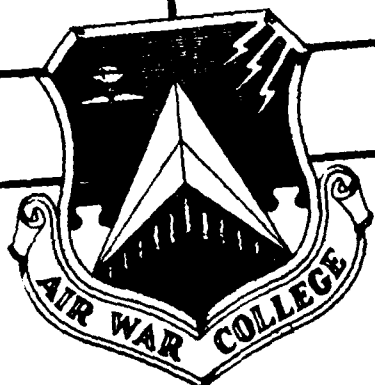


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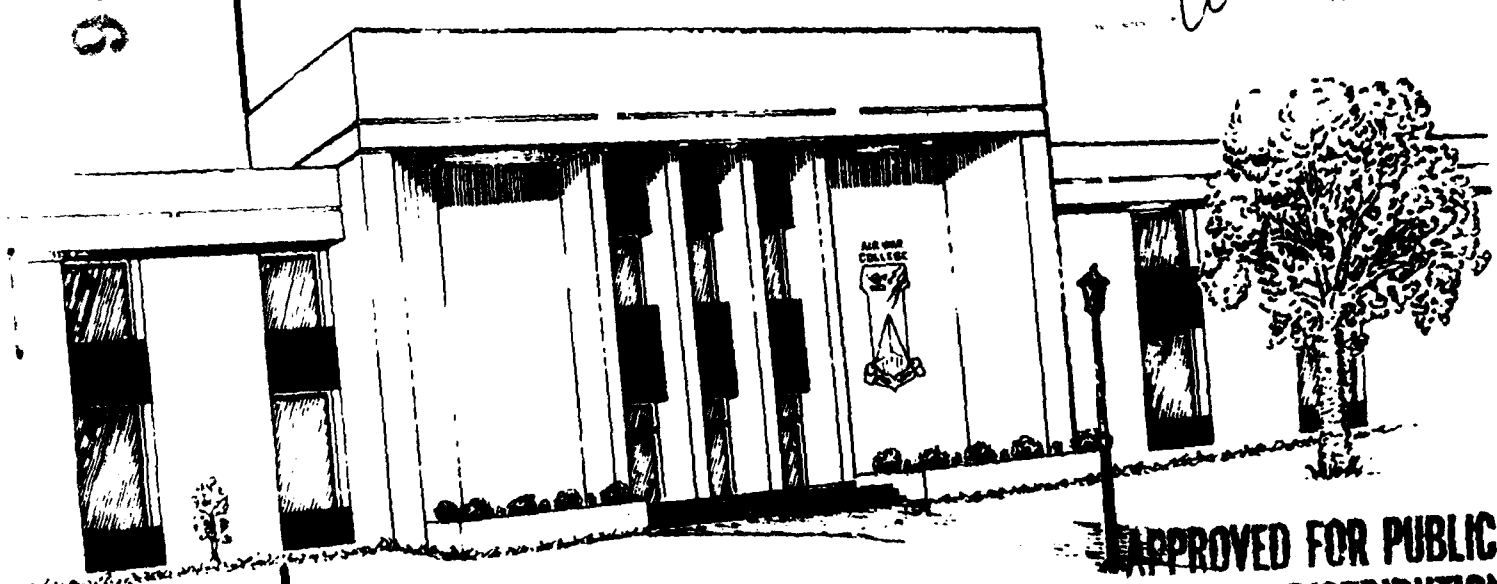
OMB CIRCULAR A-76,
BOON OR BUST FOR THE DOD?

LIEUTENANT COLONEL QUENTIN M. THOMAS

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OMB CIRCULAR A-76,
BOOM OR BUST FOR THE DOD?

by

Quentin M. Thomas
Lieutenant Colonel, USAF

A DEFENSE ANALYTICAL STUDY SUBMITTED TO THE FACULTY
IN
FULFILLMENT OF THE CURRICULUM
REQUIREMENT

Advisor: Colonel Richard D. Clark

MAXWELL AIR FORCE BASE, ALABAMA

May 1989

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EXECUTIVE SUMMARY

TITLE: OMB Circular A-76, Boom or Bust for the DOD?

AUTHOR: Quentin M. Thomas, Lieutenant Colonel, USAF

In the mid 1950s, the Eisenhower Administration was forced into issuing executive direction to ensure that the federal government received commercial type services and products from the private sector.

Since it was issued, the direction has been indorsed by each successive administration. However, each administration has applied the directive with varying degrees of diligence. This same attitude has prevailed in the various agencies which are covered by the executive order. The directive has also been applied for varying reasons. The primary goal has been to save money; however, of late, it has also been seen as a way to reduce government manpower.

This study discusses the directive; new OMB Circular A-76, its history; applicaton across the DOD; and its support and resistance. Also covered in the study is the possible application of the circular in an effort to ensure continued readiness in times of reduced resources. The study will also look at the application of the circular in unconventional areas as well as areas previously held "sacred." (B-7)



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BIOGRAPHICAL SKETCH

Lieutenant Colonel Quentin M. Thomas (M.P.A., Golden Gate University) has worked extensively in the Air Force productivity enhancement area, specifically working with OMB Circular A-76. While assigned to the Air Force Management and Engineering Agency, Randolph Air Force Base, Texas, he was the Chief of the Productivity Enhancement Branch and conducted seminars at every level of the DOD concerning the methodology of the circular. Colonel Thomas is a command missileer and has been a field commander in the Strategic Air Command ICBM force at both squadron level and as Commander, Detachment 2, Headquarters SAC. He is a graduate of Squadron Officer School, Marine Command and Staff College, and Industrial College of the Armed Forces. He is also a graduate of the Air War College, class of 1989.

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CHAPTER I

INTRODUCTION

In February 1988, Secretary of Defense (SECDEF) Frank C. Carlucci stated that "meeting the Pentagon's proposed budget would require cutting \$174.4 billion from projected military expenses over the next four years. The costs could be made by shrinking the military to a smaller, more effective force." (16:9) This was reinforced at the recent ceremony when President-elect Bush nominated former Senator and Senate Armed Services Committee Chairman, John G. Tower, for the position of Secretary of Defense. In an article entitled "Tower Arrives with a Strategy, Zero-Growth Pentagon Budget Anticipated," he stated, "the Bush administration would accept zero growth in future Pentagon budgets. The big cost is not in the B-2, the B-1, and the aircraft carriers; the big cost is not in the hardware: the big cost is in personnel." (7:1)

These comments by senior level administration officials are echoed by numerous other authoritative sources. The Electronics Industry Association, in its most recent 10-year Pentagon budget forecast, predicted that the DOD will see "five more years of negative real growth, in the minus one percent range." (11:28) Charles Moskos, a noted military sociologist at Northwestern University, commented that, when considering future DOD savings, "Everybody talks about savings in procurement and research and development, but it's inevitable somebody will start to look at personnel costs." (2:24) Recent studies by the

Brookings Institution also identify that "the number of eighteen-year-old males in the United States is declining and the Army in 1991 will have to recruit fifty-five percent of all young men eligible to serve in order to hold its strength at present levels." (13:32) Couple these forecasts with the \$155 million U.S. federal deficit, Congressionally mandated personnel reductions, and the proposed closing of 86 military properties, and you have challenging times for the military community.

In the past, when the government was faced with the necessity to cut the budget, Congress has turned first to the Department of Defense. Even though the department's percentage of the gross national product (GNP) has been on a decline since FY85 and current spending, when compared with the GNP, is below the FY75 level, there is no reason to believe that Congress will look elsewhere for the major burden of the necessary reductions. If Congress does not take the threatened cuts and the federal budget exceeds the ceiling established in the Gramm-Rudman-Hollings amendment, then the reductions will be made arbitrarily.

Going one step further, when the DOD is in an era of constantly declining resources; reductions in manpower, which represents the highest single cost item in the budget, always provides a prime target. However, the difficulty in handling the necessary manpower reductions has historically proven to be a challenge that the DOD seems unable to handle smoothly.

The purpose of this study is to review the Office of Management and Budget (OMB) Circular A-76, "Performance of Commercial Activities"

and to analyze and assess its application to the Department of Defense with regard to its effectiveness. The study will also determine if application of the circular can provide a portion of the long-sought-after solution to the ever-present manpower problem.

CHAPTER II

THE APPLICATION OF OMB CIRCULAR A-76

Historical Perspectives of the Problem

Throughout the history of the federal government, various procurement philosophies have been applied. One of the benchmark efforts has been to assure that the government does not compete with the private sector. If a product or service can be provided from a commercial or private source, then the government is obligated to procure that product or service. There are, of course, always unique situations which must be handled individually. But, basically, the federal government is not intended to compete with the private sector.

In 1932, the House of Representatives issued a special report which outlined concerns they had with the increased number of activities in which the government was involved that placed it in direct competition with private enterprise. The Hoover Commission in the 1940s performed a similar study specifically directed at the Executive Branch organization. Their findings confirmed that many services and products were being provided by the government that could, and probably should, be obtained from the private sector. (10:1)

Not until 1955 was any official action taken to stem the ever-increasing government encroachment into the private marketplace. Senate Bill 1003 was introduced by the Chairman of the Senate Governmental Affairs Committee, Senator McClellan. The bill was introduced with the following statement, "It is timely that the Congress

go on record in favor of a definite policy on non-competition with private industry in the production of goods and the securing of necessary services." (10:2) It appears that the proposed legislation got the attention of the Executive Branch of the government because an agreement was made to drop the legislation and to effect the policy administratively.

On January 15, 1955, the Bureau of the Budget issued Bulletin 55-4. The Bulletin outlined the policy that was to be applied within the Executive Branch concerning the providing of services and goods within the government with special attention to those activities which might compete with the private sector. The basic policy reinforced the position that these goods and services would be "procured from private enterprise through ordinary business channels." (10:6)

Through the years, the initial guidance evolved and, in 1966, the Bureau of the Budget Circular A-76 was issued. It stated that "commercial and industrial-type services will be provided by private contractors unless government performance is necessitated by such reasons as economy or military readiness or the material is available through another government agency." (15:31)

In 1970, the Bureau was renamed the Office of Management and Budget (OMB) and the circular became OMB Circular A-76. During this same decade, A-76 was revised and a cost comparison methodology was devised as a formal review of government activities that were of a commercial nature. In 1981, an extensive re-examination of this methodology resulted in improved efficiencies and the development of a Cost Comparison Handbook to assist in the review process.

The cost comparison program provided a method of reviewing the in-house operations to determine if they were the most efficient method for the procurement of goods and services. The process involved the identification of commercial type activities followed by the development of a performance work statement which outlines the particulars of the function and the specific services the government desires. During the functional review prior to the development of the work statement, operational efficiencies were incorporated and potential savings were identified within the function. A final step in the process was the development of a comprehensive surveillance plan or inspection system where the final service (not the methodology of providing the service) could be evaluated. The work statement then became the basis for the government to provide a bid to continue to perform the function in-house and is used by contractors as a basis for similar bids for them to provide the same service. Certain external factors influence the bidding. The contractor bid must be lower than the government cost by an amount sufficient to offset the conversion from an in-house operation to a contractor operated effort. This amount is 10 percent of the government personnel cost.

In 1983, the Reagan Administration issued the most recent of the six major revisions to the circular. The current version contains all of the basic tenets of the original policy for providing necessary government products and services. It focused on four major areas:

1. The cost comparison procedure was simplified by eliminating the need to calculate common costs and reducing the cost comparison form from 35 to 17 entries.
2. Federal organizations were required to conduct management efficiency studies. An Assistant Secretary of designee had to

certify that the government operation was as efficient and effective as possible.

3. Requirements for an independent review of the government's cost comparison were broadened to ensure that the in-house cost estimate was based on the same performance work statement as contained in the contract solicitation.

4. Employee placement guidelines were expanded to require agencies to use maximum effort to establish reemployment priority lists and positive programs. (9:30)

The Reagan Administration's documented support of the A-76 directive continues the public endorsement which has been made of the policy by each administration since 1955. As we will see, endorsement of the program has not always resulted in enthusiastic support of its goals.

Government agencies have handled the first part of the program rather well through the years. Services and goods, as well as major weapon systems, are procured through competition in an effort to provide the government with the least costly product and to ensure the government is not competing with private enterprise. In 1987, government agencies procured services which were covered by A-76 in excess of \$53.4 billion in a variety of areas.

However, it is the second part of the equation, the cost-comparison portion, where the government agencies have provided less than total support to the program. This portion of the program has been applied with considerable energy when manpower reductions were mandated or when the particular administration determined that the program had merit. Obvious conflicts surfaced and the political sensitivities rather than the intent of the circular were often the driving forces. The potential loss of civil service jobs and the perceived loss of control frequently overpowered the projected,

long-term savings which usually accompanied a cost-comparison study. Another driving force which is often overlooked is the fact that the program is not optional, it is mandated by the President, and is directive for all Executive Branch agencies.

Areas of Application of A-76

The potential application of the OMB Circular A-76 to manpower forces across the federal government is staggering. Estimates of the total commercial activity population with the federal bureaucracy range from 350,000 to 1.3 million. The Office of Management and Budget estimates are around 750,000. This equates to approximately \$20 billion annually in the salaries for civil servants, a major federal budget expense, and one that represents a long-term commitment when entitlements and pensions are factored in. While there are many opinions concerning the application of the circular, the revision in 1983 once again outlined the goals of the program. It restated the need for the cost-comparison methods and efficiency studies and elevated the level of responsibility to an Assistant Secretary. This revision also reduced some of the concerns of the government employees by providing assistance programs for displaced civil servants. (10:32)

The 1983 revision also expanded the policy used to determine those functions which require government employees. The rules for possible study are very simple and most of the functions which could be studied by the program are very obvious. However, activities which have no counterpart in the public sector, those that require government employees, or functions which might be required to go into combat, are

exempt. Figures 1 and 2 show the decision tree used in Air Force Regulation (AFR) 26-1 which is used in the Commercial Activities Program. Many functions fall into a "gray area" where a judgment call must be made by the government agency. Even though many functions fall into the inevitable "gray area," there exist thousands of functions that could be provided by the private sector.

Attitude toward the Program

With the origination of the A-76 program, the goal was to prevent the government from direct competition with the private sector. As the program gained momentum and functions were identified for cost comparison studies, the individuals whose jobs might be threatened began to voice concern toward the program. This put their congressmen in a quandary. They were required by law to ensure that the Federal Government did not conduct functions in-house that could be provided from the private sector; yet, they had constituents who might be displaced if the cost comparison resulted in the function being contracted out.

Early in the program, most cost comparison studies resulted in the functions being contracted out because the efficiency efforts conducted by the government, while based on the same work statement, did not demonstrate sufficient savings to warrant maintaining the function in-house. Not only did this increase the fear on the part of the public employees, it gave a "contracting-out" name to the "A-76 Commercial Activities Program." This fear has caused many potential advocates to focus not on the potential savings to the government, but only on the potential displacement of government employees.

DECISION TREE, IN-HOUSE CAs AND EXPANSIONS

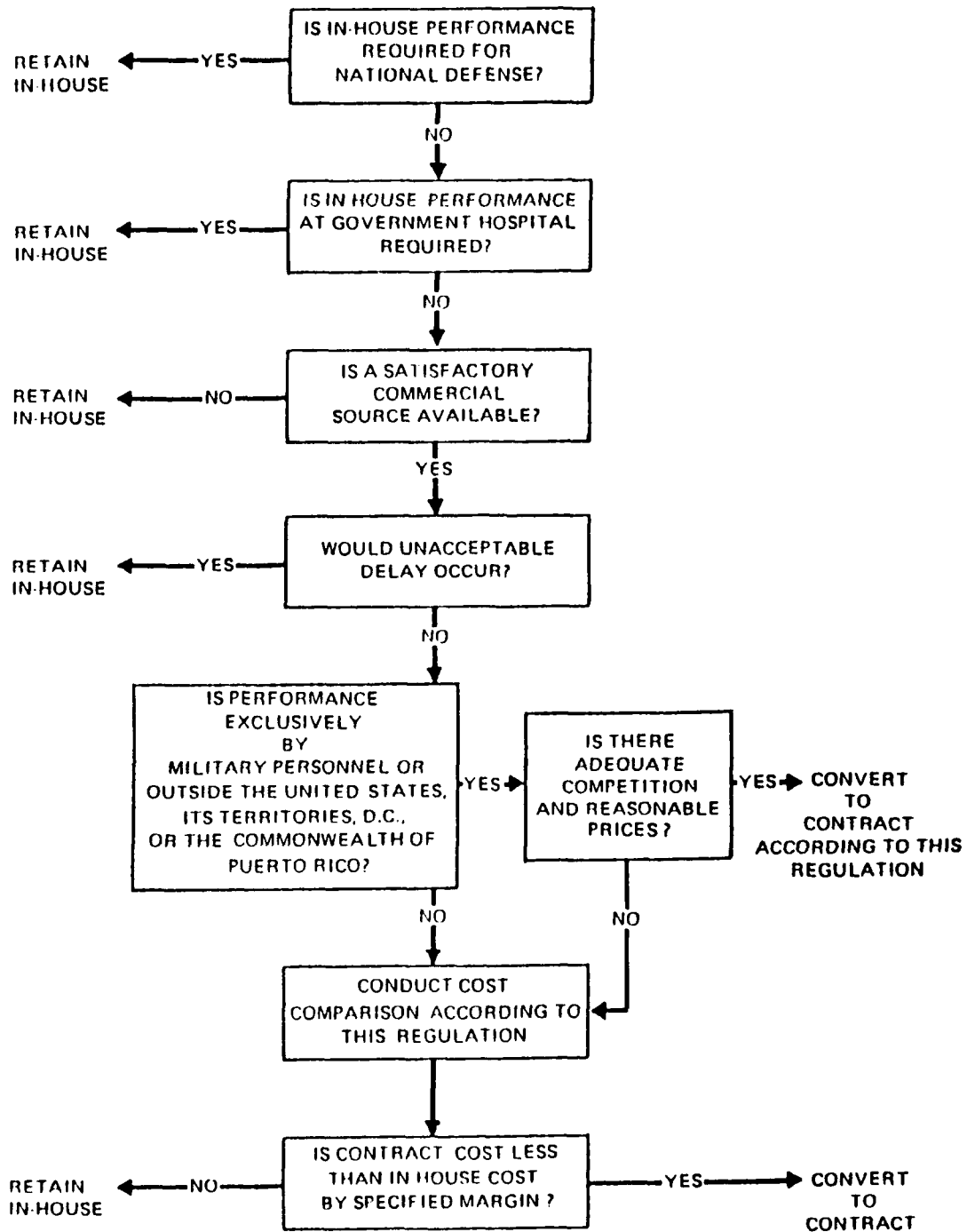


Figure 1.

(Source: AFR 26-1, Vol. 1, Atch 5, 28 Aug 87)

DECISION TREE, CONTRACTED CAS

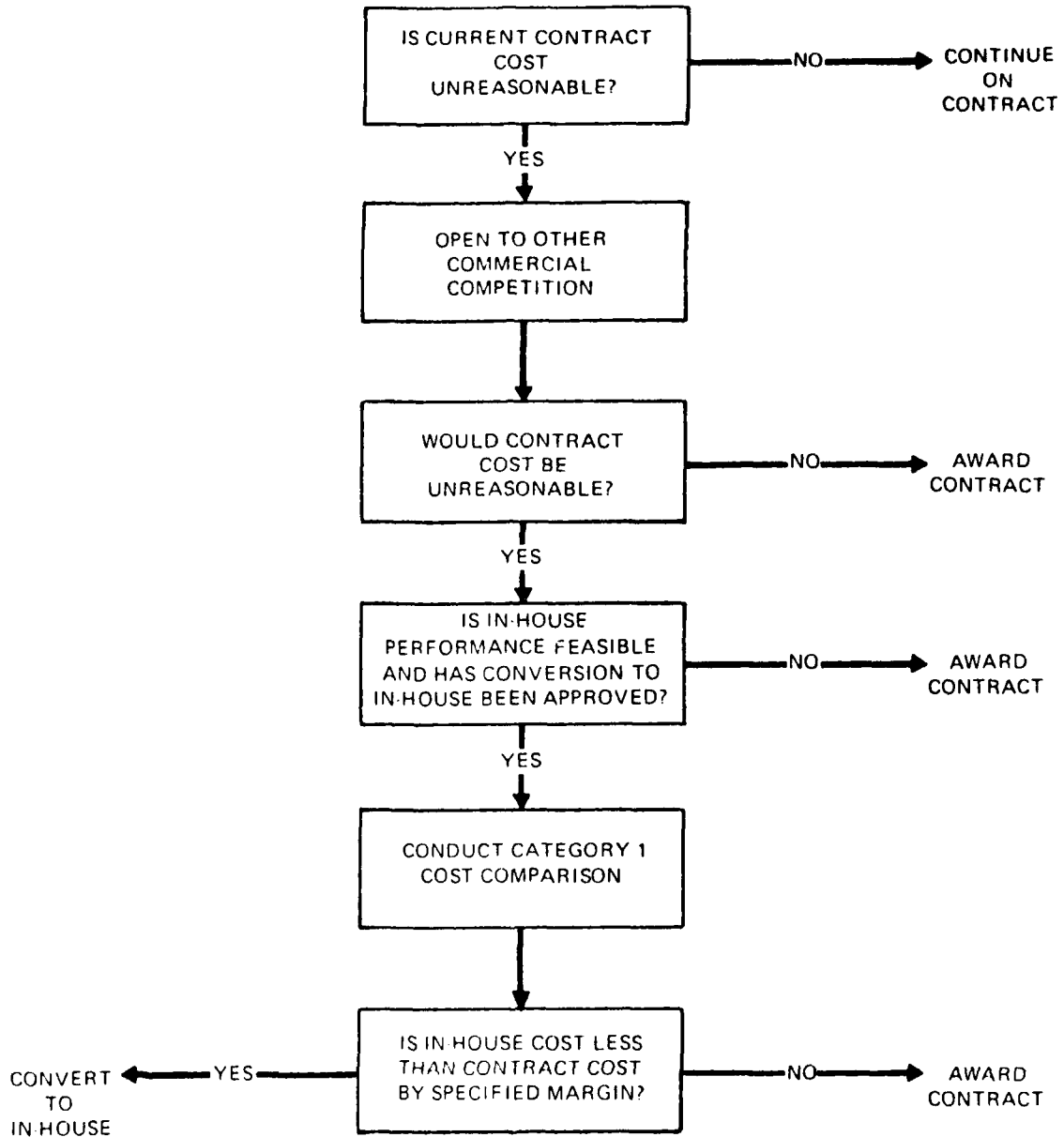


Figure 2.

(Source: AFR 26-1, Vol. 1, Atch 6, 28 Aug 87)

With the authorization of federal government unions in 1962, another advocate for government employees began to organize opposition to the program. The focus once again was on the federal employees' jobs and not on the potential savings the government could realize in a time of constrained resources. Even though substantial savings to the government had been demonstrated throughout the life of the program, it seemed to always be overlooked by the opposition. These savings were realized whether the function was maintained in-house or contracted out.

Through the years, the savings resulting from the program have continued to accumulate. This has been reinforced by the ability of OMB to evaluate the responsibility for the program in each organization to the assistant secretary level. conversely, the organized opposition has also grown and the legislative body, which originally initiated the concern resulting eventually in the A-76 program, is now legislating opposition to that same program.

CHAPTER III

RESISTANCE TO THE A-76 PROGRAM

Resistance to change is human nature. This was no exception to the A-76. Opposition was minimal, however, when the program was less intense in its application. When the government decided that there was merit to the program, resistance grew at an increasing rate.

Labor Unions

One of the strongest centers of organized resistance to the A-76 program is in the unions, the professional organizations, and the special interest groups that are organized to represent the interests of their members who are the government employees. Groups such as the National Treasury Employees Union, the Association of the United States Army, and the Federal Union of Scientists and Engineers, the Services Employees International Union and the American Federation of Government Employees represent the organized level of opposition. Opposition to the program is usually directed at the details of the A-76 process and is initiated from the congressional, secretarial, and presidential level. Opponents typically criticize the cost of the proposed government operation or the number of employees the government has determined they will need to conduct the operation. Both of these areas are critical to the bidding process and, if valid, could cause the government costs to be unnecessarily high. Complaints are also levied at the contractors. They are frequently accused of not being charged the same overhead costs that the government operation would incur, or

simply projecting too few employees to conduct the function. Other allegations accuse the contractor of "buying in" and eventually raising the cost. Many also complain that the quality of the service will suffer. When opposition cannot be directed at specific bids, they can always question the principles of the circular. A specific area is the combat support nature or the military essentiality of the function. It can almost always be alleged that a total appreciation of the function's importance to national security was not considered. An example of this tactic was found in a recent issue of the Military Law Review:

Most of their criticisms--such as the loss of institutional knowledge and accountability resulting from elimination of the civil service, contractor underbidding, poor contract performance, and cost overruns--concern the basic policy whether any commercial activity should be performed by the private sector. (9:113)

The opposition registered by these organizations has cost the government millions of dollars. Delays alone have lasted years on certain contracts. The General Accounting Office estimates that arbitration by federal employees in a situation where a contractor wins the bid could take as long as four years. (10:40) "At Fort Sill, Oklahoma, it took seven years for the entire contracting-out process. In a Blytheville AFB contracting-out appeal, it took four years for the case to be settled." (10:41) While ensuring the rights of the federal employees is the stated goal of the resistance effort, the interest of the taxpaying population and overall government cost savings are often overlooked.

Government at Large

While almost every sector of the federal government, except the Office of Management and Budget, seems to oppose A-76, most have

cooperated to a limited extent. The area which has created the largest obstacle for the program was the very organization which initiated its implementation--the Congress.

Many of the laws which impact A-76 have since been determined to have limited application. However, the impact they have had on the program and the ability of the government to provide services at the least cost has been severe. The Service Contract Act was an example of just such legislation.

In 1965, the Service Contract Act was passed. It was intended to cover federal blue collar workers. This Act was heralded by many companies in the service industry. But, by the time it was amended in 1968, 1972, and 1976, it had been expanded far beyond its original scope and eventually provided coverage far beyond the original minimum-wage blue collar level. The inclusion of "prevailing Government Wage" instead of "prevailing wage" as a base line for payment to blue collar employees did far more damage than good. Examples of its application in the service industry included the conclusion that the Act should apply to the wages paid to lumber company tree trimmers. The logic was that since these workers sometimes trimmed trees in national forests, they provided a service to the government (18:24) and therefore should be paid the prevailing government wage, no matter where the work was accomplished. In most cases, this work was done in areas where the "prevailing wage" was far less than the "prevailing Government wage." This drove up the cost to the taxpayer unnecessarily.

With encouragement of the labor unions, the Labor Department is trying to dictate the salaries in numerous areas which were never

intended to be considered under the Act. This could result in the increase of wages in areas where the scale is considerably lower and cause the government to pay higher prices for services that were being provided cheaper in the private sector. There are also examples of Congress directly dictating areas where the circular cannot be applied.

Legislation enacted by the Congress prohibits the Farmers Home Administration from contracting with private firms to collect over \$7.5 billion in outstanding debts. Other examples of direct involvement include the directing of specific levels of personnel at Army depots which perform maintenance functions, and specific legislation which does not allow any Corps of Engineer reservoirs in Mississippi or firefighting and security services to be considered for contracting. This latter area alone had the potential to save the Federal Government over \$305 million. (10:6) Other governmental organizations also contribute to the problem.

The Small Business Administration (SBA) represents the interests of small and minority businesses. There were \$27 billion in contracts let to small businesses in 1987. Of this amount, \$14 billion was awarded under small business set-asides. The regulation governing this type of service states that "all purchases under \$10,000 and construction under \$12 million go to small firms." (5:41) At Fort Leonard Wood, Missouri EDP Enterprises Inc. holds a \$26 million, multi-year, noncompetitive contract which was awarded under the SBA. To ensure that the SBA contractors are capable of performing to the required level, they are reviewed by the using agency. If they do not pass the test, they can appeal to the SBA which can conduct its own

survey and then issue a competency certificate that must be accepted by that agency. In a 1986 General Accounting Office Report, a majority of the contracting officers surveyed believed that the "competency program benefited small business, not the federal government." (5:42) Examples of abuse of the SBA program include the much publicized Wedtech case which demonstrates the potential for political manipulation.

The 1988 Nichols amendment recommends the transfer of all contracting authority for commercial-type activities to local base commanders. This authority was originally delegated to more senior DOD officials. The types of functions that the local commanders will be deciding on include: food service, grounds maintenance, laundry functions, and various civil engineering operations. This authority would only be delegated for a period of two years. Many believe that the local commanders should have this authority, but advocates of a comprehensive federal policy believe it is unlikely that commanders at the local level will have the objectivity to gear their programs to the overall government effort. More harsh critics believe that the Congress has just created another bureaucratic level to hinder the A-76 program.

Air Force

The resistance to the A-76 program that has originated from the Department of Defense has been slow and steady. With 70 percent of the cost studies being conducted in the DOD, the impact can be considerable. But, within the Air Force, there has been what almost appears to be a conscious effort to hinder the implementation of the program. Because of this unwillingness to work toward improved productivity, to reduce unnecessary overhead, and to eliminate regulatory constraints, the Air

Force was underbid in the majority of its early cost comparison studies. This inability to maintain the functions in house tainted the program for both the military and the civil servants. It was examples such as this that created the misnomer that the A-76 program was a "contracting-out" program. In the late 1970s, when the Air Force finally decided to get with the program, they made their second major mistake.

The organization which was tasked with the implementation of A-76 within the Air Force was the Office of Manpower and Organization, more specifically the Air Force Management and Engineering Agency (AFMEA). This organization, with its headquarters located at Randolph AFB, Texas, is made up of 92 officers, 143 enlisted, and 106 civilians. The agency is divided into 10 Management Engineering Teams located across the Air Force. These teams are functionally organized and their primary mission is to develop and maintain manpower standards. The agency has also had a longstanding mission to conduct productivity enhancement programs and implement the Air Force Commercial Activities (A-76) program.

The original logic to assign the A-76 program to this organization was flawed from the start. While their mission to determine the number of personnel the Air Force needs in each functional area and to conduct productivity programs seems to make them a natural, the demands of the programs exceeded the abilities of the organization both physically and mentally.

Air Force standards are computed by a series of mathematical equations based on counting the number of times a function is

accomplished, the frequency with which the function is accomplished, and then evolving the number of personnel required to do the function to the level the Air Force needs. The Air Force has often been lauded as having the leading system of its kind in the DOD. The ability of the organization to accomplish these standards, however, has recently come under criticism from the GAO.

"The Air Force has consistently reported that 67 percent of its functions were covered by specific guidelines related to work-related criteria." (14:6) "The GAO found that only about 52 percent of Air Force positions" were actually covered. Given the opportunities offered, the record of the Air Force Management and Engineering Agency (AFMEA) in the productivity enhancement area has been very weak.

The agency has always had the responsibility to conduct Management Advisory Studies (MAS) on requesting organizations. To conduct these studies, an organization had to volunteer to let manpower technicians review their operation in depth, and then recommend possible areas of improvement and productivity enhancements. This study had no liabilities to the requesting agencies and the findings and recommendations were confidential and releasable by the requestor. However, the apprehension of letting manpower personnel into the heart of a unit when they are historically looking for ways to reduce manpower frequently prevented organizations from trusting them to conduct these studies. The caution on conducting Management Advisory Studies in the Manpower regulations may say more than anything else about manpower's productivity perspective versus its manpower standards perspective. It states, "Do not 'over-promote' the team's capability to do a MAS;

over-promotion may actually hurt the image of the Management Engineering Program (MEP). When other scheduled workload does not permit a MAS, promptly reply to the client." (1:322) It would appear that an organization chartered with conducting the Air Force Productivity Enhancement Program would seek enhancement anywhere it could be realized.

Considering the lack of creativity required in the standards business, the lack of experience in productivity enhancement program, and the adversarial relationship which existed between Air Force units and the manpower community, a less likely advocate of the Commercial Activities Program could have hardly been chosen.

In 1979, the agency did establish a Productivity Enhancement Branch and dedicated fewer than 10 personnel to bring the Air Force into the Commercial Activities (CA) arena. The branch established working groups to develop the performance work statements (PWS) and in close coordination with the HQ USAF Contracting community developed AF-level groups to review the various products. They also conducted traveling "road shows" at the request of organizations across the DOD to expose them to the CA program. During the life of this branch, methodologies were established to attach the approved work statements to Air Force Regulation 400-28. Using this mechanism, future areas identified for cost comparison studies would have a basic document from which to work, thus preventing each agency from having to start from scratch. In 1983, as senior Air Force interest waned, the Productivity Enhancement Branch was disbanded and its expertise was absorbed across the AFMEA. Their responsibilities to conduct PWS working groups and to instruct were

relegated to the 10 functional teams throughout the Air Force. With this action, a program which needed dynamic advocacy and creative leadership to succeed was destined to have neither. The dissolving of this cadre of expertise was a disservice to the DOD and the Commercial Activities Program, and demonstrated the lack of Air Force commitment to the program as a whole.

CHAPTER IV

OVERALL EFFECTIVENESS OF THE PROGRAM

Contracted-Out Services

In the early phases of the A-76 program, there was no lack of commitment on the part of the private sector to compete and to win. The majority of the early cost comparisons were won by private contractors. Even though there were many complaints about the program, the actual difficulties were nothing more than the growing pains of any program that attack an established bureaucracy. The original intent of the program, "to insure that the government received services and products of equal quality at the cheapest price," was quickly overshadowed by the threat it posed to the jobs of civil servants.

The complaints, however, could not negate the fact that with each cost comparison study the overall cost of the service to the government was reduced. Not only were the services being provided at a reduced price, the overhead costs that the government had with the civil servants was eliminated, thereby reducing government entitlements in the outyears as well.

In 1980, of the 62 functions considered for cost comparisons, 52 were contracted out. These included functions such as food service attendants, aircraft simulators, refuse collection, commissary stocking, and family housing maintenance. It was very apparent that private enterprise wanted a portion of the DOD's service business.

Contractors used methods to compete with the government sector that were common in the private sector but that had been institutionalized out of the government sector. These methods included hiring employees who met the minimum requirements of the job and paying the minimum necessary wage, expecting more productivity, giving less liberal vacations, and hiring multi-skilled employees so they could perform more than a single function. Another innovative approach was the use of working supervisors. This allowed the supervisors to fill in in areas which proved to be short of personnel or to offset absenteeism. Quick discharge of nonproductive employees allowed the contractors to maintain only the best workers. The extensive use of parttime employees during peak periods and the application of labor-saving devices and methods, wherever possible, also demonstrated the flexibility of the public sector.

With the announcement of various cost comparison studies, it became more and more apparent that there were contractors in the public sector who were prepared to provide any service that the government needed. It also became apparent that they would compete with each other in the private sector and combine their resources, if required, to provide multiple or total base service functions. A prime example of this, while not under the auspices of A-76, does demonstrate the ability of a contractor to adapt to the government need.

Vance AFB, Oklahoma, part of Air Training Command, with the exception of the flying mission has been under contract for over 20 years. Within that time, the contract has been brought up for renegotiation on several occasions. The contract has often been awarded

to a different contractor, but always with increase cost savings to the government. The current contractor, Northrop Worldwide Aircraft Services, totally reorganized the operation of the base to take advantage of management improvements. By bring the transportation, supply, and procurement functions into one operation, the company was able to take advantage of fewer, yet stronger supervisors, and to take advantage of an improved plant layout that complements both receipt and storage. (6:4) The Vance AFB contract demonstrates that there are no functions that cannot be done to a competitive and creative contractor.

In-House Operated Services

As the A-76 program matured, the in-house bids became more and more competitive. Productivity enhancement efforts, learned from the public sector, started to appear in the government bid and cost savings became greater and greater. Government organizations started to overcome the natural bureaucratic baggage that had hindered them in the past.

The government operations have finally realized that taking the hard cuts and implementing creative organizational structures was the only way to compete on an even footing with the public sector. Civil service opposition to multi-skilling eliminated some functions and allowed the additional manpower to be reallocated within the organization. The improved efforts by government bidders resulted in functions such as audiovisual services and family-housing maintenance to remain in house.

In the Keesler AFB audiovisual services cost study, the illustrators in the graphics portion of the operation had to give up

some of their specialization and begin multi-skilling to increase their competitiveness. This resulted in the same amount of service, with the same level of quality, and yet it reduced the overall manpower requirements considerably. The incorporation of more modern equipment including microprocessor-controlled enlarger heads, automatic slide collators, and high-speed print processors was common in the winning operations.

The family-housing maintenance function also saw a capital equipment investment which enhanced the productivity of each maintenance worker. This was accomplished by equipping employees with a portable radio and furnishing them with a vehicle stocked with the equipment and supplies to conduct a variety of repairs. This eliminated numerous trips back to the shops for parts and allowed the supervisors to better control their crews while they were in the field. It also allowed workers to respond quickly to the customers' needs. State-of-the-art equipment frequently represents the difference between success and failure in the bidding process.

There were instances where government employees took wage reductions to ensure their competitiveness with the contractor bid. The in-house bids have also eliminated much of the unnecessary work which has become commonly expected by government customers. With the A-76 program, the work is clearly defined and the services will be limited by strict budgets, as well as these severe guidelines. All of the productivity enhancements, however, have not been dramatic or the result of capital expenditures.

One of the simplest improvements which resulted in considerable savings for the in-house operation resulted in a modification of the government's requirements for periodic maintenance of vehicles. The study group realized that the government maintenance requirements exceeded those of the manufacturer and that by applying the manufacturer's recommended intervals reduced labor and saved materials used in the tune-up of these vehicles. Often it is the creative, not just the expensive, that makes the difference in the competitive market. The bottom line is that "activities that had the most successfully reduced operating costs revealed that winners substantially altered their normal way of doing business. They tailored their work forces, organizational structures, and operational procedures to local needs."
(6:3)

Once the government decided to compete, the record of contractor wins reduced dramatically. "From early 1979 through 1984, the DOD conducted 1,054 base-operations support competitions, affecting 35,500 federal jobs; in-house activities won 48 percent, averaging 17 percent below precompetition cost."

CHAPTER V

THE FUTURE OF THE A-76 PROGRAM

Applied to Conventional Services

The original goal of the A-76 program was to ensure that commercial type services the government needed were being provided from the private sector. This ensured the government was not in competition with its constituents. These activities were identified by reviews which ensured that the particular function was not required to be done by government employees or military personnel. These exceptions included the obvious combat and combat support functions essential to military operations.

Throughout its existence, the program has been applied to a number of conventional activities. Earlier, this study identified the various pros and cons, as well as the overall effectiveness of the A-76 program. While hundreds of functions and thousands of positions have been reviewed using the A-76 methodology, many services commonly provided in the private sector remain to be reviewed.

Secretarial services in the government sector have historically been provided by General Service (GS) employees. Many of these positions are in the lower grades (GS-5), with a few at higher levels (GS-7/8). There are also some secretarial personnel who are classified as executive or administrative assistant that are in the GS-10 to GS-12 grades. Most of the positions, however, are in the lower range. There are literally thousands of secretaries in the DOD performing functions

which could just as easily be provided by private sources. While not endorsing any organization, Kelly Girls is a nationwide service which provides secretarial services to the private sector on a continuing basis. Using services such as these could save the government both in the administrative overhead required to maintain fulltime employees and the benefits which must be provided to the government employees. The government would get the service it needs and have none of the headaches. Given the time it takes to hire a new employee through the Civil Service system, the government could expect to replace lost personnel considerably faster than it does now. The time savings and increased productivity that could be realized from this facet alone could be considerable. These functions, along with their peripheral services, should be considered in the review cycle.

Security services of a nonsensitive nature could also be provided by the private sector. Basic building security, gate guarding, and traffic control are all common services provided on a daily basis to the public sector by a multitude of private firms. Studies have shown that for guard services the government often pays as much as 52 percent more than the private sector for the same service. (8:18) These differences can be attributed directly to the fact that in the private sector there is competition, while in the federal sector there is none. Using civilian security in nonsensitive areas would allow the military security police to reduce the structure of their force and focus their efforts directly on the security of areas which require military personnel. Here, again, the contractor could assume the liability of medical and retirement benefits and the government could eliminate that

overhead from its budget. Careful writing of the contracts would also ensure that none of the services that the government has come to expect from the security forces would be lost. One of the most difficult barriers to a proposal such as this is the perceived notion that the civilians could not do as well as the military and the belief that a reduction in the military security force would somehow reduce security and diminish the importance of the security police organization as a whole.

One of the fastest growing services in the world is in data automation. And, while the government spends millions of dollars to provide the "latest" hardware and software for its employees, it seems to always be behind the public sector in computer currency. When the government decided to act as its own data automation agent, it sentenced the majority of the government population to a position of inferiority. Government regulations alone stifle the procurement process. By the time a new piece of computer gear can be justified through the numerous government "wickets," funded, ordered, delivered, and installed, it is usually outdated. Within the government, there are also a lot of preferred computers.

Frequently the individuals charged with the procurement of the computer systems for organizations will not determine the exact needs of the user and will order generic equipment that will work for about half the population. This leaves the upper and lower quarters of the organization with either more or less capability than then need. Worse yet, major headquarters may make equipment determinations for the smaller units and single out a specific piece of equipment that can be

applied to any need. Often these decisions are made based on personal preference for the type of equipment that the individual personally owns. All too often, consideration is not given to possible expansion of the systems, interconnectivity of the systems into a user net, or future needs of the organization or the command. These decisions frequently overlook user training and maintenance.

To eliminate the influence of personal preference and to guarantee that the user gets the quality of hardware and software that they need, an objective third party offers a viable solution. There are numerous companies which provide these services either in total or in part. Some produce their own equipment and consulting service and some only produce one or the other. Either way, the government by smart use of the services industry could ensure constant currency in hardware and software, long-term planning for the needs of the entire organization, interoperability, and training and maintenance which is critical to the system. If history is a guide, these services could be provided for less cost.

Continued reviews of the conventional aspects of the A-76 program are critical and will provide savings across the federal sector. There are other areas which are less conventional that deserve review as well.

Expanded Use of the Methodology

In any organization, there are areas that are sacred. When new methods of operation are introduced or budget cuts are taken, these areas seem to escape review. They may be the core of the mission or someone's favorite project. Regardless of the reason, these areas seem

to remain untouched. In times of limited resources, these areas need to be reviewed for possible productivity enhancements just like every other area. In the current environment of reduced budgets and inevitable manpower reductions, we often overlook the possibility that releasing people from one function could allow those resources to be applied in areas where their expertise is needed more. This situation exists in the pilot career field, whose function is duplicated in the private sector and therefore should be considered under the methodology of A-76.

The USAF is currently experiencing an acute pilot shortage. While numerous efforts have been initiated to keep pilots from leaving the service and to try to increase the number of pilots trained by the system, there are other methods which have not been fully studied that could provide many of the needed pilot resources. The pilot resources of the USAF should only be applied to functions where military pilots are required. Using employees only in areas where their skills are absolutely essential has been demonstrated as one of the key philosophies of the A-76 program. This same philosophy, applied to the pilot shortage, might release hundreds of qualified military pilots from instructor duties allowing them to be put into positions which actually require the unique skills of military pilots.

In 1991, Specialized Undergraduate Pilot Training (SUPT) will be introduced. With the implementation of SUPT, pilot training will consist of a primary phase which will be followed by two specialized phases. In the two specialized phases, the student pilots will be placed into a bomber-fighter track or a tanker-transport track, depending on their performance in the initial phase of the program.

This realignment of pilot training offers a perfect opportunity to review the cost effectiveness of maintaining military pilots as instructors. It is very likely that both the primary and the tanker-transport phases could be competed with the commercial sector. If these phases of pilot training could be furnished from the private sector, hundreds of pilots could be released from training duties and be placed back on the line flying missions which are military essential and actually require military pilots. While there is vocal and heated opposition to this proposal, it is incorrectly wrapped in military essentiality. What is frequently forgotten is that over 200,000 pilots were trained during World War II by 64 contract schools. (3:24)

A similar area of possible A-76 review is Undergraduate Navigator Training (UNT). Each year the USAF flies hundreds of sorties in T-43 aircraft to train Air Force navigators. Technology long ago overcame the need for students to learn the basics of navigation in an airplane and today's simulators can provide any scenario that previously required an aircraft. Simulator training can also be provided at a fraction of the cost. The military instructor personnel currently used in the program could be released for operational duties and the pilots used to support the T-43 portion could also be reassigned to duties which actually required their military skills.

The simulator industry which has long been the backbone of the commercial aviation training programs is an area where the USAF could show long-term savings and no reduction in quality. By developing the simulators and training programs as part of the prime contract and including it as part of the acquisition cost, the government would have

the necessary training for the life of the weapon system, including future modifications at a savings in both personnel and money. This has already been demonstrated in several areas. Both the USAF C-17 and Navy T-45A aircrew training is done through contractor operated training systems. The chief of tactical aircrew training at Military Airlift Headquarters at Scott AFB, Illinois commented on the advantages. Lieutenant Colonel Tom Kahley, the chief of simulator training for Military Airlift Command (MAC) stated, "We gain both manpower and proficiency under the contract concept; the student gets state-of-the-art computer-based training; it's more efficient; and it's less costly to us." (12:77)

A final area which is receiving increased attention from all quarters and requires Air Force action is the Morale, Welfare, and Recreation (MWR) operation. While the Air Force is arguing with the House Armed Services Committee about the amount of appropriations required to keep the program solvent, currently Air Force open messes produce only 82 percent of their operating costs with the remaining 18 percent being furnished through appropriated funds which the Congress proposes to discontinue by 1990. Across the Air Force, 36 percent of MWR support comes from appropriated funds. These funds are also threatened by Congress. (17:98) Congressional concern appears to stem from a belief that these activities are poorly managed, over-staffed, over-regulated, and in direct competition with the private sector. It seems that the MWR functions would provide just the type of environment that the Air Force would like to have to prove its ability to improve efficiency. Using the A-76 methodology would serve several other

functions as well. Using the A-76 process would have MWR reviewed by a government mandated program which has consistently shown improved efficiency in all of the areas of congressional concern and one where the military has demonstrated improving skill at implementing. Following the review, the Air Force would also have aligned itself with OMB, having used their program to review an executive branch program. This would bring them into close support of the Air Force effort. This would also allow both executive branch organizations to support the MWR organization to the Congress instead of just the USAF. The MWR area, however, seems to be one of those sacred areas where the military seems determined to let the Congress legislate the fix that it believes will work.

It is obvious that the Air Force is resistant to applying the A-76. In the past 10 years, the Air Force has only been able to develop five standard performance work statements (PWS) as attachments to AFR 400-28. The existing work statements were developed between 1979 and 1982 and none have been prepared since then. Part of the reason is the assignment of the development task to an organization which has never thought in terms of enhanced productivity. The Air Force Management Engineering Agency has a history of "bean counting"; not of creative productivity enhancement efforts or innovative thinking. Their "manpower cutting" reputation in the Air Force community immediately creates an air of distrust when they start to work cost comparison studies. This situation must change.

In the future the Air Force will be forced to look at more and more areas for cost comparison studies by both the constrained budgets

and the persistent push by the Office of Management and Budget. It must get realistic in its approach so that it can take full advantage of the A-76 program. The application of OMB Circular A-76 in the future is limited only by law and by an Air Force willingness to recognize those areas where the circular could be applied.

CHAPTER VI

SUMMARY AND CONCLUSIONS

It is doubtful that the original authors of the Bureau of Budget Bulletin 55-4 had any idea of the extent to which their directive would be applied. It is also doubtful that the battlelines that have been drawn would have been a part of their predictions for the future of the program. The evolution of the program has been drastic, to say the least. A program originally designed to ensure that the government did not produce goods or services that were available from the private sector has evolved through many phases and many names.

Originally directed at government competition with the private sector, the program began to be looked on as a solution to the ever-present need to reduce manpower. With the introduction of the all volunteer force, the military needed to get soldiers back in the combat business. This forced the military to look at ways to provide services which had previously been provided by military personnel. A-76 could have provided the perfect way to convert functions to purely civilian labor. However, the government proved so inept at applying the circular that the private sector consistently won the cost comparison studies. This resulted in conversion to a private sector operation and created upheaval in the government civilian workforce. This era resulted in the program being labeled as a "contracting-out" program, a misnomer which has cost the government dearly.

Contracting out gives the impression that the intent of the program is to contract out whatever function is being reviewed. This is not the intent of the program, and never was. However, with this title A-76 began to be looked upon not as reduction in government competition with the private sector, but as a program that would threaten the jobs of thousands of government civilian employees. This increased resistance and created baggage that the program has had to carry since the mid-1970s. This baggage has done a disservice to the overall effort and coupled with the less than active support from DOD has damaged the credibility of the program as a whole. Unless this perception is changed, it will result in the program being more and more difficult to execute effectively. This is only one of the problems that plague the program.

As a demonstration of its lack of support, the Air Force assigned the implementation of the program to the very organization that was the most rigid in its perspective, as well as being completely distrusted by the rest of the service. The manpower community which still functions as the focal point for the A-76 program continues to conduct more standards measurements than productivity enhancement studies. This is ludicrous since productivity efforts such as A-76 have produced far more manpower and cost savings than standards development. It is obvious that the focus for such a dynamic program should be in a more dynamic organization that could focus as the productivity hub of the Air Force and set the pace for the DOD. The program should at least be centered in an organization which will make the implementation of the

program a higher priority. This is critical since almost every review has resulted in savings to the government.

As stated in the earlier portions of this study, the DOD is entering a period of reduced resources and increased Congressional willingness to help us resolve our internal problems. It seems that the DOD and more specifically the Air Force would see the potential of OMB Circular A-76 to help offset both of these problems. Sadly, if history repeats itself, the resource reductions in both manpower and money will be chaotic and Congress will take action where the military refuses to act. However, there is always hope that the Air Force will rise to the occasion.

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