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**THESIS**

AN ANALYSIS OF  
PUBLIC VERSUS PRIVATE COMPETITION  
IN THE  
NAVAL AVIATION DEPOTS

by

Ronald P. Irick

December 1993

Thesis Advisor:

Jeffery Warmington

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**An Analysis of  
Public Versus Private Competition  
In the Naval Aviation Depots**

by

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Submitted in partial fulfillment  
of the requirements for the degree of

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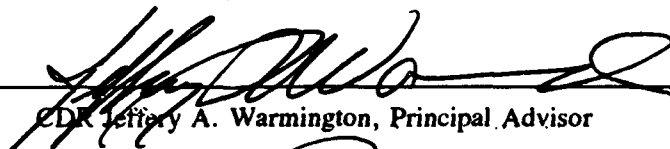
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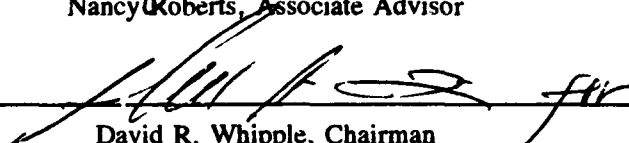
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## ABSTRACT

This thesis investigates the extent to which Public versus Private Competition has been integrated into the Naval Aviation Depots and evaluates the effectiveness of that implementation. This study describes the initial implementation of Public versus Private competition and analyzes early program results based on General Accounting Office Reports, internal Navy Audits, and Special Procurement Management Reviews. Following this background analysis, the study focuses on more recent evaluations of the competition program from a variety of industry and Government perspectives. While industry views tend to be somewhat homogenous concerning competition, Government perspectives vary considerably between the Services. These differing views and philosophies regarding the extent to which competition should exist and how that competition should be managed suggests that there is a need for a Department of Defense wide policy regarding Public versus Private competition. The Navy and the Naval Air Systems Command, in particular, support such a policy which would allow the Services to determine their "core" workload requirements for retention in their depot maintenance facilities while shifting all other work to private industry. This policy as well as other Services' policies are evaluated against such criteria as industrial base considerations, budgetary constraints, and political reality. The study concludes that a Department of Defense policy which embraces the Naval Aviation Depot Industrial Strategy is required for the long term health of both the Government depots and the competing aerospace industry.

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## **I INTRODUCTION**

### **A. PURPOSE**

The purpose of this Thesis is to investigate the implementation of public versus private competition within the Naval Aviation Depots (NADEPs) and to identify future strategies for achieving maximum effectiveness. Public versus private competition is a relatively new form of competition wherein public or Government activities compete against private industry for Government contracts. Specifically, this Thesis will trace the development and implementation of public versus private competition as it is applied to Naval aviation depot level maintenance. Secondly, it will evaluate the program's effectiveness from two differing viewpoints; that of industry and that of the Government. Thirdly, the Thesis will analyze efforts to improve public versus private competition and compare two major competition programs to ascertain the level of implementation success. Lastly, the Thesis will provide conclusions and recommendations for improving the conduct of public versus private competitions.

The first chapter will introduce public versus private competition as it applies it to Naval aviation maintenance. It will also lay the groundwork for the organization and objectives of the remaining chapters. Additionally, this

chapter will describe the overall scope and limitations of the study and state key assumptions on which the research is based.

## **B. RESEARCH QUESTIONS**

The Thesis is modeled around a primary research question and five subsidiary research questions. They are listed below:

### **1. Primary Research Question**

To what extent has public versus private competition within the Naval Aviation Depots (NADEPs) been effective and what future strategies should be employed to achieve greater effectiveness?

### **2. Subsidiary Research Questions**

1. What is the definition and purpose of public versus private competition?

2. How has public versus private competition been applied to the NADEPs?

3. Have the public versus private competitions met the goals of the program's original intent or purpose?

4. What impediments exist to full and effective implementation of public versus private competition?

5. What future strategies should be employed to enhance program effectiveness?

The answers to these questions are contained in the remaining chapters and draw from literature reviews, personal interviews with both decision makers and the implementers, and the personal knowledge and experience of the researcher. They will also be summarized in the conclusion.

### **C. PUBLIC VERSUS PRIVATE COMPETITION WITHIN THE NADEPS**

The Naval Aviation Depots (NADEPs) are Government owned and operated industrial facilities tasked to perform depot level maintenance of aircraft, aircraft engines, and related support and ancillary equipment. This maintenance includes scheduled or periodic inspections and repairs, overhauls, modifications, and unscheduled major repairs. The NADEPs also serve as "Cognizant Field Activities" (CFAs) providing technical and logistical support for aircraft systems end users, i.e., the aircraft squadron. CFAs are also responsible for configuration control, engineering support, planning and estimating services for aircraft requiring on-site repair, and a number of other maintenance related services. Their services have made the NADEPs an indispensable part of the Naval Aviation Maintenance triad consisting of the organizational level activity, the intermediate level, providing indepth component maintenance and the depot level providing all other maintenance services. The organizational level is responsible for flightline maintenance both deployed and at home bases and consists primarily of component removal

and replacement. The intermediate level also deploys in support of the squadron and conducts repairs on assemblies and subassemblies removed from squadron aircraft. The depot level maintains full repair capability on a number of systems, many requiring sophisticated and expensive test equipment. [Ref. 1]

In 1987 the Navy was directed to extend a relatively new concept called public versus private competition from ship overhauls to aircraft overhauls.[Ref. 2] The Navy's limited experience with this form of competition in ship overhauls demonstrated that considerable cost savings resulting from a desire to improve efficiency could occur when Government owned depots had to compete with their private (commercial) counterparts.[Ref. 3] Initially, four aircraft programs were selected for competition. The actual results and reported cost savings of the aircraft programs varied considerably.[Ref. 3] Likewise, the fairness of the competition and the administration of the awards were challenged by both representatives of the Navy and industry. Government audits and reports suggested that greater savings could have been gained through more effective management of public versus private competition.[Ref. 4] Industry representatives cited the existence of an uneven playing field while the NADEPs challenged the need for competition at all.[Ref. 3] Other areas of contention included differences

in required cost and capital equipment accounting practices.[Ref. 4]

Since the initial competitions, considerable effort has been expended to make the program more effective. Committees composed of both industry and Government officials have been formed to ensure that the interests and concerns of both are defined. Draft rule changes to the Defense Federal Acquisition Regulation Supplement have been submitted to further legitimize public versus private competition.[Ref. 5] Congressional interest and involvement have grown steadily and for a number of reasons: First, from a desire to reduce costs and trim defense budgets. Secondly, as a way to support a weakened industrial base caused by defense downsizing. And thirdly, from a more parochial view, to protect jobs in their districts which could be impacted by competition.[Ref. 6]

This Thesis will examine the implementation of public versus private competition within the NADEPs analyzing both industry and Government views. It will also evaluate more recent initiatives designed to improve competition effectiveness and close by recommending future strategies for achieving greater value from public versus private competition.

#### **D. SCOPE AND LIMITATIONS**

This Thesis examines the development of public versus private competition as it has been applied to the NADEPs. It

will analyze current trends both in and out of the Navy and assess their effects on NADEP public/private competition. The Thesis will close with strategic recommendations for improving the effectiveness of competition within the NADEPs. This Thesis will not detail industrial base issues although they are linked to the initial goals established for public versus private competition. Likewise, there are several areas involving the competition program which have not been fully resolved including disputes resolution. The purpose of this paper is not to recommend solutions to every area of interest but to analyze and recommend overall strategies for effectiveness.

The principal limitation of this study will be the relative newness of the program and lack of analytical data. Several Government audits have been conducted and some industrial associations have attempted to evaluate the competition program, but these resources are limited and the objectivity of some of the data should be questioned. The competition program is also very dynamic, and legislative or unilateral Government action could abruptly alter the scope of the competition program and that of this Thesis.

#### **E. THESIS METHODOLOGY**

This Thesis will utilize both Government (Federal, DoD, and Navy) and industry sources in evaluating the effectiveness of public versus private competition. A review of the origins

of the program and initial successes and failures will be drawn primarily from documents including General Accounting Office (GAO) reports and internal Navy audits. More recent developments will be analyzed following interviews with both Government and industry representatives and following literature searches from current and reliable publications and periodicals. The fact that public versus private competition is such a dynamic area requires that older information be evaluated against the newest data to determine its continuing applicability. Individuals to be interviewed will be asked a number of questions in which they will assess the program's effectiveness thus far. They will also be asked to describe the program's goals, identify both positive and negative aspects of the program and make specific recommendations for improving its effectiveness. In addition to interviews and the literature review, a comparison will be made between the first major public versus private competition program, the F-14 and the most current award, the F-18 Modification, Corrosion, and Paint Program (MCAPP), to determine if lessons learned in previous competitions were implemented in this newest program. These findings and recommendations will then be analyzed and evaluated leading to a set of final recommendations formulated by the researcher.

## **F. REMAINING CHAPTER DESCRIPTIONS**

### **1. Chapter II Initial Program Analysis**

This chapter will define public versus private competition and describe its initial implementation into the Naval Aviation Depots. It will also review the results of the initial competition programs and describe what actions were taken to improve program effectiveness.

### **2. Chapter III Program Evaluation-Industry Perspective**

This chapter will examine recent industry concerns regarding public versus private competition in the NADEPs. This chapter will also provide industry recommendations.

### **3. Chapter IV Program Evaluation-Government Perspective**

This chapter focuses on NADEP and Naval Air Systems Command (NAVAIRSYSCOM) concerns involving the program and identifies its own initiatives for improving effectiveness.

### **4. Chapter V Evaluation of Recommendations**

This chapter will evaluate recommendations and initiatives against criteria such as budgetary constraints, industrial base considerations, and political reality.

### **5. Chapter VI Conclusions and Recommendations**

This Thesis will conclude with a summary of the current state of public versus private competition and a list of recommendations to improve program effectiveness.

#### **G. BENEFITS OF STUDY**

This Thesis will provide both NAVAIR and the Naval Aviation Depot Operations Center (NADOC) with an objective analysis and evaluation of recommendations from both industry and Government representatives. The recommendations should balance industry and Government concerns while ensuring that the Navy and NAVAIR receive the best overall value for their depot maintenance dollar. Recommendations applicable to the NADEPs may also have application to other programs and military departments where depot competition is being incorporated. The Thesis may also serve as a stepping-off point for further research in the area of public versus private competition, i.e., competition outside DoD, and related areas, such as public versus public competition.

## **II. INITIAL PROGRAM ANALYSIS**

### **A. INTRODUCTION**

This chapter will define public versus private competition and describe its initial implementation into the Naval Aviation Depots. It will also review the results of the initial competition programs and describe what actions were taken to improve program effectiveness. Because Congressional involvement and the resulting legislation created the program and continues to have a significant impact, this chapter will begin with a review of the legislative history effecting public versus private competition. That review will be followed by a comprehensive program analysis centering on initial program concerns including: maintenance of the "level playing field," establishment of an "arms length relationship" between all parties, and type of contract to be awarded to a public activity. With this background, the stage will be set for an analysis of current recommendations for program improvement.

### **B. LEGISLATIVE HISTORY**

In FY 85, Congress appropriated Operation and Maintenance-Navy (OMN) funds for the:

...alteration, overhaul and repair of naval vessels. Funds shall be available for a test program to acquire the overhaul of two or more vessels by competition between

public and private shipyards. The Secretary of the Navy shall certify, prior to award of a contract under this test, that the successful bid includes comparable estimates of all direct and indirect costs for both public and private shipyards. Competition under such test program shall not be subject to section 502 of the Department of Defense Authorization Act, 1981, as amended or Office of Management and Budget Circular A-76. [Ref. 7]

The authority granted under the FY 85 legislation was extended in FY 86 legislation and again in the FY 87 Appropriation for O&MN and in addition to applying to ship overhauls was extended to include aircraft repair:

That from the amounts of this appropriation for the alteration, overhaul and repair of naval vessels and aircraft, funds shall be available to acquire the alteration, overhaul, and repair by competition between public and private shipyards and air rework facilities.... [Ref. 2]

The authority granted by the foregoing legislation was extended by the following years' DoD Appropriations Acts with minor modifications. In FY 1990, the legislation was altered to reflect the name change approved for the air rework facilities; changing the name from Naval Air Rework Facilities (NARFs) to Naval Aviation Depots (NADEPs). The FY 90 Act also authorized the NADEPs to perform manufacturing in order to compete for production contracts. [Ref. 8] In FY 1991, the Appropriations Act further extended the competition program to the modification of aircraft, vehicles, and vessels as well as the production of components and other defense-related articles to all DoD depots. [Ref. 9]

Congressional activity and involvement in the public versus private competition program has been, and continues to be, extensive. In addition to the legislation cited above, the program has been affected by the language of the Committee and Conference reports which have sought to clarify and further define what can be competed under the program. A comparison of Congressional initiatives with industry and Navy recommendations will be included in Chapter V.

### **C. PROGRAM ANALYSIS**

Public versus Private competition refers to a process used in Government contracting in which public (Government owned and operated) activities compete with privately owned activities for Government contracts. In a typical Government procurement, a well established procedure is followed in which private industry and business compete against one another to provide the Government with needed products and services. Public/Private competition is unique because private businesses compete directly against Government owned "businesses" for a share of Government contracts. Government (public) activities must learn to compete, a new situation for most, and private businesses must recognize that Government activities have other than pure "profit" goals. The situation puts unique pressures on potential offerors and on the procuring agency.

Public/Private competition grew out of the recommendations of the Packard Commission and subsequent Defense Management Report (DMR) decisions [Ref. 10]. The Congress first authorized Public/Private competition in the fiscal year (FY) 1985 Appropriations Act in which the Navy was authorized to compete a limited number of ship overhauls and repairs [Ref. 11]. Although initial attempts at public/private competition were plagued by implementation problems; [Ref. 3] the Congress, recognizing the potential for cost savings and increased efficiency, approved in the FY-87 Appropriations Act an extension of public/private competition to the overhaul of naval aircraft. As a result, most major work that had been automatically assigned to the Naval Aviation Depots (NADEPs) could then be assigned to the bidder offering the "best value" to the Government. Additionally, NADEPs could then be allowed to compete for work that had previously been competed among private businesses only. [Ref. 3]

The first major maintenance work competed under the program was the overhaul of the F-14 aircraft. The F-14 Scheduled Depot Level Maintenance (SDLM) solicitation called for an offeror to provide 24 overhauls over five years with an option for up to five additional aircraft per year. Not all of the scheduled F-14 overhauls were competed so that if the NADEPs were unsuccessful in receiving the award they would still retain a core capability for mobilization and contingency purposes. There were three proposals received,

two from private contractors (one from the prime manufacturer) and one submitted jointly by the NADEPs located at North Island, California and Norfolk, Virginia. The proposal submitted by the NADEPs was considered to offer the best value to the Government so they were awarded a "fixed price contract" in the amount of 81.8 million dollars, exclusive of over-and-above work with overhauls beginning in late FY-88. The contract period was for five years and the last aircraft began overhaul in late 1992.[Ref. 3]

The results of the F-14 competition have been mixed. The General Accounting Office (GAO) reported that competition caused overhaul costs adjusted for inflation to decline about 23 percent from FY-87, the year before the start of the program. However, the GAO report went on to say that "more effective administration of the F-14 competition program would have resulted in even more savings".[Ref. 3] The Auditor General of the Navy, while recognizing the benefits accrued from public/private competition, went on to say that:

...the Navy needed to provide additional direction to fully implement public versus private competition for aircraft rework and achieve expected program benefits (i.e., reduced costs, improved efficiency, and expansion of the industrial base).[Ref. 4]

The F-14 competition program highlighted a number of issues that have prompted changes to Navy procedures and agency regulations. Many of the recommended changes proposed by the GAO or contained in the various audit or procurement management reviews are just now being implemented.[Ref. 3]

The effects of these changes are still being evaluated and offer additional research opportunities.

Essentially all of the problems associated with implementation of public/private competition in the F-14 program, and even in the earlier ship overhaul program were directly related to a lack of adequate acquisition planning during program development.[Ref. 12] Once the programs were underway there was also a consistent lack of critical guidance provided to subordinate activities on how the programs should operate.[Ref. 12] This lack of pre-award planning and guidance resulted in situations which challenged the fairness and integrity of public/private competition within the Navy.[Ref. 3] In the case of the F-14 program, the Navy and specifically the Naval Air Systems Command (NAVAIR) were forced to find solutions to three questions:

- How to establish and maintain a "level playing field" for both public and private competitors?
- How to affect an "arms length relationship" between the Navy activities involved in competition?
- What type of "contract" should be utilized if the NADEP wins the award?

#### **D. THE LEVEL PLAYING FIELD**

The "level playing field" refers to a requirement that all activities, public or private, should be held to the same standards or requirements as any other activity that is competing for or has been awarded a Government contract.

During a Special Procurement Management Review of the administration of public/private competition completed in 1989, several contractors expressed concern that the NADEPs were not being held to same or similar post-award administrative requirements that would be enforced on a private contractor.[Ref. 11] These same concerns were expressed in an interview with Mr. Nicholas M. Torelli, Jr., former Deputy Assistant Secretary of Defense (Production Resources) whose impression was that the playing field is still not exactly level. [Ref. 13]

The perception of an uneven playing field was created by a lack of specific guidance during the planning, solicitation, negotiation and award steps of the procurement. During the planning phase when consideration of sourcing, evaluation, contract type and contract administration should have been taking place, little concern was given to the extensive post-award requirements.[Ref. 14] It was particularly important that the solicitation contain sufficient detail to alert the NADEPs to post-award requirements. Competition in the NADEPs was a relatively new phenomena while most of the requirements which normally accompany a Defense Department contract are well known and understood by private contractors. The NADEPs were unaware of many of these requirements and not provided with sufficient information in either the initial solicitation or in the subsequent award to fully appreciate their responsibilities.[Ref. 14] For example, the GAO noted that

neither the Request for Proposal (RFP), nor the award, explicitly required that the NADEPs track costs to the detailed degree expected by the Administrative Project Officer (APO). [Ref. 3]

It would have been virtually impossible to establish a level playing field given the situation in which the Navy and the NADEPs found themselves in 1988. [Ref. 12] When the NADEPs competed and won the competition for the F-14 overhauls, they assumed that procedures would remain as they were before competition. [Ref. 14] Specifically, the NADEP would perform maintenance up to an established financial limit stated in a project order. In the event that additional modifications to an aircraft were required the program manager would simply notify the NADEP and send additional funding. [Ref. 15] These former procedures had little of the controls and comparatively little oversight of its rework and management functions that would have been required of a private sector contractor. The NADEP's unfamiliarity with contracting, a misunderstanding of individual roles and responsibilities in the acquisition process, the lack of a "contract", and incompatible cost accounting systems all suggested that maintenance of a level playing field was unlikely. [Ref. 14]

Thus far, the initial program analysis suggests that the NADEPs were held to less rigorous requirements than a private contractor and that therefore the Navy activities benefitted. [Ref. 11] This was not always the case. Because

there was no "contract" during initial stages of NADEP performance, the NADEPs were not allowed equitable price adjustments for increased costs resulting from a new Federal Employee Retirement System or changes in the quantity and timing of aircraft received for rework.[Ref. 11] A competitively awarded commercial contract would have allowed for equitable price adjustments for such changes.[Ref. 11] The NADEPs also experienced another disadvantage in that they were required to submit requisitions through the Navy Supply Center for open purchase items. This process was much slower and more costly than the use of subcontractors and vendors utilized by commercial contractors.[Ref. 11] In these cases the "playing field" became decidedly "unlevel" when considering the Government's actions with respect to the Navy.[Ref. 11]

The need to establish and maintain a level playing field is critical to the success of public/private competition and provides fair and equitable treatment to both commercial contractors and Government activities.[Ref. 16] The 1989 Special Procurement Management Review (PMR) of NADEP competition concluded that there must be a commitment of both time and resources "to formulate a sound acquisition strategy and to develop appropriate pre-award and post-award guidelines".[Ref. 11] In 1991, the Naval Air Systems Command (NAVAIR) issued a new instruction, NAVAIR Instruction 4200.35, which addressed administration of competitive procurement.

This instruction introduced all aspects of "contract" administration into pre-award considerations and should have served to establish and maintain a level playing field in both pre and post-award contracting activities and "ensure a fair and equitable competition between public and private competitors". [Ref. 17] Whether this actually occurred or not will be evaluated in the remaining chapters.

#### **E. THE ARMS LENGTH RELATIONSHIP**

Another significant issue which has driven changes in pre-award activities has been the need to create and maintain an arms length relationship between the various Navy activities involved in public/private competition for aircraft overhaul. Arms length relationship describes the extent to which relationships should exist between the buyer and seller or in the case of this study between the Navy (NAVAIR) and the activity (public or private) which receives the contract award. Relationships are expected to be businesslike while avoiding actions or behavior which might be construed to be potential conflicts of interest. Similarly, the relationship should not be adversarial in nature. The premise is that by maintaining an arms length relationship all parties will be treated equitably and fairly. The FAR provides procedures and guidelines to facilitate this relationship in dealings between NAVAIR and private contractors; it is much less clear in dealings between NAVAIR and their subordinate NADEPs. [Ref. 18]

Prior to the implementation of public/private competition, aircraft which were to be overhauled or modified were identified by NAVAIR and then a particular NADEP through the Naval Aviation Depot Operations Center (NADOC) would be assigned the work. Because NAVAIR operated NADOC and the NADEPs, the assignment process was routine and simply involved issuing a project order. NAVAIR and NADOC were also responsible for monitoring NADEP compliance with the project order. [Ref. 19]

After the implementation of public/private competition the situation did not change appreciably except that NAVAIR had to go through more steps to award the project order. [Ref. 14] NAVAIR continued to select the airframes for rework or modification but also decided which to compete and which not to compete. NAVAIR also developed the source evaluation criteria that would be applied to its own NADEPs and the commercial bidders. NAVAIR made the source selection, placing it in a position of choosing between one of its subordinate activities and a private contractor. And of course, NAVAIR might be required to provide contract administration of the award made to its own activity. This process suggested that there was the possibility of serious, potential conflicts of interest and the lack of an arms-length relationship between NAVAIR and the NADEPs.

During audits and reviews of the F-14 Program, suggestions of conflict of interest or failure to maintain an arms-length

relationship focused on: 1) the selection of programs to be competed 2) lack of role and responsibility definitions and 3) post-award contract administration. Interestingly, the potential for bias in proposal evaluation or source selection was not discussed.[Refs. 3 and 4]

#### **F. SELECTION OF CANDIDATE PROGRAMS**

The Auditor General of the Navy found that among the reasons for the Navy failing to realize the greatest benefits from the public/private competition process, three dealt with the selection of candidate programs. They were:

- NAVAIR did not properly identify the pool of potential candidates for competition.
- NAVAIR did not establish effective guidance for selecting candidates, and did not fully define the responsibilities of all parties involved in the process.
- The system used to select aircraft rework candidates for competition relied on program managers who did not have an objective selection system.[Ref. 4]

By limiting the possible rework candidates, NAVAIR was essentially limiting the number of programs on which commercial contractors could compete. Without an objective selection system it could appear that NAVAIR selected programs for competition where the NADEPs had the best chance of being awarded the project. It should be noted however, that the evidence does not support that conclusion. Of the four initial competitions, two were awarded to Depots and two to commercial activities.[Ref. 3]

The audit report also suggested that considerably greater cost savings could have been realized had NAVAIR competed a larger percent of the potentially eligible work. While the resulting 22 percent savings was impressive, it represents only 1.9 percent of the work potentially eligible for competition.[Ref. 4]

As a result of these findings and in an attempt to meet the savings goals of the Defense Management Report (DMR), NAVAIR announced in 1991 that it planned to expand the public/private competition program over the next three years.[Ref. 3] Figure I lists those airframe and engine systems which are planned for public/private competition.

The increased number of systems available for competition should have provided greater cost savings through the competitive process and just as importantly, reduced the perception that the Navy's limited candidate selection represented a conflict of interest and violated the arms length relationship.

#### **G. ROLE AND RESPONSIBILITY DEFINITION**

Another problem area which was identified in early audits and reviews of public/private competition was the lack of a clear definition of the roles and responsibilities assigned to Navy officials in both pre and post-award phases of the competition. The failure to clearly define these roles exacerbated the impression to many that the whole competition

<b>PLANNED PUBLIC/PRIVATE COMPETITION AWARDS</b>			
	<u>1992</u>	<u>1993</u>	<u>1994</u>
<b>AIRFRAMES</b>			
F/A-18	X		
S-3		X	
P-3	X		
A-6		X	
E-2/C-2		X	
A-4	X		
T-2			X
H-60		X	
<b>ENGINES</b>			
T-56		X	
TF-34			X
F-404		X	
J-52	X		

**FIGURE I**

**SOURCE:**

Data from the General Accounting Office Report; Navy Maintenance: Public/Private Competition for F-14 Aircraft Maintenance, May 1992

Note: Although not listed in the schedule for future competition, the F-14 overhaul work will be re-competed when the current program is completed.

program was unorganized and could not support the maintenance of an arms-length relationship within the NAVAIR organization involved in source selection and contract administration. [Ref. 11] In conducting the Procurement Management Review of 1989, the review staff noted that with the multiple officials involved in the process and with no official clearly "in charge", it was virtually impossible to obtain guidance or decisions involving the competition. In the words of the report, "There was no NAVAIR organization charged with providing advice or guidance in administering competitive project orders". [Ref. 11] Personnel responsible for developing

the acquisition plan, including such planning factors as determining the composition of the source selection authority and contract administration activity, were not given adequate guidance to make these determinations early in the program.[Ref. 20]

It was not until the NADEPs had won the F-14 competition that NAVAIR developed its plan for administration of the competitive overhauls.[Ref. 3] The most significant NAVAIR decision, in terms of ensuring that an arms-length relationship was maintained, was the establishment of Procuring Contracting Officer (PCO) position at NAVAIR's subordinate command, the Naval Aviation Depot Operations Center (NADOC).[Ref. 20] This position, known as the "successor PCO", was charged with managing and providing oversight for post-award aspects of the competition.[Ref. 21]

It was not until 6 December 1991, when NAVAIR Instruction 4200.35 was issued, (four years after the initial F-14 award) that specific roles and responsibilities for both pre- and post-award activities were definitized. The stated purpose of the Instruction was "...to establish policy and provide guidance by which NAVAIR will determine, conduct, and administer competitive procurement between public sector depot activities and private companies".[Ref. 17] This Instruction, used in conjunction with NAVAIR Instruction 4200.24A, Selection of Contracting Sources for Major Aircraft and Missile Systems Acquisitions, clarified the process from

selection and approval of candidate systems, source selection, and contract administration to dispute resolution.[Ref. 22] The NAVAIR Instruction 4200.35 went even further in its attempts to ensure that an arms-length relationship was maintained between NAVAIR and its subordinate depots. Specifically:

The Deputy Assistant Commander for Aviation Depots (AIR-43) and the NADEPs will be functionally separated from the procuring activity for all issues relating to competitions. Individuals participating in the preparation of solicitation documents and evaluation of proposals are considered procurement officials, and must have signed the appropriate Procurement Integrity Certification. [Ref. 17]

Although the NAVAIR Instruction was a considerable improvement over a situation in which responsibilities and policy were vague or undefined, recent experience indicates that it did not adequately clarify contract administration procedures.[Ref 23]

#### **H. WHAT TYPE "CONTRACT"**

The first section of this analysis focused on the challenges of maintaining a "level playing field" in competitions between public and private activities and the pre-award activities implemented to facilitate that goal. The second section focused on efforts to maintain an "arms-length relationship" between the procuring activity, NAVAIR, and an offeror, a subordinate NAVAIR activity. This third section identifies the primary tool used to accomplish the objectives

of a level playing field and an arms-length relationship; the Work Assignment Document (WAD).

During the initial years of public/private competition there was considerable confusion and disagreement between NAVAIR (and later NADOC) and the NADEPs performing competitive work.[Ref. 24] NAVAIR and its PCOs wanted to administer the award like a contract between themselves and the NADEPs. The NADEPs, on the other hand, wanted to continue business as usual. That is, the NADEPs felt that once they had won the award all procedures would remain as they had been prior to the implementation of public/private competition. This confusion resulted in disputes and appeals, several of which are still pending. This same misunderstanding and lack of NAVAIR guidance was responsible for initial cost overruns of \$289,000 on each of the first 24 F-14 competition overhauls.[Ref. 3]

Prior to implementation of public/private competition, NADEPs were issued project orders for the aircraft assigned for rework. The NADEPs were paid the total amount authorized, regardless of the actual amount of work required, much like a firm-fixed price type contract. In some cases the total effort exceeded what was normally expected and specified in the project order. After the introduction of public/private competition, NAVAIR required all work "over and above" the terms of the project order to be approved by an Administrative Project Officer (APO). The NADEPs reluctantly complied but

complained that the approval process was time consuming and unnecessary.[Ref. 3] The project order initially used after competition was very similar to the project order used prior to competition, making it difficult for the NADEPs to recognize the difference in what was essentially a funding document.[Ref. 11] Additionally, terms and conditions which would have been required for private sector awards were eliminated from the NADEP project orders making it appear that nothing had significantly changed, and that the NADEPs should conduct business as usual.[Ref. 11]

In response to these problems and following the recommendations of the Special PMR of 1989, NAVAIR developed the Work Assignment Document (WAD) as its "contract" with the NADEPs. The WAD was subsequently incorporated into NAVAIR Instruction 4200.35 in December 1991. The following excerpt describes the WAD:

The work assignment document issued to the public activity will be the sole controlling document, within the limitations of the funding document, for the work to be performed. While the document is not a contract, it is an agreement between NAVAIR/PEO and a public activity.

- a. The public activity agrees to:
  - (1) perform to a specified statement of work;
  - (2) deliver the product following with a delivery schedule;
  - (3) complete the work at the price/cost bid in their proposal; and
  - (4) perform the work following specified requirements.
- b. NAVAIR/PEO agrees to fund the approved work performed.[Ref. 17]

The implementation of the work assignment document, while not a contract, should help ensure that specifics contained in

solicitation, and guidance contained in the various NAVAIR instructions are successfully implemented once the NADEP "contract" is awarded. [Ref. 24]

## **I. CHAPTER SUMMARY**

Since the Navy's first experience with public/private competition for ship overhauls in 1985, through the inclusion of Naval aircraft in 1987, and through today, the Navy has tried to improve the effectiveness of public/private competition. With regard to aircraft overhaul, NAVAIR has incorporated virtually every recommendation contained in past Procurement Management Reviews, GAO audits, and Naval Audit Service reports. Their efforts to ensure that a level playing field is maintained, and that an arms-length relationship exists between NAVAIR and the NADEPs, has given rise to new instructions, procedures, and draft change proposals to the DFARS. Likewise, the development and utilization of the Work Assignment Document for Navy activities has served to eliminate confusion and disagreement that had weakened the strengths inherent in public/private competition.

There continues to be significant Congressional interest in all depot activities. As more aircraft programs move from production to support, private sector interest in competing with public depots for overhauls and modifications will increase. [Ref. 13] Figure II illustrates the dollar values involved in terms of Department of the Navy budgeted aircraft

maintenance funds. Many commercial firms are increasingly viewing rework/modification type work as an additional source of revenue, and as a way to remain in the Defense marketplace. [Ref. 16]

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<b>ACTIVE FORCES AIRCRAFT DEPOT MAINTENANCE</b>			
(In Millions of Dollars)			
	<u>FY 1993</u>	<u>FY 1994</u>	<u>FY 1995</u>
AIRFRAMES	354.0	514.8	482.6
ENGINES	177.4	226.0	241.1
COMPONENTS	13.2	25.0	29.4
SUPPORT SERVICES	38.3	22.6	24.0
 TOTAL: AIRCRAFT DEPOT MAINTENANCE	 582.9	 788.4	 777.1

(In Units)			
AIRFRAMES BACKLOGGED	103	100	100
ENGINES BACKLOGGED	250	250	250

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**FIGURE II**

**SOURCE:**

Data from the Department of the Navy FY 1994/1995 Biennial Budget and revised FY 1993 budget plan, 1 October 1992

Given the great deal of effort expended to make public versus private competition more effective, how successful have the architects been in achieving their goals? Opinions vary between Government and industry. The next two chapters offer the latest industry and Government perspectives on public versus private competition and their recommendations for further improving the program.

### **III. PROGRAM EVALUATION-INDUSTRY PERSPECTIVE**

#### **A. INTRODUCTION**

The preceding chapters have laid the foundation for more indepth analysis and evaluation of public versus private competition. While Chapter II described the initial implementation of the program, the remaining chapters will evaluate the program's effectiveness from two different viewpoints; that of industry and that of the Navy. The recommendations endorsed by each will then be evaluated against criteria such as budgetary constraints, manpower limitations, and political reality.

This chapter introduces what is generically called the "industry" view of public versus private competition. Obviously, there are many individual firms interested in the concept of public activities competing against private firms. As might be expected, the major firms with the most to gain or lose are firms like Grumman, Lockheed, McDonnell Douglas, and a number of others. Other, smaller firms are also included in the term "industry." These firms represent various tier subcontractors and individual suppliers, all of whom have a vested interest in the policies and procedures which govern the implementation of public/private competition.

Research indicates that industry views tend to be homogenous. That is, throughout the aerospace, electronics, and even smaller business sectors, there is a consistent philosophy or position on public/private competition. [Ref. 25] This became very evident when articles, point papers, and letters written by industry to elected officials all presented the same positions. This may be partly the result of strong, vocal industry associations which strive to educate their members, and in turn serve as a single voice for the industry. Examples of industry associations are the Aerospace Industries Association (AIA) and the American Electronics Association (AEA). Other groups which represent industries across various trades include the American Defense Preparedness Association (ADPA) and the National Security Industrial Association (NSIA). These various associations consistently present a single perspective or view of public/private competition. For this reason, this chapter will rely heavily on data and information provided by the Aerospace Industries Association (AIA). The AIA represents industries involved in public/private competition and has tasked a standing committee, the Product Support Committee, to evaluate and review the state of public/private competition and lobby for changes where industry feels change is needed. This was the purpose of the 52nd Annual Fall Product Support Committee Conference held 25-28 October 1993. The topic of that

conference was "Public/Private Sector Roles in Industrial Base Downsizing." [Ref. 26]

Industry consistently cites three important issue areas which they claim have thus far undermined and invalidated public/private competition:

- The continuing uneven playing field
- Inadequate cost comparability
- Lack of a definite, defined "core" workload [Ref. 25]

The remainder of this chapter will detail the central issues which industry believes impacts the effectiveness of public/private competition and list their recommendations on how best to improve the program. An analysis of those recommendations will be include in Chapter V.

#### **B. UNEVEN PLAYING FIELD**

Following the initial award of the first major public/private competition, the F-14 SDLM, industry began to voice its concerns that a fair and level playing field was not being maintained in the competitions. Specifically, industry concerns included the appearance of conflicts of interest in the selection of candidate programs for competitions, the unclear roles and responsibilities of individuals involved in the source selection process, and the marked difference in the way "contracts" were administered between Navy activities and private firms. [Ref. 27] As Chapter II pointed out, the Navy responded to these criticisms by formalizing roles and

responsibilities, establishing the work assignment document as a "contract", and creating a contract administration organization at each public activity that was awarded work under public/private competition.[Ref. 3]

More recent industry concerns categorized under level playing field issues do not include matters of candidate program selection or role and responsibility definitions. Instead, industry suggests that the playing field can never be made level. The AIA goes on to say:

The inherent differences in the rules that bind the public and private sectors are significant and, in our opinion, can never be made equitable....Just a few of the more irreconcilable issues appear to be cost of borrowing money, profit, industry tax accounting versus government accounting, penalties or failure, Federal Acquisition Regulation (FAR) and Truth in Negotiation requirements for industry, required data disclosure, and on and on.[Ref. 27]

Several descriptive examples will explain and frame the issues listed above. First, the cost of borrowing money, particularly for capital improvements. Industry reports that their costs of borrowing are included in proposals as a cost of doing business and therefore drive up the total contract price.[Ref. 25] The Government, on the other hand, continues to invest in capital improvements at facilities involved in or potentially involved in public/private competitions, but does not include those costs in their proposals for competitive workloads.[Ref. 25] The issue of capitalization is closely related to capacity and to defense industrial base issues

which are necessarily beyond the scope of this Thesis. However, the Government's ability to continually upgrade existing depots' capabilities and therefore increase capacity without reporting these costs in contract pricing seems patently unfair.[Ref. 27] The AIA's perspective is that:

Defense base investments are continuing more from a desire to bolster and improve depot facilities to compete for more work and bring work back in-house from industry than from a consideration of base integrity. Such investments are not in the best interests of the American people, but stem from an understandable motive of self-preservation and job protection....Look at the capabilities in both industry and Government and you very quickly understand why the government facilities are moving so quickly to facilitate and improve: They have very little capability that exceeds what industry already has.

That is changing because industry has all but stopped capitalizing while the Government, unconstrained by market forces, continues willy-nilly.[Ref. 27]

While the taxpayer is paying for the infrastructure at Government facilities, none of this is counted in cost comparisons, thus contributing even further to an uneven playing field.[Ref. 27] Two other issues that industry reports as having an unevening effect on the level playing field are the impact of penalties for failure, and profit.[Ref. 27] Government activities do not need to make a profit, so that factor is not calculated into a proposed price. Industry depots are expected, and even required by shareholders, to earn some level of profit. In the case of firm fixed-price (FFP) contracts, greater risks should entitle the contractor to greater profits.[Ref. 28]

Risks which impact on profit and loss (penalties for failure) are not assessed equivalently between sectors; industry is offered a FFP contract, forcing it to bear all risks of cost overruns, program changes, etc. The Government has no cost overrun penalty if its estimates are incorrect or omitted. It can defer portions of the workload to the next fiscal year or it can seek additional funding from the Defense Business Operating Fund (DBOF), and is often awarded, in effect, a cost plus type contract.[Ref. 25]

Both of the preceding examples lead to industry claims that the Government has a marked advantage in competitions because they, the Government, are omitting certain costs and profits from contract proposals. Other issues, including apparent conflicts of interest in source selection, (the same Government entity that is competing the contract and bidding on it is often the Source Selection Authority who picks the "winner" of the competition) also contribute to industry's belief that a level playing field will be impossible to achieve in public/private competitions.[Ref. 27]

### **C. INADEQUATE COST COMPARABILITY**

A second major issue area voiced by industry involves cost comparability between public and private sector proposals for competitive workloads. First, what is cost comparability? Cost comparability provides for ease of comparison between two or more offerors by applying adjustments to proposed cost/prices. When cost comparability analysis is expected to be used in public/private competitions, it must be described in the solicitation.[Ref. 29] Cost comparability facilitates

comparison of activities whose cost accounting systems do not estimate, accumulate, or report in the same manner as a competitor. More succinctly,

...cost comparability, an analysis that leads to a yes/no decision as to whether the costs are comparable between the public and private bidders. The analysis focuses on several adjustment factors used to equate the offer received from the public bidder with that of the private bidder. [Ref. 4]

A 1992 General Accounting Office (GAO) report supported industry views that invalid NADEP labor and material cost were challenging the fairness of public/private competitions. [Ref. 3] While this audit and other reviews were underway, the Navy took several significant steps toward correcting the discrepancies. Among these were:

- Improvements in the Navy Industrial Fund Management System (NIFMS) in terms of both hardware and software. [Ref. 15]
- Upgrades in individual NADEP systems to accumulate and report costs in the required detail necessary under private/public competition. [Ref. 4]
- Steps to ensure more thorough and consistent cost reviews are made of overhead and labor cost figures in proposals. [Ref. 4]

Perhaps the most significant step towards correcting the discrepancies, was the implementation of the NAVAIR Instruction 4200.35 which carefully spelled out public/private competition within Naval Aviation, and required the use of cost comparability analysis in the evaluation of all costs. This analysis became a requirement during the source selection process. Once a successful offeror had been identified, the Source Selection Authority had to advise the Secretary of the

Navy of the results of the cost comparability and cost realism analyses.[Ref. 17]

The NAVAIR Instruction required that cost comparability would be performed following the procedures outlined in the Defense Depot Maintenance Council's Cost Comparability Handbook, and provided examples of typical adjustment factors as an appendix to the Instruction.[Ref. 17]

Although efforts were made by Navy and Department of Defense officials to ensure that cost comparability analysis was incorporated into NAVAIR procedures following the initial F-14 SDLM competition, industry remains concerned that the application of cost comparability has not been adequate to place competitors on a level playing field.[Ref. 28] In a recent article, industry complained that current techniques do not provide realistic comparisons, and that until they are corrected it will be virtually impossible to win a competition.[Ref. 28] One industry spokesman said, "Industry can't afford to bid and bid and bid and lose. Some companies may not be around to enjoy accountability down the road." [Ref. 30]

Among the cost comparison issues raised by industry (relative to the U.S. Air Force and U.S. Navy) were:

- Cost of corporate headquarters. The Air Force does not include headquarters costs in its bids, but will start including them in fiscal 1994.
- Oversight costs. "Twenty percent of our time is spent dealing with Government harassment," one company president said.

- Retirement. The Air Force includes retirement costs for civilian employees but not for military personnel.
- Taxes, which the military does not pay.
- Profit, the military does not need to make any.
- Medical benefits. Service bids include benefit costs for civilian employees, but not for uniformed personnel.
- Government knowledge of industry pricing methods from previous work.[Ref. 28]

Industry concerns with NAVAIR cost comparisons center on computation of overhead and discretionary costs. For example, prior to Fiscal Year 1989, Norfolk and North Island NADEPs allocated overhead costs on the basis of direct labor hours incurred by a cost center. During F-14 SDLM performance, both began allocating on the basis of total costs incurred. Although the new accounting method was an acceptable practice, it resulted in a greater share of general overhead costs being allocated to engine and component repair cost centers and less overhead to airframe cost centers.[Ref. 3] In effect, costs which had been allocated to competitive airframe cost centers were shifted to non-competitive engine and component workcenters.

Although overhead application was addressed in both the Cost Comparability Handbook and the NAVAIR Instruction, industry points out that the situation described above is not specifically covered by either. For example, the Handbook requirements for allocating and accumulating overhead can be summed up as: procedures must be rational and

consistent.[Ref. 29] The NAVAIR Instruction specifies that "non-competitive workload will not be used to finance costs that according to generally accepted accounting practices, should be a proper cost to the competitive workload." [Ref. 17] Industry complains that as long as total overhead is allowed to be allocated to non-competitive workcenters where there is not competitive pressure to reduce costs, the ability to accurately compare overhead rates is in jeopardy.[Ref. 25]

Another issue involving NAVAIR cost comparisons deals with discretionary costs. Discretionary costs refer to employee cash incentive payments and capital equipment purchases. They are not considered gains but a part of the cost of doing business. They are not profits, although some past bids have included the term "profit" for discretionary costs.[Ref. 29] The confusion results from the fact that if the NADEP performs within its proposed costs, discretionary funds are available to award employees, but if the NADEP experiences a cost overrun then the discretionary funds are used to offset the overrun to avoid a loss.[Ref. 17]

Even with more detailed procedures for evaluating cost for realism and comparability, and the requirement to certify public/private competitive proposals for comparable costs, industry continues to believe that cost comparability is at best inadequate and fails to address all the differences that exist between public and private activities.[Ref. 16] AIA

President, Don Fugua, said in a letter to Dr. William Perry, Deputy Secretary of Defense, that:

It has become even more obvious that entrepreneurship is alive in the Public sector: investments are occurring using Research and Development funds, Acquisition Program funds, Military Construction funds, and possibly other sources. This cavalier proliferation of DoD funding sources reaffirms the difficulty of defining comparable costs between Government and industry. [Ref. 31]

#### **D. LACK OF A DEFINITE, DEFINED "CORE" WORKLOAD**

During numerous interviews with industry representatives, one theme seems to be constant; the core workload reserved for public depots must be identified. [Ref. 16] It is difficult to separate and distinguish industry perspectives on defining core workloads and strengthening a downsized industrial base. In this Thesis the focus will be on identifying what programs and what quantity of weapon systems should be competed.

Beginning with the F-14 SDLM competition and in subsequent competitions, NAVAIR decided which systems and how many of each system would be competed. [Ref. 3] The limited selection of candidate programs led industry to believe that NAVAIR selected programs for competition which they knew could win. [Ref. 3] In addition to the perception of conflicts of interest and the lack of an "arms length relationship", an ill defined workload left industry without any plan for what level of capability or capacity they might be required to retain in order to compete. [Ref. 16]

In early 1991 discussions of core depot maintenance essentially meant all overhaul work. These overhauls included Scheduled Depot Level Maintenance (SDLM) and the Modification, Corrosion and Paint Program (MCAPP), which are scheduled based on equipment in-service hours, as well as major modifications, upgrades, and repairs.[Ref. 4] An industry view of core workload and industry's position on who is best suited to perform that work is contained in the following excerpt from AIA's background paper entitled, "Nationalization of the Aerospace Industry":

In 1992, the Assistant Secretary of Defense estimated that 75-80% of the total depot level workload was in the organic system. Typically, for a newly fielded weapon system, after a brief period of interim contractor support, the depot workload follows its preplanned scenario into an assigned organic depot for the remainder of its service life. Once bedded-down, it would be termed a "Core" workload. Congressional support for the organic system is, in part, based on the false premise that core workloads are inherently governmental. Not so! They are simply workloads ideally suited for long term steady employment because they have predictable and heavy depot return rates. In almost every case, the OEM (original equipment manufacturer) is tethered to these workloads to provide essential services which the depots do not possess--namely, cognizant manufacturing and testing capabilities which are outside the scope of the depots limited repair and overhaul expertise. In all but the simplest of workloads, the original equipment manufacturers have built the tooling, done the training, built and installed the test equipment, and maintained the technical data which frames the depots' capabilities. In no way should a taxpayer or congressman believe core workloads are inherently governmental. This claim must be vigorously challenged.[Ref. 25]

More recent trends and comments made during interviews by industry and trade associations recognize that some capacity, a redefined core, does belong in the NADEPs.[Ref 5] Loosely

defined, that core would be limited to certain expeditious repair and overhauls necessary to maintain a surge capability within the NADEPs. Major overhauls and upgrades/modifications would go to industry.[Ref. 28] This definition of core and its apportionment between industry and the public depots is similar to the Navy's latest strategy and will be discussed more fully in Chapters IV and V.

#### **E. INDUSTRY RECOMMENDATIONS**

These three major issues: continuing uneven playing field; inadequate cost comparability; and lack of a definite, defined core; represent the major concerns and perspective that industry holds regarding public/private competition. The following industry recommendations were listed in a joint letter from seven different trade associations to Representative Earl Hutto, Chairman, Subcommittee on Readiness, Committee on Armed Services, U.S. House of Representatives:

- Government-industry competitions should be replaced by competitions within industry for the majority of the workload, with Government competitions for that determined to be the "core" inherently governmental depot maintenance work.
- DoD should carry out public sector reductions in modification and depot maintenance capabilities as fast or faster than the private sector.
- The Government should not be permitted to make additional capital investments in its depot facilities until a more realistic division of labor between Government and industry has been determined for this type of work.

- Congress should eliminate the existing arbitrary statutory 40 percent limitation on private sector performance of depot maintenance workloads which was mandated in the FY 1993 DoD Authorization Act. DoD should determine what minimum requirements are not suited for contractor performance, and that should become the new definition of "core."
- We support Secretary Aspin's "bottom-up" review, and encourage this effort to identify the Service's minimum essential core capabilities.
- Government facilities and their management should be penalized when they experience cost overruns on depot maintenance, modification or upgrade programs which have been awarded competitively. Public sector accountability, such as performance audits being considered by the Office of Management and Budget, must be established through past performance considerations on bids for new work. The current practice of rolling cost overruns into the next budget cycle should be prohibited.
- Congress should pass legislation that prevents Government depots from competing against the private sector on small business set-aside contracts.[Ref. 30]

#### **F. CHAPTER SUMMARY**

Industry, meaning the various large and small firms, subcontractors, and suppliers who build and support systems provided to the DoD have through research and experience drafted a set of recommendations for improving the effectiveness of public/private competitions. Their recommendations directly and indirectly address the three major issues impacting competition: the uneven playing field, inadequate cost comparability, and lack of a definite and defined "core".

The general sentiment within industry is that public/private competition can not work. "Competitions

between the public sector and private industry are inherently flawed for a variety of reasons." [Ref. 30] For example:

Much of this work is restricted with no good cause to Government performance by existing Congressional direction. That which is competed with industry is done so under terms and conditions unfavorable to industry. There is no level playing field. Cost comparison guidelines do not take into consideration the differences between public and private sector requirements. Additionally, the Government sector picks the items to be competed, writes the request for proposals, creates the rules of selection and then picks the winners of contracts for which they themselves compete. [Ref. 32]

Summarizing industry's perspective is this excerpt from AIA's "Nationalization of the Aerospace Industry":

Many leaders in the Government depot system believe public/private competition is the solution to rationalizing the Defense Industrial Base. Unfortunately, this thinking is based on the notion that public/private competition, as we know it, is fair. Industry's firm position is that Government depots have an unsurmountable advantage over private contractors in fixed-price competitions.... It is the AIA's position, backed by recent experience of its membership, that competitions between public and private sectors is fundamentally inconsistent with free market principles. Accordingly, industry seeks depot workload assignments through the medium of a carefully constructed national policy designed to further the viability and competitiveness of the entire Aerospace Industry. [Ref. 25]

#### **IV. PROGRAM EVALUATION - GOVERNMENT PERSPECTIVE**

##### **A. INTRODUCTION**

The previous chapter began the evaluation of public/private competition from an industry perspective. Even with the large number and size of firms involved, providing a wide range of design, manufacturing, and support capabilities, there was generally agreement on what the "industry" perspective should be.

This chapter, Program Evaluation - Government Perspective, will not present such a homogenous set of perspectives or recommendations. Initially, this chapter was entitled Program Evaluation - Navy Perspective. But, in the course of research, it soon became apparent that public/private competition was no longer a singular Navy issue. Even in NAVAIR competitions, the NADEPs compete against other Services as well as against private sector firms. This interservice participation and competition, OSD involvement, and conflicting views among the Services elevate public/private competition to at least an agency level issue, and more recent Congressional concerns have elevated it to a national issue. [Ref. 33] As the chapter will show, there is currently a general lack of consensus on what the Government's policy is or should be. Multiple perspectives will be presented along

with their respective recommendations for improving the conduct of public/private competition.

The chapter begins with a brief review of the Navy's involvement in public/private competition with an emphasis on early program goals and achievements. That section will be followed by a discussion of NAVAIR's most recent initiatives to improve their public/private competition program. Next, public/private competition will be reviewed from an interservice perspective. The competition program will then be evaluated from an OSD view and lastly from a Congressional and legislative perspective. After examining each perspective, it will become evident that there is little consensus Government-wide regarding public/private competition.

#### **B. INITIAL NAVY STRATEGY**

As Chapter II indicated, the Navy's involvement with public/private competition began in 1986 when Navy shipyards were allowed to compete with private sector shipyards for ship overhauls.[Ref. 3] These competitions reportedly resulted in reduced cost to the Navy and the taxpayer by encouraging competition and forcing the Navy shipyards to incorporate techniques and procedures that would improve their level of efficiency.[Ref. 3] In 1987, public/private competition was extended to the Naval Aviation Depots so that they could benefit from competition driven efficiencies.[Ref. 34] Like

early shipyard competitions, the Navy's first major aircraft overhaul competition also resulted in significant cost savings on non-competed workloads. Yet, as the GAO reported in 1992, considerably greater cost savings could have been realized.[Ref. 3] The Navy's attempts to capture even more cost savings resulted in a larger number of systems being identified for competition and incorporation of many of the GAO report recommendations.

As the F-14 SDLM award to NADEPs Norfolk and North Island were being executed, and as the legislative authority for public/private competition was expanded, the Navy's early enthusiasm for the program waned. Industry concerns over the level playing field, individual NADEP concerns about future awards, and the difficulties of incorporating the GAO recommendations challenged some within NAVAIR to question the viability of the competition program.[Refs. 18 and 21]

Industry's concern over the level playing field consumed much of Chapter III and will not be restated here except to say that the Navy, in an attempt to level the playing field, took steps early to correct discrepancies. Efforts continued until eventually a new NAVAIR Instruction was implemented, which was designed to level the playing field for industry and the depots.[Ref. 17] Industry's continuing assertion of a lack of fairness frustrated proponents of the program, particularly given the effort expended thus far to improve public/private competition.[Ref. 24]

A second source of concern, which was not adequately addressed by the Navy's initial strategy, were individual NADEP concerns regarding future competition awards. Specifically, several sources interviewed for this Thesis suggested that the Navy's approach to public/private competition did not include the effects of competition on the individual NADEPs.[Ref. 14] Chapter II identified situations in which the NADEPs did not fully understand the steps and procedures necessary for proposal development. Additionally, it noted that when the NADEPs won the F-14 SDLM award, many believed that previous procedures for administering the workload would continue, when in fact those procedures would change significantly.[Ref. 12] The requirement to receive prior approval for "over and above" work from an Administrative Project Officer (APO) created problems for line supervisors and artisans who had not been required to receive any such approval before the advent of competitive workloads. The APO's determination to disallow a number of NADEP claims in this area eventually resulted in several disputes which are still being resolved.[Ref. 12]

More recent concerns voiced by the NADEPs have hinged on the future of the NADEPs themselves. The issues are similar to the ones which were identified with industry in Chapter III. Depot concerns include: What will be the core level of work which will be retained within the NADEPs; How can the NADEPs be treated more fairly in comparison with industry; and

to what degree are the NADEPs calculated in the defense industrial base?[Ref. 35] During a recent visit to NADEP Norfolk, a major concern was the possibility of losing what had been Government work to the private sector. This sentiment was most apparent following the announcement that NADEP Norfolk was identified for closure by the 1993 Base Realignment and Closure Commission.[Ref. 23]

In addition to industry's reference to the lack of a level playing field and the NADEP's concerns over the results of future competitions, the Navy's initial strategy was further challenged by its difficulty in incorporating GAO recommendations designed to improve the program. The most difficult GAO recommendation to fully implement has involved cost comparability.[Ref. 36] Cost comparability was defined in chapter III as an analysis and technique by which proposals from the public sector could be compared with offers from the private sector. As experience has grown with public\private competition, more and more costs are being identified which require comparability analysis and adjustments.[Ref. 29] The latest revision of the Cost Comparability Handbook included thirteen major changes to incorporate these requirements.[Ref. 29] Given the level of effort on behalf of DoD and the Navy to implement comparability improvements, neither industry nor the NADEPs are fully satisfied.[Refs. 12 and 27]

A second issue related to cost comparability has been the NADEP's inability to implement a system of cost accounting

which allocates costs to the degree required to execute the work assignment document in the same manner as a contract awarded to private industry.[Ref. 12] Even after the implementation of the Navy Industrial Fund Information Management System (NIFIMS), the required degree of cost reporting was still not available.[Ref. 12] Although development of a modification to the system has been developed, implementation into the individual NADEPs has been slow. Additionally, each depot must now re-evaluate prior cost estimates to test their validity to a new allocation system.[Ref. 12]

These issues; industry's continuing belief that an uneven playing field exists, NADEP concerns over future award requirements, and the difficulty of implementing the recommendations of the GAO have forced the Navy to re-evaluate its concept of public/private competition. Other factors which have also had an impact on the degree and direction of public/private within the Navy had include interservice competition (public/public) and Congressional mandates which serve to limit and expand competition.[Ref. 24]

### **C. CURRENT NAVY STRATEGY**

NAVAIR's solution to the challenges of fully implementing public/private competition within the NADEPs was the development of a Naval Aviation Depot Industrial Strategy. In January 1993, Vice Admiral Willlliam Bowes, Commander, Naval

Air Systems Command, tasked his command to meet with industry representatives to "discuss concerns pertaining to public/private competitions and organic industrial workload." [Ref. 37] The result of those series of meetings was the Naval Aviation Industrial Strategy published 13 April 1993. (The Strategy Concept Paper is included in this Thesis at Appendix A) NAVAIR's strategy is summarized below:

- (1) Define minimum core requirements
- (2) Close excess depots as expeditiously as possible
- (3) Rightsize the remaining depots to perform core work
- (4) Offer non-core work to industry for competition
- (5) Develop commercial contract performance guidelines
- (6) Develop a long term plan which allows both the NADEPs and industry to make long term strategic decisions
- (7) Implement this industrial strategy concurrent with base closure and realignment decisions. [Ref. 37]

Additionally the strategy should:

- (1) Result in an effective maintenance capability that meets the readiness requirements of the fleet;
- (2) Place a greater reliance for depot maintenance on private industry, utilizing imbedded capability and capacity;
- (3) Be a consistent policy, allowing the Navy and industry to plan for the future; and

- (4) Be a model Government-Industry relationship, accomplishing the goals of both while serving the best interest of the Nation. [Ref. 37]

During a recent meeting with industry representatives at the Aerospace Industries Association Product Support Committee Conference, Admiral Bowes reiterated NAVAIR's depot strategy. He elaborated on the strategy by saying that rightsizing the depots to perform only the core work necessary to maintain personnel, facilities, and training needed for surge and readiness requirements was his goal. Likewise, by closing some depots and downsizing others, he could reduce his fixed cost of his "depot corporation" and remove excess capability that currently exists. [Ref. 38]

During that same presentation, Admiral Bowes explained the core definition used when drafting the depot strategy and the parameters on which it was based:

- A regional war scenario (5 carrier groups plus selected Marine land-based aircraft)
- CNO aircraft priority list
- Field team support of engaged aircraft
- Individual depot aircraft and engine trade skill profiles
- No interservice workload considered
- Reviewed postured organic workload
- Considered single siting products strategy

- Aircraft/engine/component attrition rates based on deployment projections
- Presidential budget [Ref. 18]

As the strategy has been revised, a more deliberate algorithm has been developed to test whether an airframe/engine/component should be considered as part of the core. Once weapon systems are identified as core, then an analytic process is conducted which calculates the number of core items which must be retained in the organic depots to maintain personnel, facilities, and training levels to support readiness requirements.[Ref. 38] The core capability will vary with the aircraft, and is what's needed to retain proficiency.[Ref. 28]

Further defining NAVAIR's depot strategy, NAVAIR officials said that "work beyond the minimum required to maintain the core capability will be awarded to industry but only if there is more than one competitor." [Ref. 39] During a 21 June 1993 presentation of the strategy at NAVAIR Headquarters, Admiral Bowes said, "If only one company is interested performing the upgrade work, then the NADEPs will still compete with industry to avoid awarding a sole-source contract." [Ref. 39]

In addition to the Naval Aviation Depot Industrial Strategy, NAVAIR supported other initiatives designed to formalize public/private competition. The most significant has been the request for Defense Contract Management Command(DCMC) participation as the administrative contracting

activity for awards under public/private competition.[Ref. 18] The new policy would not have a major impact on private sector firms who have had considerable experience with DCMC. It would, however, have a significant impact on public activities that have relied on their own Service's administrative project officers (APOs) for contract administration.[Ref. 12] Navy officials cite the need for consistency in contract administration and separation of NAVAIR officials from the role of administrator of their own work assignment documents as rationale for requesting DCMC participation.[Ref. 18] Nevertheless, some NADEP officials prefer using the APOs assigned by program managers over officials from outside the Navy.[Ref. 12] Enthusiasm for this NAVAIR initiative is also not shared by other Services who could be forced to utilize DCMC services if mandated by DoD policy.[Refs. 35, 40, 41, and 42]

Another major initiative which NAVAIR has been supportive of has been the formalization of public/private competition in the form of a rule change to the Defense Federal Acquisition Regulation Supplement (DFARS). The rule change would establish, by regulation, a separate section of the DFARS dealing with this form of competition. It would contain all the necessary clauses required in a solicitation peculiar to public/private competition and establish common procedures for the conduct of a competition.[Ref. 5] The proposed rule change creating the new section of the DFARS has been revised

numerous times, and, as of this writing, is still being reviewed by the Defense Acquisition Regulations Council. [Ref. 18]

NAVAIR's policy towards implementation of public/private competition has shifted from a commitment to increased competition, immediately following the initial F-14 SDLM award, to a new Naval Aviation Depot Industrial Strategy, which de-emphasizes competition in favor of a core workload retained by the NADEPs, while making all other workload available for private/private competition. This new strategy also represents NAVAIR's efforts to create a "model for Government-Industry relationships, accomplishing the goals of both while serving the best interest of the Nation." [Ref. 37]

NAVAIR public/private competition is influenced by Congressional legislation, DoD policy, and by interservice agreements. While the theme of this Thesis is NAVAIR policy, it would be prudent to briefly discuss these other influences in terms of their respective positions regarding public/private competition. The following sections evaluate the competition program from an interservice perspective, Department of Defense perspective and lastly a congressional perspective.

#### **D. INTERSERVICE PERSPECTIVE**

The interservice perspective will briefly examine public/private competition for aircraft overhaul, repair, or

modification from a U.S. Army (USA) and U.S. Air Force (USAF) point of view. As all U.S. Marine Corps aviation assets are controlled by NAVAIR, they are assumed to be included in the NAVAIR totals.[Ref. 1] As the Service-unique positions are described, certain similarities to NAVAIR policies may become apparent, and significant differences will become obvious. The purpose of this section is only to identify other Service perspectives, and not to make detailed comparisons between NAVAIR and Army or Air Force policies.

On 27 October 1993, Major General John S. Cowlings, USA, Commanding General, U.S. Army Aviation and Troop Command, addressed the AIA Product Support Committee Conference and provided the Army's perspective on public/private competition. Summarizing his comments, he said the Army's fiscal objective is to move as much workload as possible into the Government-owned depots. Specifically, in 1991 the organic or depot workload for rotary wing aircraft (helicopters) as a percentage of total workload was 48 percent (52 percent of the workload was contracted to private firms. By 1997, the Army plans to boost the organic workload to 67 percent. While less and less rotary wing workload is being competed with the private sector, the Army plans to have 100 percent of its fixed wing aircraft requirements met by contracts with private activities. Major General Cowlings cited his own depot excess capacity, Army divestiture of aircraft (500 a year), and other fiscal impacts as reasons for reducing the need for additional

depot support. The most important reason for maintaining a larger percentage of organic workload over contracted workload was Congressionally-imposed limitations on the amount of Army aviation workload that could be awarded competitively under public/private competition.[Ref. 43] Under the 1993 Defense Appropriations Act, 50 percent of all Army aviation depot work was to be done by DoD employees with the percentages increasing to 55 percent in 1994 and 60 percent in 1995.[Ref. 33] Given those requirements and the "reshaping of the Army," General Cowlings said that the Army does not plan to offer any more programs up for public/private competition.[Ref. 43]

The Army's policy to not seek additional competition is markedly different from the Air Force as presented at the AIA Product Support Committee Conference. During that conference, two Air Force General Officers spoke on the issue of public/private competition and the Air Force's approach to managing this form of competition.[Refs. 44 and 45] The Air Forces's position on public/private competition within the Materiel Commands, including the Air Logistics Centers (ALCs), is that the Air Force will sustain organic Air Force depots by competing all workloads with other Services and with private industry.[Ref. 45] Major General Lester L. Lyles, USAF, Commander, Ogden Air Logistics Center, considers competition (both public/public and public/private) to be the only means to effectively downsize depots while maximizing existing plant, equipment, personnel, and training resources.[Ref. 45]

Major General Lewis Curtis III, USAF, Commander, San Antonio Air Logistics Center, added that the Air Force would aggressively seek to compete with the other Services and private industry.[Ref. 44]

The Air Forces's involvement in public/private competition was approximately 4 percent in 1991, and by 1993 had grown to approximately 40 percent.[Ref. 45] Both Air Force Generals noted that their Service's Air Logistics Centers were very competitive and that out of a total 28 competitions on which the Centers bid, they won 19.[Ref. 45] It should be noted however, that the individual ALC Commanders currently select the programs that will be competed.[Ref. 45] The possibility of bias in program selection is similar to that identified by the GAO in NAVAIR's initial competition program.[Ref. 3]

The Air Force representatives agreed on several conclusions and recommendations for public/private competition. First, they concluded that competition has been disruptive and destructive both internally and externally. It has created hostility between the ALC depot corporations and the separate source selection authority (SSA) located at the same ALC.[Ref. 44] General Curtis complained that following a competition, it would take seven to eight months to rebuild working relationships between his depot and the offices that served as the SSA. He also illustrated his point by saying that public/private competition has destroyed former teaming

relationships external to his command such as those that existed between the Air Force and Lockheed.[Ref. 44]

A second conclusion was that the DoD Cost Comparability Handbook was an excellent tool for adjusting proposals submitted by both private and public activities. General Lyles did concede that inherent differences did remain, and both Generals agreed that existing ALC financial systems are not set up to capture cost to the same degree that industry is required.[Ref. 44]

A third conclusion was that the original equipment manufacturers (OEMs) would never be in a position to compete against the depots and win.[Ref. 44] Specifically, the OEMs can provide design, development, engineering, and manufacturing capability, but currently lack adequate maintenance capability. Design, engineering, and even manufacturing are not the same as maintenance and overhaul work.[Ref. 44] Both Generals agreed that because the large OEMs are burdened by design, development, and engineering overhead, they are not competitive against the ALCs or even smaller specialized maintenance service companies.[Refs. 44 and 45]

A final Air Force conclusion is that public/private competition is not the solution to defense industrial base concerns. Industrial base considerations are separate from public/private competition issues, which focus only on improving the efficiency of depot maintenance by creating

market forces similar to those which exist in the private sector.[Ref. 45]

Given the conclusions presented to the AIA Conference attendees, Air Force officials have only two recommendations:

- (1) To ensure greater competition, core workload should be zero, with everything available for competition.
- (2) To effectively change the public/private competition program, the involvement of the Secretary of Defense is required.[Ref. 44]

While the Army and Air Force perspectives on public/private competition differ from one another and from NAVAIR's Depot Strategy, they are relevant because they can have an impact on NAVAIR competition as will be seen in the next Chapter in the discussion of the F-18 MCAPP competition.

#### **E. DEPARTMENT OF DEFENSE PERSPECTIVE**

The second Air Force recommendation listed in the preceding section advocated DoD involvement when changing the public/private competition program. As this section will illustrate, DoD has become increasingly involved in the competition program. Because of the implications of DoD policy on NAVAIR public/private competition, a brief review of policy initiatives and program changes will be presented in the following paragraphs.

During the AIA Conference referred to in the preceding sections, two Department of Defense representatives spoke on the current DoD/OSD (Office of the Secretary of Defense)

position on public/private competition. The Honorable Mr. James Klugh, Deputy Under Secretary of Defense for Logistics and Captain (Select) Colleen Watry, USN, Maintenance Policy Office, OSD, both provided similar presentations listing their respective offices' conclusions and recommendations regarding the competition program.

The following conclusions were discussed in considerable detail at the AIA Conference but are listed here in a summarized format:

- (1) Depots on closure lists (NADEP Norfolk, NADEP Pensacola, and NADEP Alameda among others) should not be awarded workloads.
- (2) Each Service will continue to define its core workload subject to evaluation by OSD.
- (3) Public/private competition is beneficial because it eliminates inefficiency.
- (4) Public/private competition can be damaging because it does not foster cooperation, disrupts the private sector, and leads to overall poor relationships between Government and industry.
- (5) DoD Cost Comparability Handbook is as complete as possible. It can not include the true burden rate of owning depots.
- (6) Accounting system deficiencies exist and the systems vary between Services.
- (7) Excess capacity exists in both public and private sectors. Both sectors' excess capacity should be reduced. [Ref. 46]

Among the DOD's recommendations for improving the effectiveness of public/private competition were:

- (1) Reduce excess capacity within the sectors

- (2) Formulate a department-wide definition of core workload
- (3) Increase interservicing of workloads
- (4) Integrate public and private sectors capabilities
  - private sector operation of Government depots
  - commercial use of Government depots
- (5) Adopt commercial business practices to the maximum extent practicable which would lead to a smaller infrastructure
- (6) Modify Congressional legislation especially that which imposes limitations on competition.
- (7) Create a DoD/Industry task force to review depot competition
- (8) Empower the Defense Depot Maintenance Council (DDMC) to manage depot competition
- (9) Define a DoD competition strategy. [Refs. 46 and 47]

The impact of some of the DoD recommendations on NAVAIR policy would be minimal, because NAVAIR has already incorporated those recommendations into its Naval Aviation Depot Industrial Strategy. [Ref. 38] One recommendation which could have a more direct impact on NAVAIR efforts is the empowerment of the Defense Depot Maintenance Council (DDMC). The DDMC's original structure provided "limited cross-service control of depot maintenance business decisions.... The result has been great difficulty in making substantial changes in depot capacity and business processes." [Ref. 48] The concept of an "empowered" DDMC calls for expanded authority

which would allow it to be the mechanism for defining core workloads, level of competition, capacity, and the degree of cross-servicing.[Ref. 47] The DDMC organization approved by the Deputy Secretary of Defense, Dr. William Perry, would be headed by the Deputy Under Secretary of Defense for Logistics with a director to manage routine operations.[Ref. 47] The empowered DDMC is not a new command or agency like that proposed by former Chairman of the Joint Chiefs of Staff, General Collin Powell.[Ref. 47] That plan, which had considerable top level military support [Ref. 49], would have merged all depots into a single command, but was rejected by Defense Secretary Les Aspin.[Ref. 50] According to DoD officials, the empowered DDMC centralizes management of Defense Depot operations while relying on decentralized execution and existing infrastructure.[Ref. 47]

Other DoD recommendations rely on Congressional action for implementation. Most, in fact, are reportedly included in the forthcoming FY 1994 Defense Appropriations legislation.[Ref. 18] Certainly any Congressional legislation affecting public/private competition will have an impact on the NAVAIR program. It is, therefore, appropriate to review public/private competition from a Congressional perspective.

#### **F. CONGRESSIONAL PERSPECTIVE**

Congressional involvement in the public/private competition program has been extensive and controversial.[Ref.

51] Some DoD officials believe that Congress' involvement has restricted their ability to manage the program [Ref. 50] while industry is critical of the Congress' protection of the depots.[Ref. 52]

Congress authorized public/private competition for the maintenance of Naval aircraft in fiscal year 1987.[Ref. 2] Since then, Congress has expanded competition to other weapon systems and provided for competition between service depots in an effort to maximize efficiencies resulting from competition.[Ref. 34] As the competition program grew, Congress began to curtail the level of competition by capping the amount of depot work that could be awarded to private firms at 40 percent.[Ref. 52] Congress singled out Army aviation depot maintenance in the 1993 Defense Authorization Act by mandating that at least 50 percent of all Army aviation depot work be done by DoD employees. That percentage is scheduled to increase to 55 percent in 1994 and 60 percent in 1995.[Ref. 33]

This apparent shift in emphasis from encouraging competition in early legislation to placing caps on the percent of depot work that can be awarded to the private sector is largely the result of a strong bipartisan depot maintenance caucus.[Ref. 52] When Defense Secretary Les Aspin conducted his own "bottom-up review" of the Defense Department, he agreed with industry that the private sector should receive most of the depot maintenance work. The 108

member depot caucus reacted by inserting language into the House Defense Authorization Bill barring the Secretary from transferring depot work to the private sector. [Ref. 52] Other depot policy shifts in DoD have also met with strong opposition from Congress. [Ref. 50]

The depot caucus represents the political and constituent forces at work in the Congress. For example, in the House of Representatives, military depots have been strongly supported by members such as Congressman Ronald Dellums (D-CA), Chairman of the House Armed Services Committee who lost several depots in the Base Realignment and Closure (BRAC) process in 1993 and could lose another in BRAC 1995. Another depot supporter and head of the depot caucus is Representative Glen Browder (D-AL) who wants to protect his District's Anniston Army Depot. [Ref. 52]

The most current effort within the house of Representatives was the inclusion of language in the House version of the Defense Appropriations Act that would "create a Joint Industry/Government panel to study how the repair and overhaul business could be shared between depots and industry." The panel's report is expected to be published in mid-1994 followed by a series of Congressional hearings on the subject. [Ref. 52] The panel or task force would be set up to determine:

- (1) Which maintenance work must be performed by Government employees, and which should be done in the private sector.

- (2) Which work could be offered to either Defense Department depots or private industry on a competitive basis.
- (3) How a standard might be set for comparing the quality and cost of work at different activities. [Ref. 53]

Congressional support for public/private competition of depot maintenance functions has changed significantly from its early demands for more competition and greater cost savings to its current policy of restricting private sector awards to 40 percent of a Service's depot workload. FY 94 legislation continues a trend of stricter regulations which limit private sector participation. [Ref. 47] Future legislation and policy shifts in Congress will continue to have a significant impact on the NADEPs and NAVAIR's depot industrial strategy. Congress' desire to create a joint industry/Government panel and subsequent hearings on the depot question could result in a definitized national policy for depot competition.

#### **G. CHAPTER SUMMARY**

This chapter has provided a Government perspective to the evaluation of public/private competition. The chapter first reviewed the Navy's initial strategy for conducting public/private competition and the problems which followed the early awards. The second section introduced the current Navy strategy which embodies the NAVAIR Depot Industrial strategy concept paper. The changing strategy represents a significant

shift in the Navy and in particular, NAVAIR's perspective of the competition program. The third section provided the reader with an interservice perspective to illustrate the similarities and differences between the Services in their attitudes and policies toward public/private competition. The fourth section evaluated the program from a DoD perspective. Department officials recognized that differences existed between the Services, and that any Department-wide policy could significantly alter a Service's own competition program. Many of the DoD recommendations for improving the conduct of public/private competition would require Congressional approval. The final section of the chapter discussed the current Congressional perspective of public/private competition. The section emphasized the political aspects of any Congressional action but pointed out Congress' willingness to address the issue through the formulation of a joint industry/Government panel to investigate and report program recommendations.

Any DoD wide or Congressional action will impact on the way public/private competition is conducted in the NADEPs. The individual Services have significant differences in their implementation of the competition program. Any move to create a single policy for all Services, whether through a new command or empowered Defense Depot Maintenance Council could also impact significantly on NAVAIR's own competitive strategy.

The following chapter will analyze and evaluate the recommendations provided in this chapter against criteria such as budgetary constraints, manpower limitations, and political reality.

## **V. EVALUATION OF RECOMMENDATIONS**

### **A. INTRODUCTION**

This chapter will evaluate the recommendations described above against criteria such as budgetary constraints, industrial base considerations, and political reality. Recommendations which do not directly impact public/private competition are considered beyond the scope of this Thesis. They will, however, be identified for purposes of continuity. This chapter will begin by comparing two competition programs, the F-14 SDLM and the F-18 MCAPP, to determine to what extent NAVAIR initiatives for improving public/private competition have been implemented in this most recent competition. Lessons learned from this comparison will be included in the evaluation of industry and Government recommendations.

### **B. COMPARISON OF F-14 SDLM AND F-18 MCAPP COMPETITIONS**

Chapter II provided considerable background data on the F-14 SDLM competition and referred to numerous audits and reviews which were critical of the program. These audits and reviews, most notably the GAO report, contained a number of recommendations for enhancing public/private competition effectiveness and efficiency. Chapter II also described how NAVAIR, NADOC, and the NADEPs aggressively sought to implement many of those recommendations with varying degrees of

success. How have the GAO recommendations and NAVAIR's own initiatives for improving public/private competitions been applied to another major depot competition? A comparison with the F-18 MCAPP competition and subsequent award will help answer the question.

The F-18 MCAPP (Modification, Corrosion, and Paint Program) solicitation was issued on 11 May 1992, with all proposals due to NAVAIR by 10 July 1992. The solicitation called for the inspection, repair, and/or modification of a number of F-18 aircraft with provisions for over and above work. Specifically, the aircraft would be inducted by lots, with expected quantities ranging from 72 aircraft (lot I) to 31 aircraft (lot V).[Ref. 54] The types of work prescribed in the solicitation, overhaul and repair of discrepancies, was very similar to that prescribed in the F-14 solicitation. Here, however, the similarity ends.

As Chapter II pointed out, the F-14 SDLM was NAVAIR's first major public/private competition program. It proceeded without an acquisition strategy, without a system for comparability analysis, and without a system of contract administration. Virtually all of these shortcomings were corrected in the F-18 competition. First, considerable effort was put into acquisition planning and developing a strategy for accomplishing the competition.[Ref. 18] These efforts included the drafting and subsequent revisions to the NAVAIR Instruction 4200.35, "Competition Between Public Activities

and Private Offerors," and the development of the work assignment document (WAD). NAVAIR also separated those individuals involved in proposal preparation from those involved in source selection, and required all participants to sign procurement integrity certifications. In addition to these steps, NAVAIR also pursued the involvement of outside activities including the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Command (DCMC) to further strengthen the competition program.

NAVAIR took additional steps to place the NADEPs and private industry on an equal footing by implementing and requiring cost comparability and cost realism analysis in all public/private competitions. Prior to the F-18 MCAPP, NAVAIR was successful in involving the DCAA in the certification process for cost realism and comparability. The Defense Appropriateness Act for 1993 required DCAA to certify that successful bids on competitions contain estimates of comparable costs.[Ref. 55] DCAA memorandum 93-OPD-011(R), which became effective 25 January 1993, implemented the requirements of the Appropriations Act. The memorandum requires public depots to use the Cost Comparability Handbook in conjunction with the DoD Accounting Manual, the Cost Accounting Standards, and Generally Accepted Accounting Principles (GAAP). Additionally the memo states that:

If cost or pricing data is not adequate or the proposal was not prepared in accordance with the Cost

Comparability Handbook, the proposal is unacceptable for evaluation by the requester.[Ref. 55]

The requirement for DCAA certification is now applicable to all competitions involving public activities, extending its application beyond NAVAIR public/private competitions.

Another initiative that NAVAIR pursued, and eventually was successful in implementing, was the utilization of DCMC activities in the administration of public/private awards. The utilization of DCMC, vice a NAVAIR Administrative Project Officer for awards to the NADEPs, is an effort to further level the playing field by ensuring that an arms length relationship exists between the requiring activity, NAVAIR, and the contract administration activity. The F-18 MCAPP solicitation provides that the NAVAIR Procuring Contracting Officer (PCO) designate the contract administration activity. [Ref. 54] NAVAIR has stipulated that DCMC will perform contract administration functions regardless of who is the successful offeror.[Ref. 56]

The F-18 competition seems to have incorporated all of the lessons learned from the F-14 SDLM competition. Attached to the F-18 solicitation are questions and answers to the draft RFP discussed during a 10 February 1992, pre-solicitation conference. In response to one question regarding lessons learned from the F-14 competition, NAVAIR answered that "...the lessons learned will be incorporated into the

competitive contracting process, including post award administration." [Ref. 54]

Although considerable effort was expended, and steps taken to ensure the fairness of the competition, the F-18 award has highlighted additional issues yet to be resolved. The award was announced in mid-August 1993, over a year after the closing date for RFPs and following a series of delays. [Ref. 18] Ogden Air Logistics Center (ALC), an Air Force aircraft depot, received the award in what actually turned out to be a public/private/public competition. Ogden's proposal was "significantly" lower than the major private sector entrant, Grumman Aerospace, St. Augustine, Florida; and lower than NAVAIR's North Island NADEP. [Ref. 56] Grumman's displeasure with the award was immediately transmitted to its principal lobbying organization, the Aerospace Industries Association. [Ref. 16] NADEP North Island initially protested the award but subsequently decided to withdraw its protest. [Ref. 56]

While preparing for the F-18 competition, NAVAIR focused on implementing improvements that would ensure that every phase of the acquisition process would be fair for both private sector firms and for the NADEPs. The Air Force's aggressive competition program introduced issues that had not been fully considered. For example, NAVAIR requested that DCMC manage all contract administration functions for any contract or work assignment document awarded in public/private

competition. The Air Force, however, does not want DCMC administering workload in its facilities.[Ref. 45] NAVAIR was aware of the Air Force's objection to DCMC involvement and discussed the topic with Air Force officials throughout late 1992 and early 1993.[Ref. 41] In fact, when the issue was first raised in mid-1991, General Charles McDonald, USAF, Commander, Air Force Logistics Command, wrote the Director, Defense Logistics Agency (DLA) citing his concerns.[Ref. 40] Instead of utilizing DCMC services, the Air Logistics Centers (ALCs) prefer to use their own administrative project officers for contract administration. Of course NAVAIR's rationale for requesting DCMC support was to avoid the appearance of less than an arms-length relationship between the activity performing the work and the activity monitoring compliance. The Air Force's objections to DCMC participation and desire to utilize Air Force personnel to administer the award to an ALC is a return to the very policy that NAVAIR was attempting to avoid.

In the instant case of the F-18, the Ogden ALC Commander has submitted a request to the Commander, Naval Air Systems Command, asking that Air Force APOs be utilized vice DCMC.[Ref. 45] Additionally, Ogden ALC is continuing efforts outside the Navy to have the F-18 workload executed and administered under the guidelines established in the Depot Maintenance Interservicing Support Agreement (DMISA) vice any contract or work assignment document (WAD).[Ref. 45] The

DMISA provides for administration of workloads using project orders when work has been assigned to another service's depot facilities. The WAD requirements are much more rigorous and detailed and more similar to a contract awarded to a private activity than those required in the DMISA. As of this writing, no decision has been made on the Air Force request, but a post-award conference is scheduled for November 1993. It is certain that both NADEP North Island and Grumman are watching the events closely for actions which could provide a basis for protests.

This brief comparison of the F-14 and F-18 competitions has provided some insight into the effort expended by NAVAIR to improve public/private competition. The process much more closely resembles a true competition, embracing the requirements, clauses and procedures found in private/private competitions. The F-18 competition also demonstrated that in a situation of public/private/public competition, NAVAIR procedures may be insufficient to deal with the challenges of awarding a work assignment document, a NAVAIR creation, to an Air Force or other public activity.

### **C. EVALUATION OF INDUSTRY RECOMMENDATIONS**

Chapter III described, in detail, industry recommendations concerning public/private competition. That list of recommendations, along with industry's conclusions concerning

the competition program, can be grouped together in such a way as to provide three general recommendations:

1. The Department of Defense must identify what core workload is required to support facility, personnel training, and equipment readiness for surge operations and all other work should be assigned to the private sector for competition.
2. The Department of Defense must address the inadequacies of the Cost Comparability Handbook to ensure that bids are in fact comparable between the public and private sectors.
3. The Department of Defense must recognize that "competition between public and private sectors is fundamentally inconsistent with free market principles." And therefore, there needs to be a "National policy designed to further the viability and competitiveness of the entire aerospace industry." [Ref. 25]

This grouping does not imply that the recommendations are inconsistent with one another. In fact, NAVAIR has attempted to respond to each of these recommendations in its Naval Aviation Depot Industrial Strategy introduced in Chapter IV.

The three recommendations cited above are, in the opinion of the researcher, fully consistent with the evaluation parameters of industrial base considerations, political reality, and budgetary constraints. Industry recognizes the need to maintain a strong industrial base, capable of meeting defense and commercial needs. Comments by industry representatives at the Aerospace Industries Association Conference suggested that excess capacity does exist in both public and private sectors. They also agreed that downsizing in the private sector must take place, but that downsizing

should occur at least as quickly in the public sector as it does in the private sector.[Ref. 57]

The first recommendation supports the view that depots are a legitimate part of the industrial base, although they should not be the major portion of that base. Most industry representatives conceded that the NADEPs did provide a unique service to Naval Aviation, particularly in the area of peculiar shipboard operations, corrosion, and crash damage. These special areas, and the need to maintain a surge capability, represent industry's view of what "core" workload is. Again, this definition is consistent with the depot strategy announced by Admiral Bowes in April 1993.

Industry's desire to have a "core" defined by OSD also supports the fact that defense spending is declining rapidly. By identifying what work will be retained in the depots, industry can make management decisions regarding capacity and capability requirements, and rid themselves of excess or underutilized capacity, a growing portion of overhead costs. Likewise, depots will also be in a better position to identify facilities for closure or realignment.

The emphasis on core workload, and industry's desire for DoD to define that core, becomes problematic when the analysis considers political reality. The strength of the "Depot Caucus" identified in earlier chapters is based on its members' desires to retain depot activities in their constituent districts. The caucus has supported legislation which imposes

a requirement to have at least sixty percent of all depot work completed by DoD employees. Fiscal year 1994 legislation is reported to contain further restrictions, by specific commodity, (aircraft, engines, vessels, trucks, etc) which will further reduce the overall percentages of items available for competition to under thirty-five percent.[Ref. 47] An additional problem with defining core workload is that there are differences of opinion among the Services as to what work should be considered unavailable for competition. For example, NAVAIR supports a somewhat narrow view with most traditional depot work available for competition.[Ref 38] On the other hand, the Air Force prefers "zero" core, with all work available for public/private/public competition. These conflicting positions will have to be reconciled if DoD is to embrace industry's recommendation for an established and defined core.

Industry's second broad recommendation is that DoD must address the inadequacies of the Cost Comparability Handbook. The effects of political reality, budgetary constraints, and industrial base considerations, on this recommendation are not major factors. The issue of cost comparability and the difficulty in developing and applying adjustment factors to public bids is recognized by both industry and OSD.[Refs. 45 and 47]

The Handbook was first drafted in November 1991 and has undergone numerous revisions since then. The most recent

edition, August 1993, is cited by industry as still containing serious flaws which provide public activities with an unsurmountable advantage.[Ref. 57] Likewise, some military officials, among them Major General Lyles, Ogden ALC, believe that cost comparability can not be further refined and the inherent differences between the public and private sectors will remain.[Ref. 45]

Industry has recommended that there should be greater private sector involvement in developing adjustment factors applied in the Handbook.[Ref. 31] According to DoD officials, a Joint Industry/Government Task Force will be established by FY 94 legislation and that one of the major issues to addressed by the task force will be cost comparability.[Ref. 46]

The third broad recommendation posed by industry is the need for a national policy which supports the "viability and competitiveness" of the aerospace industry.[Ref. 25] The call for a national policy implies that Congressional legislative action is required, which is beyond the scope of either the Services or OSD. This is essentially a question of to what degree should efforts be expended to support an industry business base, at least defense business base, which is declining rapidly. Chapter I suggested that industrial base issues were beyond the scope of this paper, as the issue is much more complex and too unwieldy for this Thesis. It is sufficient to point out that when the issue of the Defense

Industrial Base is considered, the public depots must be included as an integral element of the base.

The three industry recommendations listed above represent a synthesis of a number of recommendations put forward by industry spokesmen and associations. There is general agreement among the various firms and trade associations on what must be done to improve public/private competition. This type of cohesion does not exist among the Services. As a result, Service recommendations represent differing views and priorities relative to public/private competition. The following section will evaluate Service recommendations against the same criteria used in the analysis of industry recommendations.

#### **D. EVALUATION OF SERVICE RECOMMENDATIONS**

The information provided in the preceeding chapter indicates that the two most divergent positions among the Services exist between the Navy and the Air Force. The Army's position relative to aviation depot maintenance is that they are trying to move more rotary wing work back into the depots to meet Congressionally mandated requirements specific to the Army. [Ref. 43] As was mentioned at the outset, Marine Corps aviation requirements are included in NAVAIR requirements. On one extreme, the Air Force has as its goal 100 percent competition, with no core reserved for Service depots. [Ref. 44] This policy, the Air Force contends, provides the most

effective technique to downsize both public and private facilities by identifying the most efficient through competition.[Ref. 45] The Air Force also views aggressive competition with industry and other Service depots as the primary means to sustain their organic depots.[Ref. 45] It should be noted that this view does not have unanimous support in the Air Force.[Ref. 58] At one particular ALC, the Commander viewed competition as disruptive and expensive, and recommended that OSD involvement was required to change the public/private competition program.[Ref. 44]

The other extreme position is held by the Navy, and specifically NAVAIR. NAVAIR's position was described in detail in Chapter IV but summarizing it here: NAVAIR prefers to limit its involvement in public/private competition by defining a core workload for its NADEPs and making all other work available for competition within private firms. The NADEPs would compete against a private firm only if there was a sole source situation.[Ref. 37] NAVAIR's position is that the NADEPs are no longer a "growth industry" and that NAVAIR seeks and is encouraging a stronger partnership with industry.[Ref. 56] These objectives are clearly distinct and distant from those offered by the Air Force.

The two Services do, however, have one recommendation in common, and that is that OSD involvement is required to change the program. From an Air Force perspective, that means eliminating the necessity for determining core workload, and

allowing competition to determine which depot facilities should be nominated for closure or realignment. From a NAVAIR perspective, that means applying a standard definition of core workload to all Services, eliminating Congressionally mandated percentages of work available for competition, and introducing DoD-wide policy on public/private competition that creates commonality among the Services in their dealings with industry.

Although the Air Force has pointed out that aircraft design, engineering, and production are not necessarily compatible with aircraft maintenance and overhaul [Ref. 44], there are enough similarities that the private sector should be considered for some of this work. Industry also contends that the overhaul and modification work made available to them would sustain their facilities and personnel skills until such time that aircraft production was again available. It would seem that the best approach to downsizing would involve identifying core workload necessary for the depots to maintain readiness levels to support special and surge operations, while allowing private industry to compete for all other workload. It does not support an approach such as that followed by the Air Force which requires further capitalization in the face of universally accepted excess capacity in both industry and the depots. [Ref. 27]

The Air Force policy also must be evaluated against budgetary constraints. The expenditures of declining defense

appropriations to expand industrial capacity within DoD when facilities already exist in the private sector to accomplish the work, suggests an inefficient use of the funds. The original equipment manufacturer (OEM) generally has the tooling, facilities, and equipment necessary to complete the work, but only after considerable reorganization. If a sole source situation results from relying on an OEM for maintenance support, then other contracting or pricing and costing techniques are available to reduce the strength of the OEM's sole source position. NAVAIR has said that it will compete only when there is a sole source and only to invoke competitive pressure to achieve the best value to the Government. [Ref. 37]

One final point on Air Force policy. The Air Force's acceptance of the condition that cost comparability remains flawed, undermines their position that competition achieved through public/private identifies the most efficient facilities and, therefore, others should be singled out for closure or realignment. If cost comparability were adequate, this conclusion would be acceptable. But, if it is not adequate, as virtually everyone agrees, no conclusions as to an activity's efficiency can be drawn between public and private sector facilities.

NAVAIR policy, announced in April 1993 as the Naval Aviation Depot Industrial Strategy, is considered by many in industry to be the most positive step in balancing NAVAIR and

industry views.[Ref. 51] When evaluated against criteria such as industrial base considerations and budgetary constraints, the NAVAIR strategy scores highly. When evaluated against political reality, it does less well. The 108 member Depot Caucus has pursued policies which retain the majority of workloads in the military depots. Attempts to go below the sixty percent mandated in prior year legislation is unlikely. However, NAVAIR was successful in reducing what it considered to be excess capacity, when it nominated three of its six depots for closure during the Base Realignment And Closure (BRAC) Commission hearings in FY 93.

The NAVAIR policy has more closely resembled and complemented industry than any other Service's policy. But, as the F-18 MCAPP competition has shown, it will be necessary to reconcile divergent positions, such as those held by the Navy and industry on one hand, and the Air Force on the other. A unified or common policy could be implemented in a number of ways. DoD representatives recommended the empowerment of the Defense Depot Maintenance Council (DDMC) and the creation of a Joint Industry/Government Task Force to address public/private competition. These recommendations will be discussed in the next section. NAVAIR has drafted a proposed rule change to the Defense Federal Acquisition Regulation Supplement (DFARS) to establish a single DoD-wide set of guidelines governing public/private competition.[Ref. 18] The proposed DFARS part is included as Appendix B to this paper.

The original draft rule change has been modified considerably since it was first proposed, and other Services have been provided an opportunity to evaluate the proposal and challenge provisions contained therein. The latest version of the draft rule being circulated for comments was assigned DFARS Case number 92-D355, and has undergone major changes since NAVAIR's first draft. The proposal is still pending as of this writing. Indications from NAVAIR representatives are that if the proposal is approved as now written, it will not meet their initial objectives for the rule change.[Ref. 37]

The Services' recommendations described above must be implemented at OSD, or higher levels because, as the F-18 competition has shown, private/public competition has become public/private/public competition with multi-Service participation. The evolutionary change in the program necessitates a policy and direction which will not only ensure that fair treatment is given to public and private entities, but that one set of standards and procedures will be equally applied among the Services. An evaluation of DoD recommendations is the subject of the following section.

#### **E. EVALUATION OF DOD RECOMMENDATIONS**

In an attempt to better understand the issues associated with public/private competition, and to answer Service, industry, and Congressional concerns, OSD has recommended two major initiatives. The first is the empowerment of the

Defense Depot Maintenance Council (DDMC). This recommendation was detailed in Chapter IV, but briefly, it calls for centralized management of all Defense depots through the issuance of standard policies and procedures. The DDMC would rely on decentralized execution through each of the Services, and, according to officials of the Office of the Secretary of Defense (OSD), would utilize existing infrastructure, and not be a new "purple suit" command.[Ref. 47] The DDMC, made up of representatives from all the Services, would report to the Deputy Under Secretary of Defense for Logistics (DUSD (L)). Specifically, the DDMC would formulate guidelines for individual Services to determine their core workload requirements, define a DoD competition strategy, work towards reducing excess capacity, and expand depot interservicing.[Ref. 47]

The recommendation for an empowered DDMC addresses what has, thus far been a weakness of public/private competition, the fact that there is no single standard for this form of competition throughout DoD. Air Force policies differ significantly from NAVAIR's, and industry must adjust to whichever Service is the requiring Service. In instances such as the F-18 MCAPP, a single set of regulations and procedures applicable to all Services and the private sector would facilitate maintenance of a level playing field for all concerned.

This recommendation recognizes the need to consider the industrial base, and the DUSD(L) recently confirmed his recognition of the need to support a downsized, yet effective depot industrial base.[Ref. 46] The recommendation also does not require additional resources, which was a major cause of the rejection of General Powell's plan for a new command to manage all Service depots.[Ref. 60] By emphasizing centralized management and decentralized execution, the DDMC would utilize existing personnel, facilities, and management information systems.

An empowered DDMC is not in place. There is likely to be some Service opposition to such a plan wherein individual Services relinquish some policy control to a council of representatives from all Services.[Ref. 56] The political aspects of DDMC are unclear. Policies which hurt Depot Caucus member constituents are likely to be vetoed through legislation, while other initiatives could be fully supported. The future of an empowered DDMC is opaque, but the need for a standard DoD policy on competition is becoming increasingly clear.

The second major initiative recommended by DoD is the establishment of a Joint Industry/Government DoD Task Force to discuss and make recommendations concerning public/private competition and industrial base issues.[Ref. 46] Reportedly, the FY-94 Defense Authorization Act formalizes this recommendation, and requires the Secretary of Defense to

establish the Task Force to assess the program's overall performance. Additionally, the Task Force will be required to report its findings to Congress by 1 April 1994. This initiative could be the first step in a series to develop a DoD wide policy on public/private competition that, at last, considers industry and multi-Service perspectives.

#### **F. CHAPTER SUMMARY**

This chapter has focused on the recommendations made by industry, the Services, and DoD regarding public/private competition. The recommendations represented divergent views on how best to proceed under this form of competition and different philosophies on the roles of public depots. In the evaluation of those recommendations it became apparent that the Naval Aviation Depot Industrial Strategy more closely resembled industry's view of public/private competition. The Air Force's recommendations were based on the belief that total competition would identify the most efficient depots, whether public or private, and that others should be eliminated. The fallacy in this argument was discussed as was the issue of continued capitalization while excess capacity exists in both the public and private sectors. Finally, the chapter examined DoD's recommendations for standardizing and improving the competition program. The F-14 SDLM and F-18 MCAPP comparison, which began the chapter, highlighted the

need for a standard policy for all Services, which addresses public/private as well as public/private/public competitions.

Given the foregoing evaluation, and after having researched the topic of public/private competition for some months, this researcher has drawn several conclusions, and has formulated a few recommendations for those entrusted with developing policy in this area. These topics will be the basis for the concluding chapter of this Thesis.

## **VI. CONCLUSIONS AND RECOMMENDATIONS**

### **A. INTRODUCTION**

The preceding chapters introduced the subject of public/private competition in the NADEPs, and the challenges that NAVAIR faced while implementing this relatively new form of competition. They also detailed various industry and Government recommendations for improving the conduct of public/private competition. The previous chapter analyzed those recommendations against such evaluation criteria as industrial base considerations, budgetary constraints, and political reality. This chapter concludes with a review of the primary and subsidiary research questions and closes with the researcher's own conclusions and recommendations.

### **B. REVIEW OF RESEARCH QUESTIONS**

The primary research question for the Thesis asked to what extent has public versus private competition within the NADEPs been effective, and what future strategies should be employed to achieve greater effectiveness. That question was supported by five subsidiary questions.

1. What is the definition and purpose of public versus private competition?
2. How has public versus private competition been applied to the NADEPs?

3. Have the public versus private competitions met the goals of the program's original intent or purpose?
4. What impediments exist to full and effective implementation of public versus competition?
5. What future strategies should be employed to enhance program effectiveness?

Questions 1, 2, and 3 were answered in Chapters I and II, where public/private competition was defined as a form of competition in which Government or public activities competed against private (commercial) firms for work that had traditionally been accomplished in public depots. The purpose of public/private competition was to utilize the forces of the competitive marketplace to improve efficiency in the NADEPs, and award workload to the activity that provided the best value to the Government. Chapter II provided indepth background into the implementation of public/private competition in the NADEPs, and identified a number of issues which adversely impacted on the success of the program. The chapter also detailed early efforts to correct program deficiencies, relying heavily on GAO recommendations.

In answering question four, the researcher elected to evaluate program effectiveness from an industry perspective and from a Government perspective. This was the subject of Chapters III and IV. A rather homogeneous industry perspective emerged which challenged the general fairness of competitions, and placed considerable emphasis on what it considered inadequate cost comparability between the sectors.

Chapter III concluded with industry recommendations for improving program effectiveness. Unlike industry, the Government perspective consisted of a wide range of views on how public/private competition should be executed, and what steps should be taken to enhance the program.

The Government recommendations listed in Chapter IV, and industry's from Chapter III were evaluated in the last chapter against criteria designed to test their survivability in an era of declining defense expenditures and considerable debate concerning the Defense Industrial Base. A final, yet no less important, evaluation criterion was political reality. If a recommendation was certain to challenge political positions, it was unlikely survive. The remainder of this chapter, the researcher's conclusions and recommendations will address question five.

#### **C. CONCLUSIONS AND RECOMMENDATIONS**

Public/private competition began as a program to force depot activities like the NADEPs to compete with the private sector to achieve greater efficiencies. The program began in the mid to late eighties when defense spending was decreasing following an incredible build-up which occurred during the Reagan Administration. One approach to reducing overhaul and maintenance costs would be to utilize the market forces of competition to cause depot activities to improve processes, eliminate unnecessary and redundant operations, and streamline

management. Initial program successes in the form of cost savings led Congress to expand the program. In the case of NAVAIR, and even more so in the case of the Air Force, neither was prepared to execute public/private competition. Neither had a strategy or a plan, much less procedures, on how to proceed. NAVAIR responded quickly, and implemented most of the various audit, review, and report recommendations which had been critical of their program's execution. The initiative and ingenious creativity of personnel at NAVAIR Headquarters, NADOC, and the NADEPs themselves, allowed NAVAIR to shape a competitive program which attempted to satisfy growing industry concerns and the concerns of their NADEPs.

As time went on, and events such as the end of the Cold War, further Defense reductions, and the call for a greater "peace dividend", signaled the end of multiple major aircraft procurements. The OEMs began to increasingly eye maintenance and overhaul work as potential sources of Defense dollars to replace lost production. As private industry evaluated the competition, many believed that public depots had structural advantages which the Cost Comparability Handbook and individual Service procedures could not eliminate. Others in industry believed that all depot work should be transferred to the private sector, citing a declining industrial base.

The Service's views were diametrically opposed. The Air Force seemed to be interested in maintaining and even enlarging its organic capability without regard for the

industrial base. NAVAIR's position, the most favored by industry, represented a balance between Service needs and industrial base considerations. After reading and hearing convincing arguments supporting the Air Force view, it is the opinion of the researcher that that view does not represent the best interest of the industrial base or of Naval Aviation.

The Naval Aviation Depot Industrial Strategy recognizes the needs of the Navy to retain control over a fixed number of aircraft and weapon systems for purposes of maintaining personnel training, equipment, and facilities to support readiness requirements. Under the Air Force plan, all workload would be competed. The Navy could lose the work it needs to ensure that skills are maintained, and equipment and facilities available if needed.

The strategy also considers industry, by declaring that all workload, except identified core, would be available for private/private competition. The shortcoming of the NAVAIR strategy becomes obvious here. As long as the Air Force is permitted by legislation to aggressively seek out additional workloads, no competitions can be private/private. And, as long as private activities must compete against public activities, issues of fairness and cost comparability will have to be resolved.

Related to the idea of public/private/public competition is the notion of who is responsible for administration of the award. What policies or procedures would be followed? If an

Air Force activity wins a NAVAIR competition, should NAVAIR or the Air Force administer the award. Who will resolve disputes? The complexity of modern public/private competitions requires that a set of standard procedures be formulated and implemented, which not only facilitates the contracting process but also legitimatizes the process by maintaining a level playing field for industry as well as for competing Services.

The most expeditious way to achieve this objective is through an expansion of the proposed draft DFARS rule currently being considered. Such a recommendation would certainly meet resistance from Air Force representatives, and possibly from members of the Depot Caucus.

Although an expanded DFARS rule would require immediate implementation of a standard set of procedures, it would not address the more fundamental problem of public/private competition--the need for a DoD Industrial Base strategy which specifically address public/private competition. Such a strategy should be the product of the DoD Joint Industry/Government Task Force detailed in Chapters IV and V. Without a DoD-wide strategy followed by implementing regulations, it is likely that the Defense Department and industry will miss an important opportunity to fashion a portion of the industrial base that meets Service requirements, as well as industry needs for some level of sustainability.

#### D. CONCLUSION

Public versus private competition is a dynamic issue which is undergoing continuous change. This Thesis began with a very narrow view of public/private competition applied to the Naval Aviation Depots. As research progressed and situations changed, it became more difficult to distinguish public/private within the NADEPs from public/private/public which occurred during the F-18 MCAPP and is likely to continue to occur. The need for a Defense Department Depot Industrial Strategy is an absolute, no matter whether the strategy is implemented via a DFARS rule, an empowered DDMC or a new Depot Agency.

This Thesis has also identified other areas for further research. These include: Public/public competition, a comparison of public/private competition between NAVAIR and the Naval Sea Systems Command, and disputes resolution in public/public competition.

## **APPENDIX A. NAVAL AVIATION DEPOT INDUSTRIAL STRATEGY**

(13 APRIL 1993)

### **OBJECTIVE:**

To present a naval aviation industrial strategy that: (1) maintains the minimum organic depot capacity necessary to sustain the Navy's war fighting capability and (2) makes maximum use of the capabilities and capacity of the commercial aerospace industry for aviation depot maintenance.

### **BACKGROUND:**

As a result of reduced defense requirements in the post-cold war environment, the public and private sectors must respond to rapidly declining defense spending. That excess capacity, which exists in both sectors, is manifest by defense base closures and industry rightsizing. Infrastructure reorganizations planned and ongoing present an opportunity to develop an industrial base strategy that capitalizes on the unique capabilities of government and commercial facilities while reducing total costs to the taxpayer.

### **STRATEGY:**

The Navy's strategy in the downsizing environment is to maintain only the minimum level of organic capacity, consistent with future force levels, that is necessary to sustain peacetime readiness and war fighting surge capability. The Navy will work in partnership with the commercial aerospace industry to make maximum use of industry's production capabilities and capacity for aviation depot level maintenance. This strategy will enable the Navy to help preserve the private sector industrial base without compromising its responsibility to maintain a ready and responsive organic capability.

**Specifically, the Navy's strategy is to:**

- (1) define minimum core requirements (capabilities, capacity, and work load) necessary to maintain fleet readiness throughout the life cycle. This core work will not be offered to industry.
- (2) close excess depots as expeditiously as possible, consistent with BRAC-93 guidelines.

(3) rightsize the remaining depots to perform core related work. Investment strategies for military construction, base improvements, and equipment will support core work and will not duplicate capabilities and capacity available in the private sector.

(4) offer non-core work to industry for competition. Navy depots will not normally compete against private industry, unless there are insufficient commercial competitors.

- Navy will ensure a fair and equitable source selection process.

- Determination will be made on a best value basis.

- Navy depots will not participate in source selection processes.

(5) develop commercial contract performance guidelines that specify readiness requirements.

(6) develop a long-range plan which identifies Navy core work, and work that will be available for industry, allowing both industry and government to make long-term strategic decisions.

(7) transition to this industrial strategy concurrent with execution of base closure and realignment decisions.

#### **SUMMARY:**

It is in the best interest of the Navy, commercial aerospace industry, and taxpayers that military readiness be maintained at minimum cost. The Navy and industry will work in partnership to establish efficient business practices; benchmark the most cost effective ones; and implement the best practices. Unnecessary duplication of equipment and capability, and excess facilities, will be eliminated. A long-range strategy for the allocation of work to the public and private sectors, which reduces the risk of investment, will be developed. Public versus private competition will be minimized as both sectors specialize, thereby encouraging increased private sector participation.

#### **The Navy's strategy will:**

(1) result in an effective maintenance capability that meets the readiness requirements of the fleet;

(2) place a greater reliance for depot maintenance on private industry, utilizing imbedded capability and capacity;

(3) be a consistent policy, allowing the Navy and industry to plan for the future; and

(4) be the model government-industry relationship, accomplishing the goals of both while serving the best interest of the nation.

## **APPENDIX B**

### **SUBPART 217.78--COMPETITIONS BETWEEN PUBLIC ACTIVITIES AND PRIVATE SECTOR FIRMS**

#### **217.7800 Scope of subpart.**

This subpart implements Section 8072 of the Defense Appropriations Act for Fiscal Year 1991 (Pub L. 101-5110, similar sections in subsequent Defense appropriations acts, and Section 353 of the Defense Authorization Act for Fiscal Year 1993 (Pub L. 102-484). These laws permit DoD to acquire the modification, depot maintenance and repair of aircraft, vehicles and vessels through competition between public activities and private entities. This subpart provides policies and procedures for conducting competitive acquisitions between public activities and private entities.

#### **217.7801 Definitions.**

As used in this subpart--

- (a) "Private entity," "public activity" and "workload assignment" are defined in the provision at 252.217-7029, Explanation of the Competition.
- (b) "Public-private competition" means the process used to select a source for a DoD requirement that has been identified in accordance with DoD Instruction 4151.18, Procedures for Maintenance of Military Materiel, and is listed on the annual list of known requirements that will be offered for competition between public activities and private entities.

#### **217.7802 Policy.**

- (a) Public-private competitions shall be conducted in accordance with the procedures of this subpart.
- (b) Public-private competitions are not subject to the requirements of OMB Circular A-76.
- (c) Individuals, including advisors and management, who personally and substantially participate in the preparation of the statement of work, purchase request, solicitation document, technical evaluation, cost comparisons or award document, shall not participate in the preparation of a corresponding offer from a public activity.

#### **217.7803 Procedures.**

##### **217.7803-1 Synopsis.**

- (a) The Commerce Business Daily synopsis shall state that offers are being solicited from both public activities and private entities and that the solicitation will not result in a contract to a private entity if the Government's offer is determined to be more advantageous.
- (b) If the contracting officer determines the requirements for setting aside the acquisition for small business exist (see FAR 19.502), the synopsis shall state that competition shall be limited to public activities and small businesses.

**217.7803-2 Proposal evaluation.**

- (a) Proposals received in response to public-private solicitations shall be evaluated in accordance with FAR 15.805, except that a cost comparability evaluation shall be performed in accordance with the Defense Depot Maintenance Council's Cost Comparability Handbook. The evaluation focuses on several adjustment factors used to compare, as equitably as possible, a public activity proposal with a private entity proposal. The contracting officer shall determine application of the cost comparability factors consistent with the requirements of the solicitation.
- (b) Proposals submitted by public activities shall be evaluated for cost realism as defined in 215.801. Proposals submitted by private entities should be evaluated for cost realism in accordance with 215.805-70.
- (c) The defense Contract Audit Agency (DCAA) will provide audits of public activity proposals, regardless of dollar amount. When requiring such audits, contracting officers shall:
  - (1) Reference Section 9095 of the Fiscal Year 1993 Defense Appropriations Act in the request: and
  - (2) Provide a copy of the request to the Department of Defense, Office of the Comptroller, Attention: CA&A, Room 3E825, The Pentagon, Washington, DC 20301-1100.
- (d) Upon completion of the evaluation process, the responsible agency official shall make the final determination for performance by a public activity or a private entity and shall provide written notification to the contracting officer, who shall either award a contract to the private entity or cancel the solicitation as required.

**217.7803-3 Certification.**

Section 9095 of Pub. L. 102-396 requires DCAA to certify cost comparability of public and private offers received in response to public-private solicitations. Agencies shall ensure that the required cost comparability certification is obtained before award of a contract or workload assignment.

**217.7803-4 Contractor use of Government supply sources.**

If it is in the Government's interest, and if required supplies are available from Government supply sources, contracting officers should authorize contractors to use these sources in accordance with FAR Subpart 51.1, in performing contracts resulting from public-private competition.

**217.7803-5 Solicitation provisions and contract clauses.**

Use the following provisions in solicitations involving public-private competition:

- (1) 252.217-7029, Explanation of the Competition; and
- (2) 252.217-7030, Cost Comparability Adjustments.

**SUBPART 252.2-TEXTS OF PROVISIONS AND CLAUSES**

**252.217-7029 Explanation of the Competition.**

As prescribed in 217.7803-5(a)(1), use the following provision:

**EXPLANATION OF THE COMPETITION (DATE)**

**(a) Definitions.**

- (1) "Private entity" means a nongovernmental source.
- (2) "Public activity" means a Department of Defense (DoD) activity engaged in the modification, depot maintenance and repair of aircraft, vehicles and vessels.
- (3) "Workload assignment" means a requirement assigned to a public activity as the result of a public-private competition.

(b) The Government is conducting this competition as authorized by Section 8072 of the Fiscal Year 1991 Defense Appropriations Act (Pub. L. 101-511) and similar sections in subsequent Defense appropriations acts. These laws permit DoD to acquire the modification, depot maintenance and repair of aircraft, vehicles and vessels through competition between public activities and private entities.

(c) Section 9095 of the Fiscal Year 1993 Defense Appropriations Act (Pub. L. 102-396) requires the Defense Contract Audit Agency

(DCAA) to certify cost comparability of public and private offers. DCAA will perform the required cost comparability certification before contract award or workload assignment resulting from this competition.

(d) As part of the evaluation, the Government will analyze public activity offers to determine whether the proposal reflects a realistic estimate of the total cost required to satisfy the work requirement.

(End of provision)

**252.217-7030 Cost Comparability Adjustments.**

as prescribed in 217.7805-5(a)(2), use the following provision:

**COST COMPARABILITY ADJUSTMENTS (DATE)**

(a) The Comparability Bid/Proposal Worksheet found in the Defense Depot Maintenance Council's Cost Comparability Handbook will be used to adjust proposals. The required adjustments are intended to provide for an equitable comparison between Government activities and private entities.

(b) The Cost Comparability Handbook was developed by the Defense Depot Maintenance Council Cost Comparability Committee. Its purpose is to provide guidance for adjustments to Government accounting procedures to ensure that the Government offer captures the cost of doing business on an equivalent basis with private industry. The contracting officer will provide a copy of the Cost Comparability Handbook to interested parties upon request. The Cost Comparability Handbook in effect on the date of release of the formal solicitation will be used for making adjustments.

(End of provision)

## LIST OF REFERENCES

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- 2.Department of Defense Continuing Appropriations for FY 1987, Public Law 99-500 Sec 101(c), 100 Stat 1783-85-86 (1987).
- 3.General Accounting Office. Navy Maintenance: Public/Private Competition for F-14 Aircraft Maintenance. U.S. Government Printing Office, Gaithersburg, MD., 1992.
- 4.Naval Audit Service, "Audit Report: Implementation of Competitive Aircraft Rework", Auditor General of the Navy, Falls Church, Virginia, 25 March 1992.
- 5.Department of Defense, Defense Federal Acquisition Regulation Supplement, Subpart 217.78, Competition Between Public Activities and Private Sector Firms (Proposed Rule), May 1993.
- 6.Etherton, Jon, Professional Staff Member, Senate Armed Services Committee, Washington, D.C., Interview 12 August 1993.
- 7.Department of Defense Continuing Appropriations for FY 1985, Public Law No. 98-473 Stat 1906-07 (1985).
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