximately \$ 100 million for COMNAVAIRPAC's Base Operating Services Contract. Obviously we cannot compare NAS Fallon to COMNAVAIRPAC in terms of dollars expended. However, in most cases OMB A-76 contracts comprised approximately 30-35% of the activity's budget.

Some typical contracts which fell under the OMB A-76 umbrella included: audiovisual, custodial, base operating

services, mess attendant services, library services, administrative services and ADP services. Base Operating Services (BOS) was, by and large, the most common OMB A-76 contract. It appeared on virtually all survey responses. The other types of contracts appear to be more ancillary.

3. Question Three

Do you believe that A-76 is a good process? Why or why not?

Every survey had a response for this question. Of the comptrollers who responded, 61.9% stated that OMB A-76 was not a good process. One-third of the comptrollers favored the process. One comptroller (4.8%) responded that the process had its good and bad points. Some of the positive and negative responses are paraphrased as follows:

Positive Responses

- It provides a good vehicle for establishing the Most Efficient Organization.
- It serves as a vehicle to examine our own processes and to possibly keep our operating costs competitive with those of the private sector. It also provides an incentive to employees to increase their productivity.
- A-76 forces a unit to define the required services and get lean.
- The A-76 process promotes efficiency and overall cost savings to the Government, especially in labor.

Negative Responses

- Three comptrollers stated that costs immediately rose between 10% and 40% in the first year of the contract.
- One comptroller cited costs rising at a rate eight times greater under A-76 contracts than at in-house bases.
- Too bureaucratic and ironclad. No flexibility.
- A-76 is too time consuming and does not save the anticipated dollars.
- It is subject to political winds of change which are disruptive and manipulative.
- Extremely inflexible. Additional work costs a fortune.
- Too cumbersome. It lacks flexibility needed to deal with rapidly changing operational commitments.

4. Question Four

Do the personnel who administer the A-76 process have adequate training to administer it? If not, in what areas do they need more training?

Of 17 responding comptrollers, 58.8% felt the personnel who administered the OMB A-76 program were adequately trained. However, several of these comptrollers noted that they had to fight to get qualified personnel and required quotas. Another problem cited was the high turnover rate among the Program Analysts. Often personnel would be properly trained only to move on to another activity.

The remaining 41.2% of the comptrollers felt the personnel administering the program were not properly trained. From the surveys it appears that preparation of the Statement of Work

requires attention. Often, unfamiliarity with the functions being studied tended to produce poor work packages. Most comptrollers, whether they felt they had adequately trained personnel or not, believed that additional training would be beneficial.

5. Question Five

Have you lost management flexibility through use of the A-76 process? If so, how?

Of the 17 comptrollers responding, 41.2% felt they had not lost management flexibility. Of these, most felt that contractors worked well with activity management and that management difficulties could usually be resolved.

The remaining 58.8% of the comptrollers felt they had lost management flexibility. Some typical comments concerning flexibility are paraphrased as follows:

- Department of Labor wage increases which were not built into the original bid forced the standdown of aircraft operations in order to pay increases in A-76 contracts.
- We have lost the ability to respond to rapidly changing situations. There is no integration of military, civil service and contract labor to accomplish an immediate requirement.
- Even a minor change in the contract requires additional paperwork and funding.
- When we did have functions contracted out, the work was performed only to the specifications of the contract. Unlike having the function in-house, short-fused requirements outside the scope of work were not accomplished easily or in a timely manner.

6. Question Six

If you are in a position to evaluate contracted services, is the contractor performance adequate for the activity? If not, what are some common discrepancies?

Of the 17 activities which have OMB A-76 contracts, 41.2% of the comptrollers were not in a position to evaluate the contractor. Forty percent of the comptrollers who were in a position to evaluate contractors felt their performance was not adequate. Most felt that contractors attempted to cut corners whenever possible. In one case the contractor for library services defaulted and the base library had to close until government personnel could be assigned. In another case the contractor was on a fixed price contract with an award fee for exceptional performance. For fiscal year 1991, the contractor was awarded less than 1% of his award fee.

Sixty percent of the comptrollers felt contractors performed their services adequately. The quality of these services ranged from average to outstanding. It was felt that these contractors performed their tasks on a par with the level of performance of government employees. However, even at those activities where contractor performance was satisfactory, several comptrollers noted the fact that accounting requirements for A-76 contractors were burdensome and expensive.

7. Question Seven

What is the activity's attitude toward commercial contractors?

This question received some mixed responses as paraphrased below:

Positive Responses

- Very good. Most of our operations have been contracted out since 1977. There is still residual negativism and hard feelings from those who were displaced or otherwise adversely affected by the A-76 process.
- Good, if the contractors are properly held to contract compliance.
- The attitude is that they can do a good job at a savings if the function is, by its nature, easily contracted out and easy to evaluate such as janitorial services, garbage removal and grounds maintenance.

Negative Responses

- I have never had a base Commanding Officer say that he prefers A-76 contracts over in-house contracts.
- We feel they are usually good and usually too expensive.
- Most military managers appear skeptical of a contractor and are uncomfortable getting specific tasks done through a contracted process.
- They are not as good and they cost more in the long run.
- The attitude tends to be less than favorable, but it depends upon individual contractors.

8. Question Eight

By definition, awarding of an A-76 contract means the commercial activity can provide the service cheaper than

military or government counterparts. Are the services provided by the commercial contractor comparable to the service provided by military or government personnel? If not, what are the major differences?

The majority of comptrollers felt that commercial contractor services were not comparable to government provided services. Many felt that loyalty, flexibility and pride of ownership were lacking on the contractor's part. Others stated that there were quality issues, which could not be easily identified, which tended to make government performance of services more preferable.

Collateral duties performed by government personnel did not disappear if that employee's position was converted to a civilian contractor. In many cases collateral duties had to be absorbed by other government employees. In general, anything not specified in the statement of work had to be discontinued or transferred to remaining governmental personnel.

9. Question Nine

Would you support an OMB policy change to increase local activity discretion in the awarding of A-76 type contracts? Why, or why not?

Of the twenty one responding comptrollers, 88.3% were in favor of increased local activity discretion in the awarding of A- 76 contracts. Their statements included:

- Local knowledge is sometimes 90% of the issue. A bidding contractor can look good on paper, but performance and attitude can only be gauged at the local level.
- The increased flexibility to use A-76 contracts as a situation presents itself would make planning a good deal more realistic.
- We favor giving as much flexibility as possible to the local Commanding Officer, especially in tight financial times. For example, there may be a clear dollar savings identified by a CA study, but the Commanding Officer may want to retain the function because he trusts the people now doing it and wants the flexibility of being able to control the process completely.
- Local activities deserve the right to control their own destiny. Too often, the A-76 process is jammed down command's throats. Commands often have valid reasons why functions should remain in-house. A higher level decision based on a snapshot cost comparison is rarely the wisest policy.

Of the remaining comptrollers responding, 11.7% stated they would not desire increased local discretion in the awarding of A-76 contracts. They felt the system was working satisfactorily and needed no modification.

10. Question Ten

What management tips could you provide to new comptrollers regarding administration of the A-76 program?

The following management suggestions are paraphrased from the comptroller's responses;

- Program Managers and Management Analysts should run the program.
- A-76 contracts are a good place to hide reserve funds. It ensures that you get funding at the beginning of the year. It is also a good lever when negotiating with Type Commander budget shops for resources.

- Avoid the A-76 process as much as possible.
- Build in as much flexibility as possible.
- Do not agree to a study unless directed to do so. Obtain a commitment from your major claimant to fund the cost.
- Impress upon the command the importance of training. The training provided by the CA management teams in Norfolk and San Diego are excellent resources.
- Do not overstaff, win the A-76's.
- Be familiar with the program. Ensure all personnel in an activity know what the program is all about. Provide assistance to any department given the responsibility for the A-76 program.
- Review your annual inventory of functions to ensure they are complete and coded properly. Watch out for managers who unwittingly cancel contracts and bring functions back in-house to save money. Often they do not consider A-76 implications.
- Develop a good rapport with the Contract Management Office.

C. SUMMARY AND ANALYSIS

The role of Navy comptrollers in the OMB Circular A-76 process appears to be mostly in the funding area. Although comptrollers have varying degrees of involvement with the process, few have total control. Survey and interview responses would indicate that the smaller the command the larger the involvement of the Comptroller Department with the process.

Control of the OMB Circular A-76 process at large activities usually rests with the Management Engineering

Department. The only involvement of comptrollers at these large activities is in the reviewing and control of funding requirements for the process. Regardless of the size of the command, OMB A-76 contracts are usually dedicated to Base Operating Services. These services include garbage removal, food service, laundry, grounds' maintenance and other operation related services. Approximately one third of the activity's budget is expended on A-76 contracts, again regardless of size.

In terms of expense, most felt the cost of A-76 contracts was too high and the evaluation process failed to capture all costs and prospective increases. A loss of flexibility and the inability to respond to crisis situations were cited as major drawbacks of the program. Proponents of the program felt it forced efficiency and cost effectiveness on organizations which otherwise would not attempt to contain costs.

The majority of comptrollers felt they had personnel with adequate levels of expertise to administer the program. However, qualified personnel were difficult to obtain and keep. It was also mentioned that the departments supervising the A-76 process were shorthanded. Increased staffing was required to properly administer the program. Even though several excellent courses were cited as a means to improve the knowledge base of personnel, it was noted that proper formulation of the Statement of Work was the key to a

effective A-76 contract. However, comptrollers also noted that this area was also the one most lacking. Personnel involved with the process require additional training in proper formulation of the Statement of Work to ensure key elements of the function are not omitted.

The loss of flexibility by managers was repeatedly voiced as a major concern. The A-76 contract is a two-edged sword. It not only specifies the level of effort required by the contractor, but it also limits the demands which can be placed on him. Most managers who supervise military or government personnel are used to being able to apply resources as needed to meet operational requirements. A-76 contracts do not allow for this.

Managers need to be aware of these limitations and ensure the Statement of Work includes all the functions now being performed by military or government personnel. Failure to include a function in the statement of work means that it will not be accomplished by the contractor and will have to be deleted or performed by remaining government personnel.

Although many comptrollers who were in a position to evaluate contractors were satisfied with their performance, there tends to be a general negative attitude towards the A-76 process. Most managers become defensive when asked to participate in a CA study and are biased against the process. This is understandable from the manager's perspective of

losing government jobs and flexibility and possibly incurring increased costs for those services.

However, a properly completed CA study will increase efficiency if all functions are accurately identified and costed. The responsibility to ensure the study is properly conducted lies with the personnel providing data and completing the Statement of Work.

In summary, there appears to be a grudging acceptance of the OMB A-76 process as a means to improve efficiency. Most regard the process as time consuming and costly with questionable benefits. Some activities have had great success with the process, especially when contracting out basic support services.

However, many managers feel threatened and overwhelmed by the process. Through a lack of knowledge or a lack of attention they fail to dedicate the time required to properly conduct CA studies or to document contractor cost and performance trends after award. Aggressive management of the process at the outset would help ensure increased efficiency and cost savings.

In general, the A-76 process has become an administrative burden, which has reduced flexibility and increased management's workload. The cost savings are often overlooked or outweighed by the constraints accompanying the program. The process has, over time, become more acceptable as managers become familiar with the program and its ramifications.

However, there are benefits resulting from the program in the areas of economy and efficiency when the Commercial Activities study is properly conducted.

V. CONCLUSIONS/RECOMMENDATIONS

A. CONCLUSIONS

The comments and recommendations in this thesis were extracted from survey responses from comptrollers who are currently working in the field. Their comments will give the newly reporting comptroller the views and recommendations of experienced comptrollers. The level of knowledge required to effectively deal with the A-76 process varies from command to command. New comptrollers must initially review their involvement in the process and then assess the best course of action to take.

From interviews with experienced comptrollers, it has been determined that the existing instructions and regulations referred to in Chapters I and II are sufficient to allow them to perform their job. The basic level of knowledge demonstrated in those chapters is commensurate with the level of involvement experienced by most comptrollers.

It was also determined by the surveys that a working knowledge of the process is held by most comptrollers. All knew the rudiments of the A-76 process, some more than others. The level of knowledge required was dependent upon the

comptroller's role in the process. In larger commands the comptroller had a small role and required minimal knowledge. Smaller commands rely on the comptroller as a resident expert and thus his knowledge must be more encompassing.

There are several areas of concern which the comptroller, regardless of his role, must either monitor or be aware of.

1. There is a loss of management flexibility to respond to emergent requirements.
2. The loss of federal jobs and the incursion of civilians into the activity workplace will cause negative attitudes by existing employees which will take a long time to overcome.
3. Although prices are firm for items included in the statement of work, any additional work can be costly.
4. There is a large amount of paperwork associated with CA studies and with the OMB A-76 process itself. Proper documentation is the key to successful management of the program.
5. Managers must monitor cost trends from year to year to ensure the commercial source remains more cost efficient.

B. RECOMMENDATIONS

1. Planning

Commercial Activity studies require intensive up-front planning to ensure accuracy. Proper formulation of the statement of work is paramount to capturing all functions and associated costs. The Statement of Work not only identifies those functions to be performed, but also serves as the benchmark against which contract compliance is gauged. Proper planning is essential to a good CA study and a good A-76 contract.

2. Communication

Fluid communication between all parties in the A-76 process reduces confusion, mistrust and misinformation. The communication paths are of two forms. There is the level of communication required within the Navy activity which relates information concerning CA studies, Statements of Work and civilian contractor compliance with the contract. Good internal communications between the comptroller, Management Analysts and those departments being studied form the core of a solid OMB A-76 program. A second area of communication concern is between the activity and the civilian contractor. An open line of communication is conducive to enhanced contractor performance and activity feedback.

3. Documentation

Documentation must justify management's decision to contract out or retain the service in-house. Improper or insufficient documentation leaves the activity vulnerable to GAO, Congressional and upper echelon criticism. Accurate post-award documentation substantiates contractor noncompliance and award levels.

4. Training

Sufficient personnel, adequately trained and qualified, are required to maintain the A-76 process. Supervisors responsible for conducting CA studies and administering the OMB A-76 program will greatly benefit from proper training of personnel.

5. Monitoring

It is important to follow up on the contracts once they are let and not to settle for less than what is required by contract specifications. Monitoring should include a comparison of actual versus projected results and periodic evaluation of the quality and cost of the services provided. Monitoring should not be limited only to civilian contractors. If the MEO established following a CA study won out over a civilian contractor, it is the activity's responsibility to monitor that MEO to ensure it is as cost efficient as possible.

C. AREAS FOR FURTHER RESEARCH

The following are suggested areas for further research:

- Ascertain if the costing procedures utilized in the A-76 process capture all costs associated with the function being studied?
- Quantify the value of flexibility to government managers so that this value can be incorporated into CA studies.
- Conduct a cost benefit analysis of requiring all managers who administer A-76 programs to attend a mandatory training program.
- Compare the A-76 process with Defense Regional Interservice Support Program to determine which is more efficient.

APPENDIX A

NAVY COMPTROLLERS SURVEYED

Comptroller Department
Commander Military Sealift Command
Department of the Navy
Washington, D.C. 20390-5320

Comptroller Department
Commander Naval Air Force
U.S. Atlantic Fleet
Norfolk, VA 23511-5188

Comptroller Department
Commander Naval Air Force
U.S. Pacific Fleet
San Diego, CA 92135-5100

Comptroller Department
Commander Naval Base Charleston
Charleston, SC 29408

Comptroller Department
Commander Naval Submarine Force
U.S. Pacific Fleet
Pearl Harbor, HI 96860-6550

Comptroller Department
Commander Naval Surface Force
U.S. Pacific Fleet
Naval Amphibious Base Coronado
San Diego, CA 92155-5035

Comptroller Department
Director, Navy Broadcasting Service
Department of the Navy
Washington, D. C. 20360 *

Comptroller Department
Mare Island Naval Shipyard
Vallejo, CA 94592

Comptroller Department
Naval Air Station Barbers Point
Barbers Point, HI 96862

Comptroller Department
Naval Air Station Fallon
Fallon, NV 98406

Comptroller Department
Naval Air Station Lemoore
Lemoore, CA 93246-5001

Comptroller Department
Naval Air Station Moffett Field
Moffett Field, CA 94035-5000 *

Comptroller Department
Naval Communications Station Stockton
Stockton, CA 95203

Comptroller Department
Naval Nuclear Power Training Unit
P.O. Box 2751
Idaho Falls, ID 83403 *

Comptroller Department
Naval Security Group Activity
Skaggs Island
Sonoma, CA 95476-1010

Comptroller Department
Naval Station Treasure Island
San Francisco, CA 94130

Comptroller Department
Naval Submarine Base Bangor
Bremerton, WA 98315-5000

Comptroller Department
Naval Submarine Base New London
Box 00
Groton, CT 06349-5000

Comptroller Department
Naval Supply Center Oakland
Oakland, CA 94625-5000

Comptroller Department
Naval Supply Center Pearl Harbor
Box 300
Pearl Harbor, HI 96860

Comptroller Department
U.S. Naval Academy
Annapolis, MD 21402-5008

* Commands with no active OMB Circular A-76 contracts

APPENDIX B

SURVEY QUESTIONS

1. How are you or your department involved in your command's A-76 program?
2. Do you have any A-76 contracts at your activity? If so, what are they, what is their dollar value and what percentage of your budget do they comprise?
3. Do you believe that A-76 is a good process? Why or why not?
4. Do the personnel who administer the A-76 process have adequate training to administer it? If not, in what areas do they need more training?
5. Have you lost management flexibility through use of the A-76 process? If so, how?
6. If you are in a position to evaluate contracted services, is the contractor performance adequate for the activity? If not, what are some common discrepancies?
7. What is the activity's general attitude toward commercial contractors?
8. By definition, awarding of an A-76 contract means the commercial activity can provide the service cheaper than military or government counterparts. Are the services provided by the commercial contractor comparable to the service provided by military or government personnel? If not, what are the major differences?
9. Would you support an OMB policy change to increase local activity discretion in the awarding of A-76 type contracts? Why or why not?
10. What management tips could you provide to new comptrollers regarding administration of the A-76 program?

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